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GUY PEARSON, SURREY RESIDENT

IAN LINDSAY/FNG

Guy Pearson wants to buy a home soon, but says changes to the regulations around mortgages will make it harder.

**THE THREE CHANGES**

<p><b>30</b> years</p> <p>New maximum amortization period, down from 35 years.</p>	<p><b>85%</b></p> <p>Maximum amount that can be borrowed against value of home.</p>	<p><b>Home equity insurance</b></p> <p>Government will no longer insure popular lines of credit.</p>
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## Guy Pearson wants to buy a home soon, but says changes to the regulations around mortgages will make it harder.

**Photograph by: Ian Lindsay, Vancouver Sun, Vancouver Sun**

Tighter mortgage rules announced Monday by the federal government will have a disproportionate effect on the purchasing power of homebuyers in Metro Vancouver.

Amid rising concern about increased household debt in Canada, Finance Minister Jim Flaherty cut the maximum amortization period from 35 years to 30 years and tightened the rules for mortgage-backed lines of credit. Canadians will only be able to borrow up to 85 per cent of the value of their homes, down from 90 per cent. And Ottawa will no longer insure the popular home equity lines of credit.

The amortization change, which affects purchases with a down payment of lower than 20 per cent, means somebody with a four-per-cent rate on a \$300,000 mortgage would pay about \$100 a month more.

The new rules will disproportionately affect first-time homebuyers and people who live in B.C., home to the country's highest housing prices, said Tsur Somerville, director of the University of B.C. Centre for Urban Economics and Real Estate.

"The sense is, there are more first-time buyers in the Lower Mainland who have been using the 35-year mortgage," he said in a phone interview. "Either those people have to come up with a slightly higher down payment, or they just can't bid the same price on a house."

The longer amortization periods have become popular among Canadians since they were introduced.

As of November, 30 per cent of all new mortgages in Canada had a 35-year amortization period, according to the Canadian Association of Accredited Mortgage Professionals. While B.C. numbers are not available, that percentage is undoubtedly higher here, Somerville said.

Ottawa discontinued the 40-year mortgage amortization and the zero down payment in October 2008, two years after the controversial features were introduced. About six per cent of existing mortgages have a 40-year amortization.

The mortgage changes come at the worst possible time for Guy Pearson.

The Surrey resident, who lives with his wife and three children in his mother-in-law's house, has been looking to buy a house with a suite and was pre-approved for a purchase price of \$340,000. The reduction in the maximum amortization period means Pearson now only qualifies for a \$325,000 purchase.

"It's not a ton, but it's enough for me to go, 'Oh my goodness, I'm not going to really get what I want now,'" said Pearson. He is now looking at staying put or house-hunting in Langley.

Somerville said that in addition to reducing purchasing power, he expects the rule changes to dampen upward pressure on housing prices and cut into renovation work funded by home equity.

"We've had a lot of house price appreciation, so people use the home equity line of credit," said Somerville. "It's not going to be as big a piggy bank."

Feisal Panjwani, senior mortgage consultant with Invis-Feisal & Associates in Cloverdale, described the changes as "prudent" and said reducing maximum amortization was a better option than hiking the minimum down payment (now five per cent).

"The government is trying to ensure that people don't get in over their heads," Panjwani said.

BMO Bank of Montreal also applauded the "measured and timely" moves, noting the amortization change is equivalent to a 56-basis-point hike in interest rates.

But Vancouver mortgage broker Angela Calla described the rule changes as "misguided" because they will hurt people who have been using home equity lines of credit to pay down higher-interest debt. They will also hinder people who need to dip into their home equity because of unforeseen life events such as health issues.

The new amortization and refinancing limits take effect on March 18. The withdrawal of government insurance on home equity lines of credit takes effect on April 18.

Household debt measured as a ratio of money owed to disposable income was near 150 per cent as of the third quarter of last year. That surpasses the level of debt held by U.S. households, whose appetite for borrowing helped stoke the financial crisis of 2008.

The Bank of Canada recently warned debt levels are growing faster than income, adding the risk posed by consumer indebtedness to the domestic economy would continue to escalate without a "significant change" in how consumers borrow and banks lend.

Changing mortgage rules allows the Bank of Canada to tackle household debt while avoiding an interest rate hike.

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