



Flaherty tightens mortgage rules

By Paul Vieira, Financial Post February 16, 2010

OTTAWA — Amid warnings about Canadian household debt levels and a possible housing bubble, Finance Minister Jim Flaherty said Tuesday the federal government would make it tougher for people to get a mortgage.

He said at an early Tuesday morning media conference that Ottawa would require all borrowers meet standards for a five-year fixed-rate mortgage, even if the buyer wants a variable rate mortgage. That is the key move announced Tuesday. Other rule changes unveiled would affect people looking to refinance their mortgages — lowering the maximum amount that can be withdrawn to 90 per cent from 95 per cent — and place a 20 per cent minimum down payment for government-backed mortgage insurance on non-owner-occupied properties.

But the Minister said the changes were not meant to stop a possible housing bubble, as some warned was upon us.

"There's no clear evidence of a housing bubble, but we're taking proactive, prudent and cautious steps today to help prevent one," Flaherty said. "Our government is acting to help prevent Canadian households from getting overextended."

The decision to adopt new mortgage rules emerged after nearly a week of dire warnings from prominent Canadians — such as money manager Stephen Jarislowsky and former Bank of Canada governor David Dodge — that the housing market was on the verge of possible trouble, as price increases were not sustainable and present mortgage rules were too lax.

The Department of Finance in 2008 said Canada Mortgage and Housing Corp. would limit amortizations to 35 years and offer loan insurance on only 95 per cent of the loan value. The government's housing agency had offered mortgage insurance on loans worth as much as 100 per cent of the home value and amortization periods of as many as 40 years since 2006.

Canadian home prices and resales will grow to records this year, boosted by low interest rates, the Canadian Real Estate Association said in a report last week. Canadian new-home prices rose 0.4 per cent in December from November, the sixth straight gain, according to government figures.

As recently as two weeks ago Flaherty said there was "no substantial concern" about the emergence of a housing bubble after meeting with private-sector economists. And in an interview with the Financial Post in late December, he said there was "no evidence" of asset bubble in real estate.

