OTTAWA POISED TO TIGHTEN MORTGAGE LENDING

The federal government appears poised to further tighten mortgage lending, according to experts speaking at a real estate conference in Vancouver.

"The signals from Ottawa is that changes could be coming, and soon, for shortening amortizations and changing mortgage eligibility rules," Kyle Green, a broker with Mortgage Alliance, told the Jurock Land Rush conference on Feb. 4.

The catalyst is the soaring amount of mortgages insured by Canada Mortgage and Housing Corp. (CMHC). CMHC was insuring $514 billion as of Dec. 31, 2010. This is close to the current $600 million limit that CMHC has for mortgage insurance, which was increased three years ago when its then $450 million cap was reached.

Although Ottawa could increase the limit, it may not want to if it thinks too many people are borrowing more than they should, according to Green.

Mortgage rates have been at record lows in recent months. In January, some of Canada's biggest banks began advertising record low fixed-rate mortgages at 2.99 per cent for five years.

Finance Minister Jim Flaherty and Bank of Canada governor Mark Carney have been warning that Canadians have been racking up too much debt as a result of a long period of ultra-low interest rates.

Ottawa has tightened mortgage lending rules before. Last year, the federal government reduced the maximum amortization period for new CMHC-backed insured high-ratio mortgages to 30 years from 35 years and cut the maximum amount Canadians can borrow in refinancing their mortgages to 85 per cent from 90 per cent.

The government has also withdrawn insurance backing on non-amortizing home equity lines of credit.

Green suggested ways the government could change mortgage lending criteria for those taking out a CMHC-insured mortgages.

- Raising the downpayment from 5 per cent. Last year, the downpayment for investors and those buying second homes was increased to 20 per cent, but it remains at 5 per cent for buyers of principal residences.
- Shortening the maximum amortization from 30 years to 25 years.
- Raising the bar for income eligibility.

Some lenders have already started to restrict lending to new immigrants and the self-employed without solid evidence of stated income.

One lender has also limited mortgages on a home to $1 million.

While some say such moves could cool the housing market, it must be noted that the same was said last year when mortgage rules were tightened. Canada's housing market, however, went on to post near record MLS sales and the highest average prices on record.

> "Home buyers could see new mortgage restrictions this year."