Special

Mortgages

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With the overall strength of the Canadian real estate market, experts report pockets of high demand and prices and others where buyers are in charge. ISTOCKPHOTO.COM

Stable environment and low interest rates continue to feed nesting instinct

With spring's welcome arrival, would-be homebuyers are flocking to real estate markets across Canada.

According to CIBC economists, low interest rates and reasonably healthy employment numbers continue to support a strong housing market, says Todd Lawrence, senior vice president of products and payments at CIBC. "Although there is little doubt that the market will eventually react to higher interest rates by slowing down, the expectation is that those higher rates will likely be slow to come."

These factors also make it likely that any adjustment in the housing market "will be modest and slow," he adds.

Today, as well as historically, the mortgage and banking sector in Canada is much more stable than it is in countries that have experienced more dramatic corrections, including the U.S., says Lawrence Dale, group head of real estate business at Zoocasa, a Rogers Communications company that offers a homebuyer-focused alternative to Realtor.ca. "It's a more strict and regulated environment. When you combine that stability with low interest rates, people can afford more, which has definitely contributed to more demand."

With a stable foundation and no prospect of a significant increase in interest rates in the immediate future, he sees the general housing market outlook as "very positive, with strong and solid markets in all of Canada's major centres."



"The expectation is that ... higher rates will likely be slow to come."

Todd Lawrence
is senior vice president of products and payments at CIBC

Within that overall strength, there are variations in supply as well as demand for homes in different regions and even different neighbourhoods, stress both experts. "There are certainly pockets in the market that have very strong fundamentals in terms of both activity and prices, and others that are in a more equilibrium situation," says Mr. Lawrence.

For the greater Toronto area, Mr. Dale anticipates a continuation of the strong markets seen over most of the last decade. With the exception of the 2007-2008 financial crisis, he says, "when the hiccups happen, they're ever so small. We have seen a levelling off in terms of total number of transactions, but we're still at a level that would have been considered unbelievably high seven years ago."

That strength translates into multiple offers in desirable neighbourhoods such as Leaside, North Toronto and Kingsway, he adds.

Ian Watt, a realtor who has dominated Vancouver's condo market for many years through innovative digital marketing strategies combined with intensely personalized service, reports a similar situation there. While transactions have levelled off and prices have softened in some sectors of the market, the inventory level of unique, desirable homes is extremely low.

Internationally recognized for his work with sports and entertainment celebrities as well as Vancouver's tech elite, Mr. Watt says that even his clients with generous budgets are finding that it may take some time to find exactly what they're looking for. "It's hard to compete with the 'bank of mom and dad.' First-time homebuyers are coming in with assistance from their parents at all levels of the market, and many are young offshore buyers looking for million-dollar condos," he says.

That competition exacerbates the effect of low inventory in many sectors of the market, he says. "There are a lot of typical condos available in the $600,000 range. But I have a client from Alberta looking for a $900,000 condo with a water view, and there have only been about 10 or 11 on the market since he started his search a few months ago."

An Ontario couple looking for a heritage-style home in the city's east side has so far had only two properties to choose from, he adds.

In general, rising home prices and federal government tightening of some down payment and amortization requirements have made homes less affordable, but the recently released Genworth Homebuyer's Survey shows that the effect has been very subtle. (See pages M 2 and M 5 for more on the survey findings.)

In any real estate market environment, the key to a successful outcome is to be knowledgeable and prepared, "not only about the local market, but about the options available for financing the home purchase," says Mr. Lawrence.

Whatever the market environment, meeting with a mortgage adviser early in the process can provide an important advantage, especially for first-time homebuyers, he adds. With professional advice, "you'll know what you can afford as well as the mortgage features and benefits available.

"Our mortgage advisers can help with a plan that will make sure your expectations fit your budget and your financial goals – and give you the confidence you need to succeed in your search."

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HGTV's Scott McGillivray weighs in on maximizing your home's value. Page M 4

STRATEGY

Six easy ways to say goodbye to your mortgage faster

Following up on its iconic "you're richer than you think" slogan, Scotiabank is tapping into the penny-consciousness of Canadian families with its "small changes, big differences" campaign. While it's a message that can apply to almost every aspect of life, it's particularly powerful when it comes to paying off your mortgage faster – and paying thousands, even tens of thousands, of dollars less in interest in the process.

The key to big savings over the life of a mortgage is "to think about the cost of the mortgage more in dollar terms than in rate terms," says David Stafford, managing director of real estate lending at Scotiabank. "What is that mortgage going to cost you on a monthly payment basis? What is the total cost of interest? If you borrow $100,000, how much will you have to pay back in total?"

It's important to remember that you don't have to make a $10,000 pre-payment to make a difference, he stresses. By regularly making small changes that put the power of compound interest to work for you, "you can easily cut 10 or 15 years off the end of your mortgage," he says. "Most mortgages allow 10, 15 or even 20 per cent pre-payment privileges, which could be $30,000 a year. That can be quite a lot of money, so the key is to keep chipping away at it."

Here are Mr. Stafford's recommendations for turning any mortgage into one that is truly "low interest" – and as short-lived as possible.

1. **Understand the power of a single extra dollar added to your mortgage payment today.**
"If you don't pay that dollar today, it will be the last dollar you pay off in 25 years. It's only a dollar, but by paying it today, you're saving interest on it every day for the next 20 or 25 years. If you don't, it's the most expensive dollar you borrow.
"If I borrow $100,000 today and make my first mortgage payment a month from now, I've paid only 30 days' interest on the amount that is paid toward the principal. It cost me almost nothing. But on the principal portion of the very last payment I make, perhaps 25 years from now, I've been paying interest for 300 months."

2. **Switch to accelerated bi-weekly or weekly payments.**
"If your monthly payment is $800, switch to $400 every two weeks. It's the most expensive strategy we recommend, and interestingly, it's the one that the most people apply."

3. **Increase your payments a little bit every year.**
"If your payment is $400 every two weeks, increase it to $410 a year from today, or go crazy and make it $420. It makes a massive difference – even bigger than bi-weekly payments."

4. **Make small lump sum payments.**
"A woman at one of our branches told me she took whatever was left in her chequing account the night before payday and put it on her mortgage. When she got up the next morning, her pay was in her account. Some weeks it was $50; some weeks it was $200. When we spoke, she had just paid off her mortgage, years ahead of schedule.
"Other people have told me they go to their online banking site and round their mortgage balance down each week, to the nearest hundred. If the balance is $99,960.52, they pay off the $60.52. Some weeks it's $50, some weeks it's $20 and some weeks it's $85."



"Understand the power of a single extra dollar added to your mortgage payment today."

David Stafford
is managing director of real estate secured lending at Scotiabank

5. **Round up your payment.**
"Don't necessarily set yourself up for the lowest payment you can get. If your bi-weekly payment is $447, ask your lender to round it up to $450 or $500."

6. **At renewal time, put lower interest rates to work for you.**
"If you renew at a lower rate, and you're living comfortably with your current payment, keep it the same."

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.

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ANALYSIS

New survey charts homebuyer attitudes, aspirations

They're facing tighter mortgage rules, a national economy that's growing at a moderate pace and real estate prices that continue to rise. Despite these challenges, Canadian homebuyers remain confident in the long-term benefits of buying a home.

In a national survey by Canadian mortgage insurer Genworth Canada and the Canadian Association of Credit Counselling Services (CACCS), 90 per cent of respondents said owning their home gave them a greater sense of emotional well-being, and that they would rather own their home than rent.

"Despite tighter mortgage qualification criteria over recent years, survey results point towards positive trends in homebuyer behaviour," says Stuart Levings, chief operating officer of Genworth Canada. "With a stable economy and real estate market, Canadians appear to have more confidence in the value of homeownership."

Unlike past generations of buyers, Canadians in the market for a home today face greater barriers to homeownership. Over the past six years, the federal government has introduced a number of regulations – particularly for high-ratio mortgages with down payments less than 20 per cent – to prevent buyers from taking on excessive debt. These rules include a more stringent process for approving mortgages and home equity lines of credit, and a maximum amortization period shortened from 30 to 25 years on high-ratio mortgages.

Buyers with less than a 20 per cent down payment are required to purchase mortgage default insurance, which protects the lender in case the borrower stops making payments.

"Despite tighter mortgage qualification criteria over recent years, survey results point towards positive trends in homebuyer behaviour."

Stuart Levings
is chief operating officer, Genworth Canada



Close to 70 per cent of homeowners say they want to pay off their mortgage as fast as possible, even if that means scrimping and downgrading their lifestyle. ISTOCKPHOTO.COM

While tighter mortgage rules have apparently had little impact on Canadians' positive view of homeownership, what seems to be changing is the attitude towards saving and managing debt. Instead of rushing headlong into homeownership, many Canadians are willing to work harder and longer to save for a down payment, according to the survey by Genworth Canada and CACCS.

Half of survey respondents said it would take them one to two years to save for their down payment, while close to 30 per cent said it will take them three to four years to come up with this lump sum.

Close to 70 per cent said they want to pay off their mortgage as fast as possible, even if that means scrimping and downgrading their lifestyle. In a 2012 survey, the same question garnered agreement from just over 60 per cent of respondents.

Laura Leyser, a realtor with RE/MAX A-B Realty Ltd. in Stratford, Ont., says it's the young, first-time homebuyers just coming out of school who tend to struggle with down payments. For many people within this group, waiting to buy their first home is a necessity, not a choice.

"This is a group that's between 25 to 30 years old who are well educated, have debt from school and no money to put down," says Ms. Leyser. "It's not that they want to wait to buy their first home; given their financial situation, they have to wait."

Looking at the majority of survey respondents who want to pay off their mortgage as fast as possible, Ms. Leyser points to older homeowners who are now in their second and third home and enjoying significantly lower interest rates than they've had in past decades.

"These are people who started off with rates of 18 to 21 per cent, and now have mortgages sitting at three to four per cent," says Ms. Leyser. "They're realizing, 'this is our opportunity to pay our mortgage down faster.'"



ASK AN EXPERT



Angela Calla is an accredited mortgage professional and host of "The Mortgage Show" on CKNW Radio in Vancouver.

Q: Our mortgage lender advertises a "payment vacation." My wife and I are very tempted to take advantage of that offer this year to fund a great family holiday before our oldest child leaves for university. What's the downside?

Unless this is your only option, I don't recommend it.

First, it's not like you can simply choose to skip a payment. You can miss a regular mortgage payment as long as you have already prepaid that amount by doubling up a payment, increasing your payments or making lump sum payments.

The number of payments eligible for your payment vacation will be based on a combination of your prepaid amount and your current regular monthly mortgage payment. There is also typically a maximum payment vacation permitted per mortgage term, regardless of how much you have prepaid on your mortgage.

Finally, there is the cost. The interest is added to your outstanding principal balance. If your mortgage is $350,000 with a monthly payment of $1,530, a remaining amortization period of 30 years and an interest rate of 3.3 per cent, skipping one payment may cost you $2442.87 in additional interest.

It's always important to read the fine print. Better yet, speak to your mortgage professional – we know the ins and outs of all the lender offerings and can help advise you on your best options.

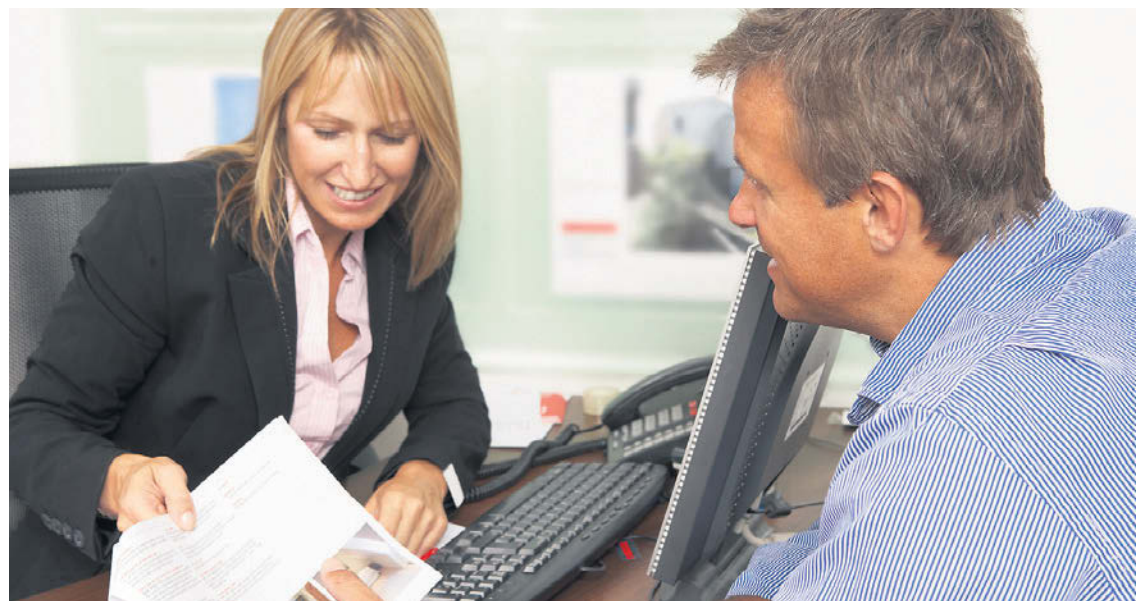
OPINION

Expertise essential in shifting mortgage market



By Jim Murphy,
President and CEO of the Canadian Association of Accredited Mortgage Professionals (CAAMP)

Mortgage rules have changed significantly over the last few years... These changes all affect consumers, especially first-time buyers, along with the size of mortgage they qualify for.



By starting with the right questions, accredited mortgage professionals (AMPs) help homebuyers find the best mortgage for their needs and navigate the application process. ISTOCKPHOTO.COM

Last year, mortgage brokers processed 28 per cent of all mortgage transactions in Canada, an increase from 25 per cent in 2012. Among first-time buyers who want to shop the market, the self-employed and new Canadians, even more used the services of a mortgage broker. The overall increase in mortgage broker transactions was due largely to a 40 per cent share of all new mortgages in 2013.

These savvy borrowers know that in today's world there is a lot of information that must be considered before finalizing a mortgage. There is no substitute for being prepared. Educating yourself and getting the facts you need to make the right mortgage decision increases home buying confidence.

Buying a home is the biggest financial commitment most Canadians will make in their lifetime. A mortgage broker can help you navigate the sometimes intimidating process of securing a mortgage. By asking you the right questions about your financial situation, they will work with you to provide the best product for you, based on your personal circumstances. Mortgage brokers have access to multiple lenders, including banks, credit unions, trust companies and private lenders.

In a recent survey by our organization, the Canadian Association of Accredited Mortgage Professionals (CAAMP), the top five reasons identified by consumers for dealing with a mortgage broker were getting the best rate, obtaining multiple quotes, not having to do the research themselves, helping them understand their options and to help with the paperwork.

CAAMP created the Accredited Mortgage Professional (AMP) designation so that homebuyers can easily identify mortgage advisers who are knowledgeable and up to date on the local market and are best suited to finding the right mortgage product. Using the services of an AMP when taking out a mortgage will help you navigate the home buying process and provide you with peace of mind.

Mortgage brokers focus on mortgages. To maintain the AMP designation, they are required to keep current with products and the market by taking continuing education courses and by working with their lender partners on a daily basis.

Mortgage rules have changed significantly over the last few years. The federal government has brought in four different regulatory changes affecting mortgage default insurance. In Canada, if you put down less than 20 per cent on the purchase price of a home, mortgage insurance is required. The government requires a minimum five per cent down payment, has scaled back amortizations to 25 years and has instituted minimum debt service levels, among other changes that also affect home equity lines of credit and the ability to refinance your property. In addition, new mortgage underwriting guidelines have also been adopted for federally regulated financial institutions. These changes all affect consumers, especially first-time buyers, along with the size of mortgage they qualify for.

In this rapidly shifting environment, it is more important than ever to use the services of an AMP, a mortgage professional who is familiar with the implications of these changes and who can provide the best recommendation for your individual needs and circumstances.

When finalizing a mortgage, it is important to ask lots of questions, such as why a certain product is being recommended and what the penalties are if you withdraw the mortgage early or want to pay it off faster. Accredited mortgage professionals have the expertise and experience required to answer these essential questions and help you achieve your home ownership goals.

Find a mortgage professional near you at www.caamp.org.

DATA

Home ownership aspirations by the numbers

According to the recently released 21st Annual RBC Home Ownership Poll,

62 per cent

of Canadians plan to buy a home with their spouse or partner –and

28 per cent

intend to buy a home by themselves.

The increase in buying intentions reported indicates that there is renewed confidence in the market, says Rachel Wihby, senior manager of home equity finance at RBC. The poll results show that "Canadians are more prepared to take that step into home-ownership," she adds. Among respondents who reported they were likely to buy a home within the next two years, a full

40 per cent

will be first-time homebuyers.

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EXPERT ADVICE

Maximizing your home's value



Scott McGillivray, star of HGTV's Income Property, has partnered with CIBC to help Canadians achieve their home ownership goals.

In this Q&A, Mr. McGillivray answers questions about maximizing your home's value through effective renovations and maintenance.

We've been delayed by ice storms and power outages; we've had building inspectors who were on holiday for two weeks without a replacement in place. There are a lot of reasons to have a contingency set aside.

How can homeowners achieve the greatest value when they renovate?

I always encourage homeowners to aim for economically savvy renovations that increase the home's value beyond the cost of the work and improve the home for their own use. That way they can enjoy the improvements, and when they sell they'll be paid for the work they've done.

In terms of the renovation process, there are three things my team and I do on a mandatory basis:

1. Always get multiple estimates. In the beginning, contact approximately 10 people, whether you're looking for a designer, contractor or renovator. You want to narrow it down to about three estimates, and if you only contact three people you'll be lucky to get one estimate. When someone's busy working on a project they're typically not quoting, so you may never hear back from them.
2. Remember that an estimate is exactly that. It's typically not a full scope of work. When you do decide which contractor you'd like to go with, check their references, verify their insurance and get their contractor license number. Then make sure you have a full scope of work in writing, signed by both parties, with a detailed breakdown of what is and is not involved in the renovation.
3. Once you have a full scope of work and a detailed budget, set aside an additional 25 per cent. If you're budgeting a $50,000 renovation, for example, have an extra $12,500 on reserve, ready to go.

Studies have shown that 30 per cent of renovations go over budget. Why is that?

I've seen jobs where changes to the original plan added up to more than the original scope of work, meaning the renovation started out as a $10,000 job and ended as a $26,000 job.

Sometimes the homeowners change the materials or make other design changes. It could be due to hidden building code violations (structural, electrical, plumbing or mechanical) that then have to be rectified.

Unforeseen time delays may also create additional costs. When you have tradespeople waiting around, they have to be paid. We've been delayed by ice storms and power outages; we've had building inspectors who were on holiday for two weeks without a replacement in place. There are a lot of reasons to have a contingency set aside.

When it comes to optimizing the value of a home, is there something that people tend to overlook?

Maintenance. A recent CIBC poll conducted by Nielsen found that 4 in 10 Canadian homeowners are planning some type of renovation this year, with an average expected cost of almost $20,000. But when it's time to sell and potential buyers are looking at your home, the thing they'll care about most is whether it has good bones.

If you've got drainage issues and water is leaking into the house and rotting away the studs or any of the beams, or you have structural damage, your house doesn't have good bones. If you're not maintaining it well, it starts to show.

Good maintenance creates great value. When I walk through properties with homeowners, even if the house is 100 years old, buyers can tell if it's been maintained really well over the years.

I advise homeowners to really think about the maintenance of their home: update the roof when it needs to be updated, replace the windows when they start to go, make sure that there is proper drainage around the house so you don't have leaks coming into the basement.

These types of things may not add a significant amount to a potential selling price, but they protect the home's value.



A successful renovation outcome starts with a full scope of work in writing, signed by both parties, with a detailed breakdown of what is and is not involved in the renovation. ISTOCKPHOTO.COM

ASK AN EXPERT



Wade Stayzer, vice president of retail and investment services at Toronto-based Meridian Credit Union, has advice for primary borrowers and potential co-signers.

Q: Before asking a relative or close friend to co-sign your mortgage, what do you and your potential co-signer need to know?

If you have been turned down for a loan and are looking for someone to co-sign the loan with you, you need to find someone who has a very strong credit history. And you need to make sure you don't let down your co-signer. As the primary borrower, you need to understand the responsibility you're asking your co-signer to take on and how that might put a strain on your relationship if you are unable to make the payment. Sometimes it's best to put your house hunting on hold and focus on cleaning up your credit history. Work with a trusted adviser to set up a plan to get your credit rating on the road to recovery.

If you're considering co-signing a mortgage, you must understand that by co-signing it becomes your mortgage too, and there will be consequences to you if payments are not made. Being a co-signer may also affect your ability to negotiate or secure other debt. Lastly, as a mortgage co-signer, your name will be on the title and there are tax implications such as potential capital gains if you wish to come off title at a later date.



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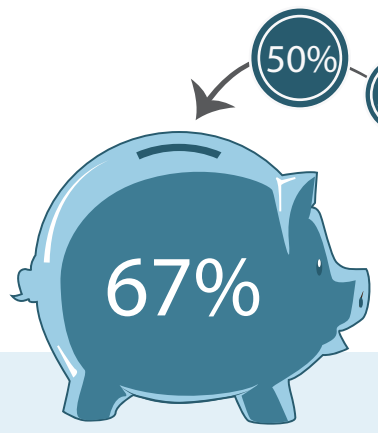
Study finds Canadians optimistic about homeownership



19%

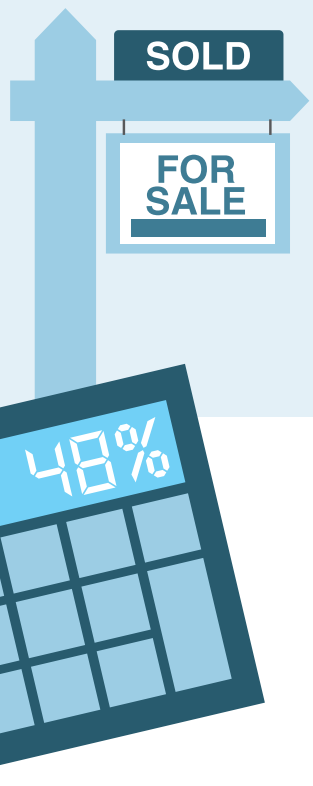
Mortgage Patterns

of first-time buyers/intenders say now would be a good time to buy a home



67% say their goal is to pay off their mortgage faster

50% spend one to two years saving for their down payment and 29% take three to four years



Attitudes toward Homeownership

9 out of 10 people believe that even though homeownership may mean more work and effort, they would rather own than rent their home

9 out of 10 people agree that owning your own home gives you a greater sense of emotional well-being



Financial Well-Being

48% said they are in good or great financial shape, up from 40% in 2012

38% said they are able to pay their bills AND save money, up from 31% in 2012



51% pay off their credit cards in full every month, up from 46% in 2012

The recently released 2014 Genworth Canada Homeownership Study, completed in conjunction with the Canadian Association of Credit Counselling Services, found that respondents are confident about the long-term benefits of owning a home. Further, "Canadians ... see their goals of homeownership and financial well-being as more achievable," says Stuart Levings, chief operating officer of Genworth Canada. SOURCE: GENWORTH CANADA

DATA



More highlights

from the 2014 Genworth Canada Homeownership Study

Homebuyers are thinking more about smart home investing

- Up since 2013, **two-thirds** of respondents (64 per cent versus 58 per cent) feel that housing prices will increase in the next 12 months
- **Half** expect to take one to two years to save for their down payment, with an increasing number (29 per cent versus 21 per cent) saying it will take three to four years

Canadians' financial well-being is strengthening

- The proportion of first-time buyers/intenders who say they don't know what their credit rating is has declined from **32 per cent** to **23 per cent**

Financial literacy attitudes are consistently strong over the last two years

- **95 per cent** agree that children should be taught basic finances and budgeting in school
- **93 per cent** would like to see education provided before people take out their first loan or credit card

Adapted with permission from Genworth Canada

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QUALIFYING

Advance planning essential for self-employed homebuyers

Edmonton entrepreneurs Greg and Tiffany Sommers are intimately familiar with long days, hard work and the endless details that must be attended to in order to build a successful business. But they were still surprised – and frustrated – by the amount of paperwork and planning required to qualify for a mortgage on a modest townhome.

With the help of accredited mortgage professional Brandon Scott, they were ultimately successful. But during the process, Mr. Sommers says he and his wife felt as if "we had to jump through so many hoops just to get to the same place someone with a traditional job starts at when they apply for a mortgage."

It is a response that Mr. Scott, who specializes in mortgages for the self-employed, sees regularly. "June 21, 2012, may not stand out as a significant date for self-employed people, but it should – that's when the Office of the Superintendent of Financial Institutions introduced what are known as the B20 guidelines."

Along with the many risks of self-employment, one of the benefits is the opportunity to have better control over taxable income. Since the B20 guidelines were introduced, "we've had to re-educate our self-employed clients," says Mr. Scott. "If your accountant says that you're qualified for certain tax writeoffs, you have to remember that once you make those deductions, that income may no longer be used to qualify for a mortgage."

Now self-employed individuals must also make decisions about how much of their business income they need to pay tax on, regardless of allowable deductions, so that they can get the financing they need to buy a home, he explains.

Fortunately, the outlook for self-employed homebuyers continues to improve, says Sean Amato-Gauci, senior vice president of home equity finance at RBC.

"While it's always helpful to have a financing plan in place for [the day you decide to buy a home] it is absolutely essential for people who are self-employed."

Brandon Scott
is an accredited mortgage professional with Invis in Edmonton

The introduction of the B20 regulations, coupled with numerous other new regulations governing the mortgage industry as a whole, initially created a lot of confusion in the marketplace, he says. "Since then, we've educated our sales force to provide more information up front, in order to make the process simpler."

In addition, RBC now allows for a gross-up of 15 per cent of verified self-employed income in recognition of the fact that tax deductions may be claimed for expenses that salaried employees pay with after-tax dollars.

RBC is one of a number of lenders that have "stated income" programs, which allow self-employed clients to provide information about their business to be assessed for "reasonability" as part of the lenders' analysis of their ability to repay debt. However, stated-income mortgages are generally limited to a maximum loan-to-value ratio of about 65 per cent, Mr. Amato-Gauci notes.

In terms of outcome and process, "it all depends on the individual client circumstances and their relationship with us. The quality of their income statements and their credit history may have some bearing, as well as their other assets," he says.

Many families make the decision to buy a home quickly, when a home they want becomes available. While it's always helpful to have a financing plan in place for that day, it is absolutely essential for people who are self-employed, says Mr. Scott. "Even if you think it will be two or three years from now, contact Equifax or TransUnion now to get a free copy of your credit report. Then work with a mortgage professional who can help you interpret that data. We then have time to make recommendations so that the application moves ahead smoothly when you find the right home."

Preparation and planning are key to success, agrees Mr. Amato-Gauci. "We have the largest group of mortgage specialists out there. We meet with our time-constrained self-employed clients at the time and place that's most convenient for them, to walk them through the process and help provide solutions."



For the self-employed applicant, credit history, assets, income and the quality of income statements all play a role in the mortgage approval process. ISTOCKPHOTO.COM

ASK AN EXPERT



Nicole Wells, vice president, retail lending and chequing at Tangerine, formerly ING Direct, lends her expertise to this subject.

Q: When does it make sense to switch to another bank before your mortgage renewal date?

It can be expensive to switch your mortgage mid-term. There will most likely be penalties, and in some cases, depending on the bank, legal fees if the existing mortgage is a collateral charge. A collateral charge cannot simply be switched. It must be discharged and re-registered, which requires a lawyer. Some banks are willing to pick up this cost.

If you are planning to refinance, renovate, consolidate debt or purchase a new property, it may make sense to switch your mortgage before your renewal date. Depending on the bank and the equity in the property, penalties may be capitalized against the mortgage – meaning added to the mortgage – and the borrower will see a nominal increase in their payments.

Another situation where it may make sense to switch is if your interest rate is excessively high and by switching banks you will reduce your monthly payments and save on interest costs in the long term. Before considering a switch you should talk to your existing lender. They may be willing to absorb some or all of the penalties, or they may offer the ability to blend your existing rate with the current rate to lower your monthly payments without additional cost.



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