

TIGHTER MORTGAGE RULES APPEAR CERTAIN

After weeks of speculation, it now appears that the federal government will be moving to restrict mortgage lending, and banks have already be warned.

Some say it is a question of when, not if. Finance Minister Jim Flaherty will intervene in the mortgage market.

Flaherty is feeling heat from the Bank of Canada, which recently warned that household debt is "the biggest domestic risk" facing the financial industry. Meanwhile, while at least one bank has cut five-year rates to 2.99 per cent in a promotion, the Royal Bank is forecasting a white-hot spring in the mortgage market, with a "huge jump" in five-year term applications expected this month.

Last week, the Office of the Superintendent of Financial Institutions (OSFI) – the main regulatory agency for the banking industry – stepped in to issue a series of "guidelines" to cool Canada's mortgage market. Among these recommendations is that borrowers must qualify at the five-year mortgage rate, even if they take a lower cost alternative. OSFI also calls for more conservative lending practices.

OSFI can only recommend guidelines, but the federal government can make them mandatory.

So what could Flaherty do to tighten mortgage lender? These are the most likely measures:

- Reducing the maximum amortization on mortgages to 25 years from 30 years.
- Hiking the minimum down payment to 7 per

cent from 5 per cent.

- Introduce a "means test" for those seeking loans by ensuring they can afford to make payments as if mortgage interest charges rise to 5.5 per cent, about twice as high as many current rates.

Flaherty has time to wait and see, says CIBC economist Benjamin Tal, who has written extensively on housing and debt. Given the weakness of the economy, the Bank of Canada has little choice but to keep interest rates low. That gives Flaherty the flexibility to keep monitoring what happens on the debt front. Also, the default rate on Canadian mortgages is around .042 per cent, hardly threatening.

"But if six months from now, you tell me house prices are up by another six or seven per cent and mortgage activity is back to seven to eight per cent [annual growth], I would be more concerned," Tal said.

Others warn, that if the spring housing market really takes off – as some lenders predict it will – Ottawa may be tempted to pull the trigger on mortgage regulations sooner.



“Many young buyers may want to secure a mortgage quickly, as tighter lending rules appear to be coming soon”