

Tough lending rules punish the innocent

Ottawa has moved to restrict how the world's best banks lend money to their very best customers. It is a poorly timed move that punishes the innocent and will lead to job losses and a stunting of private investments.

The **Finance Ministry** is attacking the safest borrowers in the world: Canadian home owners. When compared with governments – Ottawa, for example, is \$600 billion in debt and adding to it by \$57 million a day – Canadian mortgage holders are a paragon of frugality and a rock-solid investment.

The default rates on high-ratio mortgages in Canada is 0.42 per cent. Overall mortgage arrears – where payments are at least three months behind – have been declining for more than 20 years in Canada, even as housing prices and mortgage debt have tripled.

The new rules for government-backed insured mortgages include the reduction of the maximum amortization to 25 years

from 30 years. Also, mortgage insurance is no longer allowed on homes priced at \$1 million or more and the maximum refinancing ratio has been lowered to 80 per cent of a home's value, down from 85 per cent.

The changes will freeze about 5 per cent of first-time buyers out of the market and take millions of dollars out of circulation every month.

The mortgage regulations are just the latest from Ottawa. Last year, investors buying a second property were required to make a minimum 20 per cent down payment and the federal government withdrew from insuring on home-equity lines of credit (HELOC). The former curtailed investments in badly needed rental housing – about one in four condominiums are bought by investors who rent them out – and the already suffering recreational market.

Stricter rules on home-equity lines of credit are even more insidious because they punish older homeowners who have

built up real estate equity. According to the **Canadian Association of Accredited Mortgage Professionals**, a primary use for HELOCs is for investments, which accounted for \$10 billion in the past year alone.

Home ownership has proven about the only sure route to building wealth for average Canadians. For many young people, that road is now blocked by misguided and mistimed government intervention.

NEXT MONTH

Western Investor presents its annual residential real estate outlook. Investing 101 looks at buying rental housing. We cover the rapidly changing REIT market, and our regional reporters file from Coquitlam, the Kootenays, Lethbridge, Lloydminster and Wetaskiwin. Plus all the news and commentary needed by western investors.

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