



Mortgage changes: for homeowners' sake

According to a recent article issued by the Canadian Association of Accredited Mortgage Professionals (CAAMP), on February 16, 2010, Federal Finance Minister Jim Flaherty announced prudent changes to mortgage insurance rules intended to come into force on April 19, 2010. These changes are as follows:

1 | All borrowers must meet the standards for a five-year, fixed-rate mortgage, even if they choose a mortgage with a lower interest rate and shorter term.

For example, if someone chooses a variable-rate mortgage, where the interest rate can be as low as 1.95 to 2.25 per cent today, they'll have to be able to handle the payment at the current five-year rate. You won't have to actually make the higher payments required by the five-year mortgage. You'll just have to theoretically be able to carry them and still remain within the limitations lenders set out on how much of your gross income can be consumed by debt.

2 | The government is lowering the maximum amount Canadians can withdraw when refinancing.

The maximum amount one can withdraw in refinancing their mortgage will be reduced to 90 per cent from the current 95 per cent of the value of one's home.

Note, the 90 per cent Loan to Value is for refinances only, not purchases. Purchasers may still borrow up to 95 per cent of the home value, while refinancing is restricted to withdrawing up to 90 per cent of the home value.

The 35-year amortization, favourite of first-time buyers across this land, remains.

3 | Non-owner occupied properties will require a minimum down payment of 20 per cent.

If you buy a property you're not going to live in, then you'll have to put down a minimum 20 per cent to qualify for mortgage insurance.

That's up from five per cent.

In reference to the tightening of re-financing rules, Flaherty said this will encourage Canadians to build equity in their homes instead of tapping that equity as a source of cash.

