MORTGAGE CHANGES COULD MEAN LOWER RATES

Changes to the mortgage market announced last week by the federal Finance Ministry could lead to greater competition among lenders and the potential for lower mortgage rates and other incentives some analysts say,

The main mortgage changes announced by Finance Ministry Jim Flaherty, and which come into effect July 9, are:

• The maximum amortization period is now 25 years, down from 30 years. About 40 per cent of all new mortgages were amortized over 30 years last year, according to the Canadian Association of Accredited Mortgage Professionals.

• Mortgage insurance is now restricted to homes priced under $1 million, a move that will have the most effect in Metro Vancouver. The change means that a buyer of a $1 million house – not uncommon in this market - would not be able to get government-backed mortgage insurance and would therefore need at least a $200,000 down payment.

• The maximum a homeowner can borrow against their home's value is now at 80 per cent of value, down from 85 per cent of value.

• The maximum gross debt service ratio for new mortgage loans is now 39 per cent, and the maximum total debt service ratio is 44 per cent. (Banks calculate the former by adding up mortgage payments and property taxes on a home loan, and dividing by the borrower's income. The latter adds in other debt payments such as lines of credit and credit cards to the calculation.)

The result of all the changes will be "a smaller pool of home buyers" said Bryan Yu, economist with Central 1 Credit Union in Vancouver. This could encourage banks to offer incentives, perhaps even lower rates, to keep their market share. He noted, though, that mortgage rates are already near historic lows.

Yu said the biggest impact will be the shorter amortization. A $300,000 mortgage spread over 30 years at 4 per cent interest would cost $1,426 a month to pay back. That same mortgage amortized over 25 years increases the monthly payment by 10 per cent to $1,578 a month. "Some marginal first-time buyers could be pushed out of the market," Yu said.

In February, a brief mortgage war among major banks saw rates as low as 2.99 per cent on three and four year terms. Some see similar moves as banks compete for a smaller mortgage pool. "It's not unlikely that mortgage rates could come down, at least for the short term," said one Vancouver mortgage broker.

Buyers of homes priced at over $1 million will no longer be able to get government-backed mortgage insurance, effective July 9.