SIX OF 10 BUYERS PUT LESS THAN 20 PER CENT DOWN

Saving for a downpayment is challenging: most home buyers need mortgage insurance to balance the purchase.

Do you have 20 per cent to put down on residential property purchase? If so, you are rare in Canada's housing market today where, despite the urgings of the federal Finance Minister, few buyers have that kind of cash.

According to the latest data from CAAMP (Canadian Association of Accredited Mortgage Professionals) only 39 per cent of home buyers between 2010 and the spring of 2012 put down 20 per cent or more. The survey included both first-time and repeat buyers. First-time buyers accounted for 56 per cent of those polled.

The survey found that:

• 41 per cent of buyers had less than a 10 per cent downpayment;

• 21 per cent had more than 10 per cent but less than 20 per cent to put down.

This means that about 60 per cent of buyers needed to purchase mortgage insurance. This insurance that protects the lender in case the borrower defaults on his or her mortgage payments. If an insured mortgage is in default, and the lender can't collect from the borrower, the insurer pays the lender back.

Mortgage default insurance is required by most lenders whenever a homeowner puts down less than 20 per cent. The biggest mortgage insurers in Canada are Canada Mortgage and Housing Corporation, Genworth Financial, and Canada Guaranty--in that order. Mortgage insurers charge premiums to borrowers to cover the insurance expense. These fees can range from less than 1 per cent to more than 5 per cent of the principal value, depending on the borrower's mortgage type, loan-to-value, property type, and amortization.

The insurance premiums are typically added to the mortgage at the time of closing. While possible, they are rarely paid in advance.

Putting down 10 per cent on the [Canadian] average $350,152 home, for example, means the buyer will pay $6,302 insurance premium (given fully documented income and decent credit). Since insurance premiums are tacked on to the mortgage that adds up to $9,000 or more if the mortgage loan is amortized over 25 years.

It is easy to see how mortgage insurance rule changes - which came in this summer - may alter home buying trends. In another few months, we'll get a good sense for how recent changes in the mortgage market will impact buyers and mortgage volumes, despite mortgage rates remaining near historic lows.