Special

Mortgages

Across Canada, real estate markets tilt in favour of buyers

Certainty, security drive buying and borrowing decisions

After two years of renting, Kim Hartsburg-Lang decided she was ready to once again pick up the reins of homeownership. Last April, she closed the deal on a mid-century house in Hamilton, Ont., just a 30-minute drive west from the Mississauga hospital where she works as a cancer nurse.

"It's a lovely house with quite a bit of character," says Ms. Hartsburg-Lang, who moved into her new home in June with her 21-year-old son, the youngest of her two children and a recent university graduate. "And I believe I bought in an area where there's an opportunity for the value of my home to increase."

Ms. Hartsburg-Lang is among the thousands of Canadians who embraced homeownership this year, taking advantage of buyer-friendly market conditions. Despite the country's slowing economy and ongoing concerns about the financial crises south of the border and in Europe, Canada's real estate market remains strong and healthy.

According to the Canadian Real Estate Association, close to 258,000 existing homes were sold and bought in the first half of 2012 – up 4.7 per cent from the same period last year and higher than all sales for the same period since 2007. And in a survey this year by the Canada Mortgage and Housing Corporation, six per cent of households across Canada said they purchased a home last year, a figure in line with the previous year's survey.

While housing prices in the country have continued to increase, record low interest rates, combined with a wide array of mortgage options, have made it easier for Canadians to turn their dreams of homeownership into reality. But lingering concerns about the economy are tempering Canadians' desire for homeownership with a good measure of prudence.

They want a house, but they also want peace of mind and financial security.

"Affordability and a stable cash flow are key considerations for today's homebuyers," says John Sulug, director of client acquisition, home equity at RBC. "In today's uncertain economy, people are looking for certainty."

That need for certainty and stability is reflected in a growing interest in fixed-rate mortgages, says Mr. Sulug. In RBC's latest annual homeownership poll, conducted this year during the last week in January, 42 per cent of respondents said they plan to choose a fixed-rate mortgage. By comparison, only 21 per cent said they intend to go with a variable-rate mortgage.



Kim Hartsburg-Lang is one of many Canadians who has seized opportunity in a buyer-friendly market. PHOTO: MARJO JOHNE

"Affordability and a stable cash flow are key considerations for today's homebuyers. In today's uncertain economy, people are looking for certainty."

John Sulug
Director of client acquisition, home equity at RBC

"A year ago, it was totally the opposite where people felt they should stick with the variable rate and save more in the shorter term," says Mr. Sulug.

While women and men were almost equally comfortable taking out a fixed-rate mortgage, the RBC poll also found that women were more likely than men to consider a combination package with both fixed and variable rate features – a hybrid that would deliver both stability and flexibility.

After years of pre-recession, free-rein spending, homebuyers are also crunching the numbers more carefully to make sure everything adds up to an optimal cash flow each month, says Mr. Sulug.

"For example, people are really taking a look at commuting costs," he says. "If they're driving more than 30 minutes to work, that becomes a major decision point because they don't want to be incurring more costs."

Maintaining a healthy and predictable cash flow was certainly an important factor for Ms. Hartsburg-Lang, who opted for a fixed-rate mortgage with RBC. Having a payment term that aligned with her short- and long-term plans was also critical.

"In nursing you can retire and choose to work part-time at age 60, which is how old I'll be in four years," she says. "So I chose a shorter amortization with bi-weekly accelerated payments and took a four-year term because in four years time, I want to be in a position where I can actually make a choice about retiring or continuing to work full time."

While Canada's real estate market continues to be favourable for buyers, the profile of purchasers in recent years has started to shift away from speculators to strategic investors, says Don Campbell, founding partner of the Real Estate Investment Network, a Vancouver-based resource centre for real estate investors. In particular, he's noting older buyers who are buying residential properties with the potential for generating rental income.

Unlike in the past, these strategic investors are not necessarily buying into new downtown condominium projects.

"People are investing in older townhouses and condos, and in regions where there's an increase in job growth and population growth," says Mr. Campbell. "They're doing their homework now and looking at the long term – they're not looking to flip the property as soon as they get the keys."

INSIDE

New mortgage rules have changed the game. Page M2

Factor home ownership costs into budget. Page M3

Genworth COO Stuart Levings outlines ways mortgage insurance helps reduce risk. Page M3

FINANCIAL PLANNING

Homeowners can plan to be mortgage-free sooner, poll shows

For most Canadians, being mortgage-free by 48 is just a dream. Even paying off what they owe the banks for their homes by 55 – the average age when people believe they will finally pay off their mortgages – may be a stretch for homeowners facing multiple demands on their budgets.

But a new poll conducted by Harris-Decima for CIBC shows that it is possible for Canadians to be mortgage-free by 48, a full seven years ahead of when most people anticipate paying off their home loans. This means they will have an important window to ramp up savings for retirement.

"Being mortgage-free is a top financial priority for many Canadians, and this poll suggests that by having a plan, Canadians may be able to pay off their mortgage sooner than they anticipate," said Colette Delaney, executive vice-president of mortgage, lending, insurance and deposit products for CIBC.



A proactive approach to paying off your mortgage faster yields significant financial benefits over time, says Colette Delaney, CIBC. PHOTOS: SUPPLIED

"Consider what you normally pay to your mortgage every month, and then imagine that dollar amount going towards your retirement savings instead," she says. "That really puts into perspective the difference paying off your mortgage even one or two years earlier can make."

The Harris-Decima poll showed that Canadians who managed to pay off their mortgages by 48 used one or more of the following strategies to pay down the loans faster:

- 52 per cent made lump-sum payments annually when they could;
- 42 per cent increased the amount of their regular mortgage payments;
- 40 per cent increased the frequency of their regular mortgage payments.

However, both discipline and sacrifice are needed to become mortgage-free faster. The poll revealed that 78 per cent of those Canadians who were mortgage-free by 48 also did one or more of the following:

- 53 per cent said they skipped large "unnecessary" purchases;
- 53 per cent said they created a budget to track their spending;
- 49 per cent cut down on extra spending, including restaurant and entertainment costs;
- 38 per cent skipped vacations.

"A key finding in this poll is that Canadians who have successfully paid off their mortgage made some difficult choices about how best to spend their money over the course of their mortgage," says Ms. Delaney. "They made debt repayment their number-one financial priority, skipping vacations or holding off on unnecessary purchases along the way to ensure they were on the path to achieving their long-term goal of becoming mortgage-free."

She adds that people currently paying down a mortgage or planning to purchase a home with a mortgage may feel that as house prices have steadily increased, becoming mortgage-free sooner could be difficult.

However, Ms. Delaney notes that some Canadians who are mortgage-free today started out with loans in the late '80s and early '90s, with interest rates sometimes in the double-digits. They still paid off their mortgages by their late 40s, on average. The key was planning.

"Your mortgage is one of the biggest financial commitments you will ever make, and investing some time up front to get advice about how your mortgage fits with your overall financial goals can yield significant financial benefits down the road," she says. "If you review your finances and find a way to contribute a little more towards your mortgage every month, or make an extra lump-sum payment, you can capitalize on today's low rates and accelerate your mortgage repayment."

This report was produced by RandallAnthony Communications Inc. (www.randallanthony.com) in conjunction with the advertising department of The Globe and Mail. Richard Deacon, National Business Development Manager, rdeacon@globeandmail.com.

SUMMER MORTGAGES

THE RULES

New mortgage rules change the playing field for buyers and borrowers

Canada's latest round of mortgage rule changes took effect on July 9. Designed to help slow the growth of consumer debt and cool overheated housing markets, the new rules brought about four key changes:

- A shorter maximum amortization period of 25 years, versus the previous 30 years, for government-insured mortgages. Mortgage default insurance is a must for buyers with a down payment of more than five per cent but less than 20 per cent of the purchase price.
- A lower maximum for home equity loans, of 80 per cent instead of the previous 85 per cent of a home's value.
- Debt service ratios that allow homebuyers to use no more than 39 per cent of their gross household income to cover home-related expenses – such as mortgage, property taxes and heating – and no more than 44 per cent for total debt, including credit cards and car loans.
- Limit government-backed insurance mortgages to homes with a purchase price of less than $1 million.

Many Canadians welcomed the new rules, which will result in significantly reduced interest costs for homebuyers and less risk for borrowers and lenders. But others are concerned the changes will shut them out of the housing market.

"The new mortgage rules do present a challenge to affordability and access to the market for some people," says Brian Hurley, CEO of Genworth Canada, a private sector supplier of mortgage default insurance.

"You're undertaking the biggest financial commitment of your life, so do your research. Get on the Internet, and be sure to talk to an accredited mortgage professional."

Jim Murphy
President and CEO of the Canadian Association of Accredited Mortgage Professionals



Accredited mortgage professionals help ensure homebuyers are equipped with the information needed to identify the right home and mortgage. PHOTO: ISTOCKPHOTO.COM

But this doesn't necessarily mean prospective homebuyers should give up on their dream.

"Don't presume anything," says Mr. Hurley. "A lot of people who think they should now just sit it out on the sidelines would probably be qualified buyers under the new rules. In fact, at Genworth more than 80 per cent of borrowers who qualified for the 30-year term would have also qualified for the 25-year term."

So what can buyers do to keep their dream of homeownership alive?

Jim Murphy, president and CEO of the Canadian Association of Accredited Mortgage Professionals, headquartered in Toronto, says homebuyers should start by arming themselves with information, not only about the new mortgage rules, but also the real estate market, available mortgage options and the various providers in the market.

"You're undertaking the biggest financial commitment of your life, so do your research," he says. "Get on the Internet, and be sure to talk to an accredited mortgage professional."

It's also a good idea to consult a financial adviser, who can offer suggestions for accelerating saving for a down payment, says Mr. Hurley.

To qualify for a mortgage under the new rules, some buyers will need to lower their expectations, perhaps opting for a smaller house or one outside the city centre.

"With interest rates so low, it really is a good time to get into the market," says Mr. Murphy. "And while the new rules will limit the options for a number of buyers, for many, owning their home is still a solid possibility."

Owning your home shouldn't come at the expense of saving.



Life adds up. Your finances should too.

CIBC WEALTH BUILDER MORTGAGE™[1]

GREAT LOW RATE

In addition to a great low rate on a 5-year mortgage, you'll also benefit from flexible payment options to help you manage your cash flow.

EARN $6,000 IN SAVINGS[1]

Get $4,000 cash back up-front as well as $2,000 cash back over the term of your mortgage.[1]

On a $400,000 mortgage. Conditions apply. Ask for details.

Visit any branch, go to cibc.com/buildthousands or call 1 800 465-CIBC (2422).

CIBC RANKED STRONGEST BANK IN NORTH AMERICA Bloomberg Markets THE WORLD'S STRONGEST BANKS 2012

CIBC FOR WHAT MATTERS.

[1]Wealth Builder Mortgage is an option available only on 5-year fixed-rate and Variable Flex closed mortgages of $75,000 or more. Mandatory CIBC deposit account for mortgage payments and deposit of cash back. Up front cash back amount is repayable if mortgage is discharged, transferred or renewed before maturity date. Other conditions apply. For details, visit cibc.com/buildthousands. "Life adds up. Your finances should too." and Design and CIBC Wealth Builder Mortgage are TMs of CIBC. "CIBC For what matters." is a trademark of CIBC

U.S. BUYERS



Understanding U.S. tax and real estate law prior to buying is key to successful investment, says expert. PHOTO: ISTOCKPHOTO.COM

Consider these tips

Got the hots to own a home in America's sun belt? Before you buy, do some homework says Plantation, Fla.-based RBC Bank sales advisor Michele Birch.

Since acquiring her first U.S. home eight years ago, Ms. Birch says she's observed people doing things right and wrong. "The best thing to do is to do it right the first time."

For starters, Ms. Birch strongly advises buyers to consult with a tax adviser who understands tax legislation on both sides of the border. "How you title a property is key and could impact your exposure to estate taxes, capital gains, creditors and other risks," she notes.

Ms. Birch also recommends working with a U.S. realtor who has dealt with Canadian buyers. "The concepts of a mortgage and home-ownership are different between Canadians and Americans," she says, noting U.S. purchases tend to involve higher closing costs, and closings tend to take longer – up to four weeks if a U.S. mortgage is involved.

She says property insurance costs as well as homeowner association fees can also vary widely and add up fast. "You may get a good deal on your condo, but if there are a high number of vacancies in your community, you might also pay a very high maintenance fee."

Bargain hunters should also be sure to understand the pros and cons of short sales versus foreclosures.

Her bottom line, "Pay attention to details. And if you need some help, RBC Bank is a great resource."

STRATEGY

Factor homeownership costs into your mortgage calculations

With the cost of homes in many Canadian markets remaining high, home buyers – particularly first-time buyers – often focus on how much they can afford in monthly mortgage payments and neglect other costs associated with homeownership. That could land them in financial trouble, according to mortgage experts.

Farhaneh Haque, director of mortgage advice at TD Canada Trust, sees a few common mistakes that such homebuyers make.

"Many underestimate the costs of homeownership, by forgetting about expenses such as land transfer fees, property taxes and everyday maintenance costs," says Ms. Haque. "I recommend homeowners calculate how much their total housing costs will be each month, to determine what they can comfortably afford. This includes items such as their mortgage, insurance, taxes, monthly bills and maintenance costs."

She also finds that some buyers have unrealistic expectations of what they can afford, in the quest for their "dream home." They need to know their spending limit and confine their search to properties in their price range.

Colette Delaney, executive vice-president of mortgage, lending, insurance and deposit products at CIBC, says homebuyers need to put together a financial plan and seek expert advice before deciding what level of mortgage repayment they can afford.

"There are many factors they need to consider before buying a home, and some of them go beyond the obvious costs of home ownership," explains Ms. Delaney. "For example, most people have monthly expenses that may not be directly linked to owning a home, but still take a up a slice of the family budget, such as life insurance, car loan payments, car insurance, savings for upcoming events such as celebrations."



"Many underestimate the costs of homeownership, by forgetting about expenses such as land transfer fees, property taxes and everyday maintenance costs."

Farhaneh Haque
Director of mortgage advice at TD Canada Trust

There may also be other costs directly related to buying a new home, such as essential renovations or new furniture and appliances. Ms. Delaney suggests that mortgage payments should fit a homeowner's lifestyle, not the other way around.

"It's a mistake to think that you can arrange your life around your mortgage payments," she warns.

Ms. Haque says many prospective homeowners are already carrying other debt, which can make taking on a mortgage even more challenging.

"Debts have a way of piling up, unless you diligently work to make them manageable. If you're carrying excessive debt now and thinking about homeownership, first work hard to pay off debt," she says. "Homeownership brings with it additional monthly payments, so having other debts can be a huge strain on your budget."

The three most important pieces of advice Ms. Haque has for homebuyers when it comes to budgeting are:

- Be thorough, including costs from closing costs and land transfer fees to ongoing property taxes and everyday maintenance. The price of homeownership is much more than your down payment and monthly mortgage amounts.
- Learn about your mortgage options. When househunting, you look for places that suit your needs and lifestyle. Do the same when deciding on your mortgage. Know the difference between fixed- and variable-rate mortgages, for example, and decide what amortization period suits your situation.
- Be prepared to make a bigger down payment. If homeownership is a goal, start saving earlier. The larger the down payment you can make, the less you'll need to borrow, which saves you money in interest payments over the long term.

TRENDS

Good mortgage advice critical for Canadian homebuyers

The wide range of mortgage products currently available to Canadian homebuyers means that getting good mortgage advice has never been more important, says Todd Poberznick, assistant vice-president of B2B solutions at Calgary-based Bridgewater Bank.

"Buying a home is usually the biggest financial decision most people make in their lives, so they need to ask a lot of questions before making a final decision on what type of mortgage to take out," says Mr. Poberznick.

Bridgewater offers its mortgage products throughout Canada, except in Quebec, through a network of mortgage brokers, which Mr. Poberznick believes provides customers with ready access to expert advice.

"The brokers we work with are knowledgeable experts, and we confidently advise customers to consult them about their mortgage needs," he says. "First-time homebuyers in particular need to be comfortable with what they are entering into. And if they are not being provided with the full range of mortgage options and having all their questions answered, they should go somewhere else."

He adds that Bridgewater – a wholly owned subsidiary of the Alberta Motor Association – is a niche player in the mortgage market; its entrepreneurial approach makes it more versatile than other mortgage lenders.

"If there's a deal to be made, we will make it work," says Mr. Poberznick.

Colette Delaney, executive vice-president of mortgage, lending, insurance and deposit products at CIBC, agrees that a conversation with someone who can provide good financial advice is the best move that a prospective homebuyer can make in order to decide what type of mortgage suits their needs.

"It's not a case of fixed or variable-interest rates being a better option for everyone at any particular time, but rather an individual's needs at the time they take out their mortgage," says Ms. Delaney.

Canadians seem to be anticipating higher mortgage rates, she notes, so the trend is toward locking in at the current lower rates. This will make it easier to pay off mortgages quicker and is in line with poll results released by CIBC earlier this year, which showed that Canadians identified paying down debt as their number-one financial priority for 2012.

SECURITY

Mortgage insurance helps Canadians achieve and maintain homeownership



Q&A with Stuart Levings, Chief Operations Officer, Genworth Canada

What kinds of unexpected risks can impact a homeowner's ability to fulfill his or her mortgage obligations?
A job loss, strike or other change to employment status; serious illness or injury; and life altering events such as a divorce or death in the family can significantly impact homeowners' ability to meet all their financial obligations, and can put them at risk of defaulting on their mortgage payments.

How can mortgage default insurance help?
Although mortgage default insurance protects the lender in case of borrower default, it also provides benefits to the borrower, including access to homeowner assistance programs. Insurers such as Genworth Canada offer this program to help prevent homeowners experiencing temporary financial difficulties from losing their home. Solutions offered can be in the form of capitalized arrears, increased amortization periods, partial or shared payment plans or deferred payments.

What are some of the other benefits of mortgage default insurance?
Lenders rely on mortgage default insurance to protect their losses in the rare event that the mortgage is not repaid. This protection gives lenders the freedom to offer homebuyers with a low down payment the same low rates available to purchasers with more equity. As a result, homebuyers – especially first-time homebuyers – can take advantage of opportunities to achieve homeownership sooner than they may think is possible.

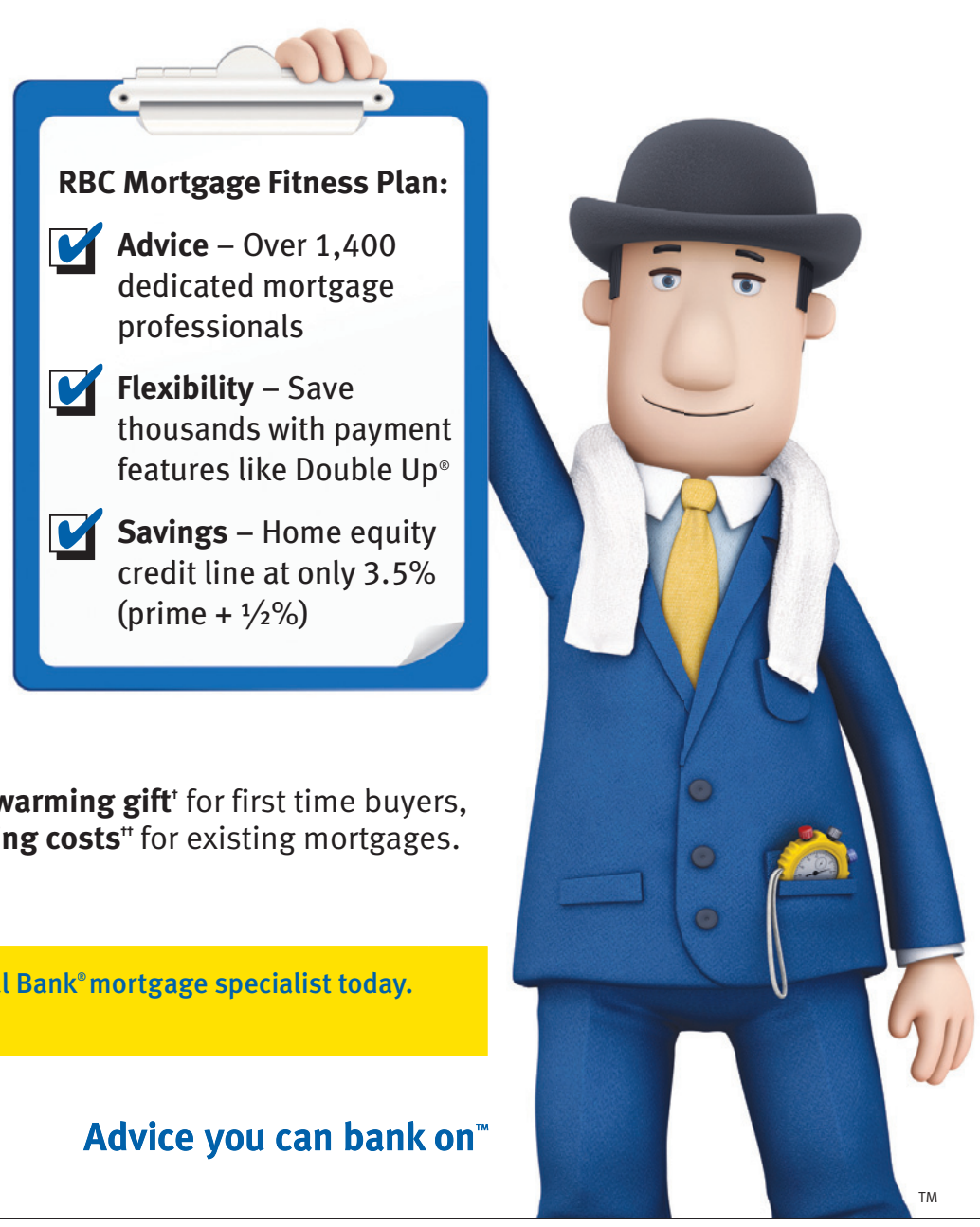
ONLINE?

For more information, visit www.genworth.ca.

RBC Royal Bank

Canada's mortgage rules have changed. How do they affect you?

It's time for a mortgage coach with the right advice.



PLUS a $500 house warming gift† for first time buyers, or we'll cover switching costs†† for existing mortgages.

Speak with an RBC Royal Bank® mortgage specialist today.
1-866-864-0420

Advice you can bank on™

TM

† Offer only available to first-time homebuyers who obtain a 5 year fixed interest rate closed mortgage with Royal Bank of Canada ("RBC Royal Bank") or on one RBC Homeline Plan® mortgage segment. Some conditions on interest rate may apply. To qualify for this offer, clients must have or open a mortgage payment account with RBC Royal Bank. The $500 will be deposited to this account. To be eligible: (i) the mortgage application date must be on or after July 19, 2012 and mortgage funds must be fully advanced within 120 days from application date; (ii) the mortgage or mortgage segment must be for a minimum principal amount of $100,000. This offer cannot be combined with any other special offers and cannot be used for construction draw mortgages. Offer may be withdrawn or amended without notice at any time. †† We will pay the basic title insurance fee, processing fee and one discharge fee (up to $300 maximum). Offer excludes mortgage prepayment charges that you may have to pay. Minimum advance $50,000. Personal lending products and residential mortgages are offered by RBC Royal Bank and are subject to its standard lending criteria. ® /™ Trademark(s) of Royal Bank of Canada. RBC and Royal Bank are registered trademarks of Royal Bank of Canada.