MORTGAGES

EXPERT OPINION

New rules may require new savings and borrowing strategies

Canada's latest round of mortgage rule changes took effect in July. Designed to help slow the growth of consumer debt, the key changes are:

- A shorter maximum amortization period of 25 years, versus the previous 30 years, for government-insured mortgages. Mortgage default insurance is mandatory for buyers with a down payment of less than 20 per cent of the purchase price (a minimum five-per cent minimum down payment is required).
- 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.



Working with professional advisers can help Canadians incorporate the new mortgage rules into their financial plan. PHOTO: ISTOCKPHOTO.COM



Brian Hurley, CEO of Genworth Canada, answers questions about the potential impact of these changes on Canadian homebuyers

Should Canadians be concerned that these new rules have shut them out of the market?
The new mortgage rules do present a challenge to affordability and access to the market for some people, but it is important not to make presumptions. 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.

What would you recommend for those Canadians who do find themselves shut out of the market by the recent changes?
It's a good idea to consult a financial adviser, who can offer suggestions for accelerating saving for a down payment. Some buyers will need to lower their expectations, perhaps opting for a smaller house or one outside the city centre.

In general, would you recommend that Canadians consider buying a home in the current environment?
With interest rates so low, it really is a good time to get into the market. And while the new rules will limit the options for a number of buyers, for many, owning their home is still a solid possibility.