

Beyond the traditional mortgage

In late February 2006, Canada Mortgage and Housing Corporation (CMHC) introduced a pilot program which offered to insure 30-year mortgages. What was planned as a four-month project was so successful that in late June of that year, CMHC made this mortgage option on going and has since also introduced extended amortization periods of up to 40 years. Today these mortgage options are available through numerous lenders.

Traditionally, 25 years had been the maximum amortization period available to homeowners. The idea of the longer mortgages is that buyers will be able to get into the housing market with lower payments, but will be in a better financial situation in a few years to be able to pay off the mortgages faster. Lower monthly payments mean a better chance of owning a home, better cash flow and more house for that monthly payment. Longer amortization periods also mean that rising interest rates may not affect home affordability (housing-related payments compared to income) as much as in the past.

Amortization periods – the length of time calculated to pay off the entire mortgage – are a significant factor in the size of the monthly payments. And the extra five or ten years required to pay off a mortgage can make a big difference to the household cash flow of homebuyers who are trying to meet other financial demands.

A new report by an economist with RBC Economics says that Canadians are embracing these new mortgage options faster than expected as Canada's housing market continues to boom. He also says that Canadians (particularly first-time buyers) make the most of their investment by using any extra money to pay off their mortgage faster, which he says is sound financial planning for any stage of life.

And although longer amortization periods have reduced monthly payments, they do cost more in interest. The Financial Consumer Agency of Canada (FCAC) includes a chart on its website showing payments for various mortgage terms. For their example they use a \$150,000 mortgage at a rate of 6.45%. Amortized over 25 years, this mortgage results in monthly payments of \$1,000 and total interest over the life of the loan of \$150,060. Amortized over 35 years, the monthly payment drops to \$895 and

AUGUST MARKET CONTINUES BRISK SUMMER SALES TREND

Greater Vancouver's housing market remained brisk in August with demand outpacing supply. Says Brian Naphtali, president of the Real Estate Board of Greater Vancouver, "We've seen sales near record levels for three consecutive months, despite the summer traditionally being a slower time for real estate." There were 3,384 sales in August, up 12.9% over sales in August 2006.

Sales of detached homes increased by 10.4% compared to last August, townhome sales also increased 10.4% year over year while apartment sales were up 16.1% over sales in August 2006.

Prices are also up compared to last August. The benchmark price of a detached home in Greater Vancouver in August was \$726,067 up 11.1% from one year ago, the benchmark price of a townhome was \$446,577, up 9.8%, while the apartment benchmark price was \$367,944, up 11.0% compared to August 2006.

interest payments go to \$224,800. At a 40-year term, monthly payments are \$865 and interest totals \$264,620.

However, according to the FCAC, if a homeowner could afford bi-weekly payments (every two weeks) of \$432 (using the 40-year example above with monthly payments of \$865), then \$80,200 would be saved and 10 years would be taken off the mortgage period. There are many other ways to reduce the cost of a mortgage, including paying down the principal once a year or making double payments when the homeowner can afford it. Or at renewal, increasing monthly payments.

Overall, according to the report from RBC Economics, the Canadian mortgage picture is very healthy. The combined 30, 60 and 90-day mortgage delinquency rate remains firmly fixed at the rock bottom level of one-tenth of one percent of all mortgages outstanding. Three-quarters of Canadian mortgage holders are at fixed rates.

Sources: Realty Times, <http://fcac-acfc.gc.ca/eng/consumers/FAQs/QAView.asp?id=328>

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