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THE HARPER GOVERNMENT TAKES PRUDENT ACTION TO SUPPORT THE LONG-TERM STABILITY OF CANADA'S HOUSING MARKET

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The Honourable Jim Flaherty, Minister of Finance, and the Honourable Christian Paradis, Minister of Natural Resources, today announced prudent adjustments to the rules for government-backed insured mortgages to support the long-term stability of Canada's housing market and support hard-working Canadian families saving through home ownership.

"Canada's well-regulated housing sector has been an important strength that allowed us to avoid the mistakes of other countries and helped protect us from the worst of the recent global recession," said Minister Flaherty. "The prudent measures announced today build on that advantage by encouraging hard-working Canadian families to save by investing in their homes and future."

"The economy continues to be our Government's top priority," continued Minister Paradis. "Our Government will continue to take the necessary actions to ensure stability and economic certainty in Canada's housing market."

The new measures:

- Reduce the maximum amortization period to 30 years from 35 years for new government-backed insured mortgages with loan-to-value ratios of more than 80 per cent. This will significantly reduce the total interest payments Canadian families make on their mortgages, allow Canadian families to build up equity in their homes more quickly, and help Canadians pay off their mortgages before they retire.
- Lower the maximum amount Canadians can borrow in refinancing their mortgages to 85 per cent from 90 per cent of the value of their homes. This will promote saving through home ownership and limit the repackaging of consumer debt into mortgages guaranteed by taxpayers.
- Withdraw government insurance backing on lines of credit secured by homes, such as home equity lines of credit, or HELOCs. This will ensure that risks associated with consumer debt products used to borrow funds unrelated to house purchases are managed by the financial institutions and not borne by taxpayers.

Our Government's ongoing monitoring and sound underlying supervisory regime, along with the traditionally cautious approach taken by Canadian financial institutions to mortgage lending, have allowed Canada to maintain strong and secure housing and mortgage markets.

The adjustments to the mortgage insurance guarantee framework will come into force on March 18, 2011. The withdrawal of government insurance backing on lines of credit secured by homes will come into force on April 18, 2011.

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BACKGROUNDER: SUPPORTING THE LONG-TERM STABILITY OF CANADA'S HOUSING MARKET

MORTGAGE INSURANCE

Mortgage insurance (which is sometimes called mortgage default insurance) is a credit risk management tool that protects lenders from losses on mortgage loans. If a borrower defaults on a mortgage, and the proceeds from the foreclosure of the property are insufficient to cover the resulting loss, the lender submits a claim to the mortgage insurer to recover its losses.

The law requires federally regulated lenders to obtain mortgage insurance on loans in which the homebuyer has made a down payment of less than 20 per cent of the purchase price (also called high loan-to-value loans). The homebuyer pays the premiums for this insurance, which protects the lender if the homebuyer defaults.

The Government backs insured mortgages in Canada. It is responsible for the obligations of Canada Mortgage and Housing Corporation (CMHC) as it is an agent Crown corporation. In order for private mortgage insurers to compete with CMHC, the Government backs private mortgage insurers' obligations to lenders, subject to a deductible equal to 10 per cent of the original principal amount of the loan.

In October 2008, the Government adjusted its minimum standards for the mortgage insurance guarantee framework, including:

- Fixing the maximum amortization period for new government-backed insured mortgages to 35 years.
- Requiring a minimum down payment of five per cent for new government-backed insured mortgages.
- Establishing a consistent minimum credit score requirement.
- Requiring the lender to make a reasonable effort to verify that the borrower can afford the loan payment.
- Introducing new loan documentation standards to ensure that there is evidence of reasonableness of property value and the borrower's sources and level of income.

In April 2010, the Government took additional measured steps to support the long-term stability of Canada's housing market and continue to encourage home ownership for Canadians. Adjustments to the mortgage insurance guarantee framework included:

- Requiring that borrowers meet the standards for a five-year fixed rate mortgage even if they choose a mortgage with a lower interest rate and shorter term.
- Lowering the maximum amount Canadians can withdraw in refinancing their mortgages to 90 per cent from 95 per cent of the value of their homes.
- Requiring a minimum down payment of 20 per cent on non-owner-occupied properties purchased for speculation.

MEASURES ANNOUNCED TODAY

Today, the Government announced three changes to the standards governing government-backed insured mortgages.

LIMIT THE MAXIMUM AMORTIZATION PERIOD TO 30 YEARS

The amortization period is the length of time it will take to pay off the entire mortgage loan. It is usually much longer than the term of the mortgage. A typical mortgage in Canada may have a term of five years or less during which a specific fixed or variable interest rate will apply, and the mortgage can be renewed at the end of the term.

The measure announced today will reduce the maximum amortization period from 35 years to 30 years. For any given mortgage loan, a lower amortization period would result in a moderate increase in the monthly payment along with a significant reduction in the total interest paid over the amortization period. This measure is consistent with the principle of encouraging savings through home ownership. The following table illustrates the benefit of reducing the amortization period from 35 years to 30 years for a mortgage loan of \$300,000.

Monthly Payments and Total Interest Savings Resulting From a Reduction in the Amortization Period to 30 Years for a Mortgage Loan of \$300,000

Interest Rate	35-Year Amortization— Monthly Payment	30-Year Amortization— Monthly Payment	Difference In Monthly Payment— 30-Year vs. 35-Year Amortization	Interest Savings—30-Year vs. 35- Year Amortization
4 per cent	\$1,322	\$1,427	\$105	\$41,850
5 per cent	\$1,504	\$1,601	\$97	\$55,404
6 per cent	\$1,696	\$1,784	\$88	\$69,809

The mortgage loan amount used in the illustrative example represents approximately the size of the mortgage loan needed for an average house in Canada. According to the Canadian Real Estate Association, the national average price (based on Multiple Listing Service sales activity) for a home sold in November 2010 was \$344,268.

LOWER THE MAXIMUM REFINANCING AMOUNT TO 85 PER CENT OF THE LOAN-TO-VALUE RATIO

Borrowers can refinance their mortgage and increase the amount of the loan secured against their home. The measure announced today will reduce the limit on refinancing from 90 per cent to 85 per cent of the value of the home. Refinancing lowers the borrower's equity in their home. Reducing the maximum loan-to-value ratio on refinancing will encourage Canadians to keep equity in their home and save through home ownership.

As an illustration, for a home valued at \$300,000, refinancing at 90 per cent would allow the homeowner to access up to \$270,000, whereas refinancing at 85 per cent would allow the homeowner to access up to \$255,000. The lower refinancing limit means homeowners will keep an additional \$15,000 in the equity of their home.

WITHDRAW GOVERNMENT INSURANCE BACKING ON NON-AMORTIZING LINES OF CREDIT SECURED BY HOMES

Under the current rules, a line of credit secured by the borrower's home, such as a home equity line of credit, is limited to a maximum of 80 per cent of the value of the home. There has been a substantial increase in the credit available to Canadians through this type of secured line of credit over the past several years, and it is an important factor in the rise in overall household debt. These loans are generally non-amortizing, which means that borrowers are not required to make regular payments on the principal amount of the loan. Moreover, these loans are almost exclusively variable rate products, which expose borrowers to the impact of rising interest rates. While regulated lenders are not required to obtain insurance on lines of credit secured by homes at the time of origination, they may choose to obtain insurance after origination through what is known as "portfolio insurance," where secured lines of credit are pooled into a portfolio and then insured by a mortgage insurer. At the time of insurance, the benefit of the portfolio insurance is to the lender by facilitating funding, rather than to the individual borrower. Other options exist for lenders to fund their secured lines of credit.

Many lenders now offer multiple loans or a multi-segment loan secured against a borrower's home. If a loan or a segment of a multi-segment loan is in the form of a revolving line of credit that does not amortize over time, it will no longer be eligible for government-backed insurance. However, with established scheduled principal and interest payments, a loan will continue to be eligible for government-backed insurance, provided it meets the underwriting standards set by the mortgage insurer.

Withdrawing government insurance backing on these non-amortizing products is consistent with the Government's objective of supporting the long-term stability of Canada's housing market.

MOVING TO THE NEW FRAMEWORK

The adjustments to the maximum amortization period and the maximum refinancing amount will come into force on March 18, 2011. The withdrawal of government insurance backing on lines of credit secured by homes will come into force on April 18, 2011. Exceptions would be allowed after the new measures come into force where they are needed to satisfy a binding purchase and sale, financing or refinancing agreement entered into before the corresponding coming into force dates.