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## Credit squeeze means it costs more to borrow

The credit squeeze in the United States has wreaked havoc in financial markets south of the border. Old established investment banks have gone bankrupt or been swallowed up by competitors, the country's largest savings and loan has collapsed and mortgage giants Fannie Mae and Freddie Mac were taken over by the government.

And while Canadian banks are unlikely to suffer the same fate, Canadians have not gone unscathed. The most pronounced effects: the 22-per-cent drop in the S&P/TSX composite index since the end of August, and the rising cost of borrowing money.

The key factor in the financial crisis in the U.S. was sub-prime mortgages, said Bob Gorman, chief portfolio strategist at TD Waterhouse. As these mortgages default banks have less cash coming in, and less cash to lend out.

But while about 10 per cent of U.S. mortgages are sub-prime - and at the housing peak 40 per cent of new mortgages were lower quality - in Canada sub-prime mortgages are "a tiny tiny percentage, maybe two per cent," Gorman said.

"So we've never had the same underlying issue and so we don't have the same liquidity constraints," Gorman said.

"But what you do have is a certain spillover effect."

With less money available, for loans, and increased concerns about the risk of lending money, investors want a higher return, Gorman said. That means banks have to pay more when they borrow. And those costs are passed on as higher interest rates.

"And that is probably the single biggest change in the Canadian marketplace," Gorman said. "But it pales in comparison with what you see stateside."

Yet those who want to borrow still should be able to, Gorman said. Though some may choose not to.

"Because naturally enough if you're a little more concerned about your job in a more fragile economy you're going to want to be sure you've got some breathing room," he said.

**Feisal Panjwani, a senior mortgage consultant with Invis,** says credit is still available for anyone with a credit score of 600 or more, and that minimum score hasn't changed. But the cost of borrowing has gone up, he said.

Homeowners can opt for two types of mortgages - a variable rate based on the prime lending rate (which is the Bank of Canada's overnight rate plus 1.75 percentage points), or a fixed rate mortgage which is set by the lenders.

A year ago a homeowner could get a variable mortgage at prime less as much as 0.9 of a percentage point. But in the past few months those discounts have been disappearing and almost all variable mortgages are now at prime, Panjwani said.

Banks who have outstanding discounted variable mortgages "are making very very little, if [they are] not in a loss position," Panjwani said.

In the last few weeks, five-year fixed mortgage rates have also gone up, Panjwani said. Panjwani looks at the best discounted rates for his clients, rather than the posted rates. And a few weeks ago the best discounted rate was as 4.99 per cent, he said. Now the best rates are between 5.45 and 5.85.

Added liquidity - making more money available for loans - could ease some of the pressure on rates, BMO Capital Markets deputy chief economist Douglas Porter said in an interview Thursday.

"The problem right now is that there is a lot of uncertainty and there is a lack of trust even amongst the banks of the world," Porter said. "And they're very reluctant even to lend to each other, and basically the credit process is being gummed up."

On Friday added liquidity came from two

sources. The U.S. government voted to approve a \$700 billion bailout plan in which the government would buy bad loans held by financial institutions and give the institutions much-needed cash in return.

And the Bank of Canada announced it would boost liquidity by accepting a wider array of collateral for loans.

If money stays tight, causing the rate of inflation to fall below the Bank of Canada's target two per cent, the Bank could also choose to lower its overnight rate, directly affecting variable mortgage rates, and indirectly affecting shorter term fixed-rate mortgages which usually move in the same direction as the overnight rate.

### Tips from Feisal Panjwani a senior mortgage consultant with Invis on how to keep your credit score high.

**1. Keep your balance under 50% of your credit limit.** If you can't split the balance between a couple of cards to stay below 50%, ask to have your limit increased so that you can stay below that 50% mark.

**2. Always make your minimum payment and make it on time.** Don't double up one month and skip the next one. Your score is calculated by a computer system and if you miss a minimum payment (even if it's for \$15) it will likely reduce your credit score.

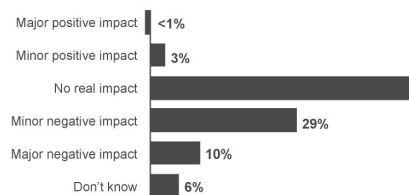
**3. If you have an old credit card or line of credit you don't use, don't close it.** Keep it active but leave the balance at zero as the length of time it's reported on your credit report as being in good standing can increase your score.

**4. Pay out any old collections or judgments.**

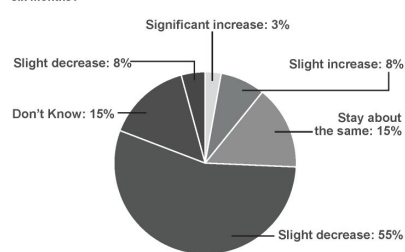
**5. Anything negative will drop off your report after six years so don't worry if you were sloppy many years ago when you were young and having some fun!** As long as you have been careful the last six years (and more importantly the last two years) you will likely be fine.

## Pollsters quizzed 650 British Columbians this past week about the state of the economy. These are some of their findings.

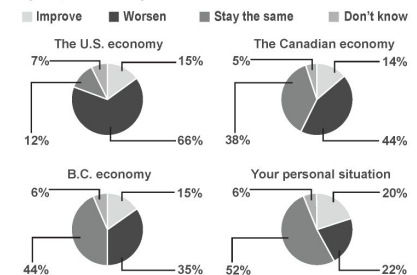
So far, what if any impact has the U.S. economic crisis had your own personal financial situation?



What's your forecast for housing prices in your community over the next six months?



Over the next six months, do you expect each of the following to improve, worsen or stay about the same?



Do you expect to cut back your spending on any of the following in the next six months?

