

MORTGAGEBROKERS OTTAWA

Flaherty to toughen mortgage rules

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Finance Minister Jim Flaherty will announce new rules Tuesday aimed at preventing homebuyers from getting into financial difficulty when mortgage rates rise, CBC News has confirmed.

Sources say the measures will discourage reckless real estate speculation, such as borrowing heavily for an investment property that is not the investor's primary residence. Flaherty is also set to deter households from taking on more mortgage debt than they can afford to repay when interest rates rise, as they are expected to do later this year.

The finance minister is also expected to discourage people from raising cash by refinancing their homes with larger mortgages — again because they may not be able to make the payments at higher interest rates.

The Canadian Press reports that Flaherty will implement a debt affordability or income test that applicants must pass to qualify for mortgages insured by the Canada Mortgage and Housing Corp.

There has been speculation that Flaherty might raise the minimum down payment on a home — now five per cent — and lower the maximum amortization period for mortgages — currently 35 years.

Sources have told CBC News that those measures are not part of Tuesday's announcement. However, they could be considered in the future.

Economists and policy-makers have expressed concern that very low interest rates have encouraged Canadians to take on too much debt.

In the case of home mortgages, there are fears that rising rates would force people to walk away from properties they could no longer afford — as happened in parts of the U.S. in 2007 and 2008 — flooding the market with homes for sale and causing prices to collapse.

With files from The Canadian Press