

Mortgage brokers should prepare borrowers for higher interest rates

The Canadian Press

Interest rates aren't going up any time soon, but when they do, the rise will be rapid enough to potentially prove devastating for homeowners who aren't prepared, mortgage industry experts say.

Because of this, mortgage lenders and brokers have a responsibility to help home buyers assess their capacity to make higher monthly payments, and to constantly evaluate their chances for default.

"There should be some prudence and there should be counselling by mortgage brokers to ensure people do leave a little wiggle room," Ivan Wahl, chairman and CEO of Xceed Mortgage Corp. (TSX:XMC), said at a recent industry conference.

Wahl praised Canadian regulators for preventing the housing meltdown that decimated the American economy, but said mortgage lenders have a responsibility to self-regulate as well.

"Regulators have a very specific role, but you can't regulate prudence," he said. "Self-discipline has to continue to be supplied."

He called for an "early warning system" that would allow lenders to adjust quickly if an increased number of borrowers default on

their mortgages as a result of higher interest rates.

The Canadian housing market fared much better than its American counterpart during the recession due to both better regulation and a more prudent culture. While the financial crisis in the U.S. was caused in large part by subprime mortgages, which led homeowners to default en masse when housing prices began to fall, strict regulations helped the Canadian economy avoid a similar meltdown.

Last month, a report said a record-high 14 per cent of U.S. homeowners with a mortgage were either behind on payments or in foreclosure at the end of September.

Similar Canadian statistics are hard to come by, but the comparable number would be "much lower" in Canada, said Gregory Klump, chief economist of the Canadian Real Estate Association.

Even mortgage lenders weren't expecting the Canadian housing market to fare as well as it has.

"The last half of '09 is better than anybody expected," said John Webster, president and CEO of Scotia Mortgage Corp.

"We were looking at a nuclear winter . . . (for new mortgages), a 30- to 35-per-cent drop, and that hasn't happened," agreed Stephen

Smith, chairman and president of First National Financial LP (TSX:FN.UN).

The health of the Canadian housing sector has been aided by low interest rates — 5.59 per cent for a five-year fixed-rate mortgage and 2.25 per cent for a five-year variable-rate mortgage at one bank.

Depending on whether they are fixed or floating-rate, mortgages are tied to either the bond market or the Bank of Canada's key lending rate, which are closely related. The central bank's rate has been sitting at a record low of 0.25 per cent since the spring and it has said it will keep it steady until at least next June to help stimulate the ailing economy.

Benjamin Tal, senior economist with CIBC World Markets, said he expects the Bank of Canada will end up keeping its lending rate steady into 2011, as it would endanger the economy to raise rates too soon.

However, this isn't to say higher interest rates won't hit Canadian consumers eventually, Tal said. He predicted inflation of between three and five per cent by 2011.

"This will be enough to kill the bond market and to lead to higher interest rates down the road," he said.

And when interest rates do rise, they'll rise quickly. This could hurt Canadian homeowners who haven't carefully evaluated their ability to carry their mortgage at a higher interest rate.

For example, a \$200,000 mortgage with a term of 25 years and an interest rate of 2.25 per cent has monthly payments of \$876.26. For the same mortgage with an interest rate of five per cent, the monthly payments become \$1,169.18.

"We have to educate ourselves and our clients that interest rates will rise and when they rise they will rise quickly, 200 to 300 basis points," Tal said. Borrowers then have to decide if they'll still be able to finance their mortgage at a higher interest rate.

"If not, buy a smaller house," Tal said. "It's as simple as that." Mortgage lenders and brokers gathered in Toronto last month for the Canadian Association of Accredited Mortgage Professionals' annual conference and expo.

CAAMP says the volumes of residential mortgage credit outstanding is forecast to grow by seven per cent between 2009 and 2011, and is predicted to pass \$1 trillion in 2010. The average mortgage interest rate was 4.55 per cent as of October, down from 5.41 per cent a year ago.

Personal bankruptcies jump nearly 50% in September from year before

The Canadian Press

A federal regulator says bankruptcies in September jumped 43.3 per cent from the same month a year earlier.

The Office of the Superintendent of Bankruptcy says most of the insolvencies involved individuals, not businesses.

Personal insolvencies totalled 15,465 in September, an increase of 45.5 per cent from September

2008. There were 579 business failures, up only 1.6 per cent from 2008.

For the third quarter of this year, there were 42,160 insolvencies filed, an increase of 37.4 per cent from the same period in 2008.

Personal filings for the quarter rose 40.2 per cent from last year to 40,589, while business failures actually fell 8.3 per cent from 2008, to a total of 1,571.

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