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Money

Mortgage curbs unlikely to derail property market: Economists

By SHARON SINGLETON

Finance Minister Jim Flaherty's new regulations to tighten mortgage lending will target the most at-risk borrowers and are unlikely to derail the country's property market, economists say.

Under the new measures, the Canada Mortgage and Housing Corporation will no longer backstop any loan longer than 30 years, down from 35 years. It will also no longer insure home equity lines of credit. The amount that can be borrowed against a home has also been cut to 85% from 90% of the value of the property.

Economists say the steps will only affect a small number of potential borrowers and specifically those most at risk of over-extending their finances.

"The measures are surgical and precise enough and are aimed at the group that we wanted to target without derailing the property market as a whole for no good reason," CIBC senior economist Benjamin Tal said.

Tal estimates the steps could cut mortgage lending by about 2% and therefore won't have a significant impact on banks or other areas of the market, such as new home building.

For the borrower looking at a 35-year mortgage, it will mean a reduction of about 7% in the size of the loan they are able to take, he said.

The government and the Bank of Canada have repeatedly warned over the past year that high levels of household debt — now running at a record 148% of income — pose a threat to the economy. The concern is that many will find themselves unable to meet payments once interest rates, still near historic lows, return to more normal levels.

Queen's University professor John Andrews, director of the school's Real Estate Roundtable, said more measures may be yet to come, such as an increase in minimum down payments.

"These are fairly minor changes that will affect the bottom end of the market," he said. "It will definitely keep some people out of the market, but they will probably be the first-time buyers."

Canada's property market was one of the best-performing among developed nations in 2010, though it was also one of the most volatile. Unusually high activity in the first two quarters gave way to a slower-than-normal summer as interest rates began to rise and the harmonized sales tax came into force in British Columbia and Ontario.

The most recent figures from the Canadian Real Estate Association point to a return to stability in December, setting up a solid start to the new year.

Sales were down 0.6% from the previous month, but were above 10-year average levels and prices gained 2%, CREA said last week.