New Mortgage Rules for Homebuyers

If you are thinking of purchasing a home in the near future, the federal government has implemented some new mortgage rules that you need to be aware of. These new rules came into effect July 9, 2012, and will affect home buyers or owners who are mortgaging a property.

Most notably, for new government-backed insured mortgages, the amount of equity that can be borrowed against a property has been reduced, from 85% to 80% of the value of the property.

Another more contentious change is the reduction of the maximum amortization period from 30 years to 25 years. An amortization period is the amount of time it will take a homeowner to pay back the principal amount of a mortgage. This new shorter period means that the principal will be paid back quicker by the borrower, resulting in savings on the total amount of interest paid on that principal amount. However, it also means that the individual payments will be higher because there is less time to pay the principal back in full. This change has the effect of decreasing the total cost of a home a buyer is able to finance.

In making these changes, the government is attempting to help homeowners build up the equity in their homes quicker and to pay off their mortgages sooner, with the ultimate goal of strengthening Canadaôs housing finance system. Finance Minister Jim Flaherty is seeking to cool down what many experts see as an ñoverheatedò mortgage market, with many Canadians carrying debt loads that are beyond their comfort ranges. In fact, the average rate of debt to disposable income currently in Canada is an alarming 152%.

But in spite of the Minister's aggressive push to inform the public of these new rules, a recent poll conducted for the Bank of Montreal showed the majority of Canadians are unaware of the changes.

Given that a home is the largest purchase most Canadians will make in their lifetimes, it is important to be aware of the rules and consequences relating to the mortgages used to finance such purchases.

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