AN INDEPENDENT SECTION BY MEDIAPLANET TO THE VANCOUVER SUN

Panel of experts
Discussing the recent rule changes

Know your worth
Property Brothers' tips on upping home value

MEDIA PLANET

September 2012

MORTGAGES

3 TIPS FOR STRUCTURING A MORTGAGE TO FIT YOUR INDIVIDUAL REQUIREMENTS

PROFESSIONAL INSIGHT ON THE HOUSING MARKET

Love It Or List It's realtor David Visentin and top designer Hilary Farr answer **tough homebuying questions**

PHOTO: BIG COAT PRODUCTIONS

CHALLENGES

Even in times of change, a broker's role as a client's advocate is not going anywhere, and mortgage brokers around the country continue to demonstrate value.

Trust in the experience and knowledge of Canada's mortgage professionals

This past spring, the federal government made its fourth set of changes to the mortgage insurance rules in 48 months. For most mortgages, if you put less than 20% down on the purchase price of a home, you are required by law in Canada to carry mortgage default insurance. The federal government provides a financial guarantee to these insured mortgages. So, as concern over household debt levels and the impact of potential rate increases rise, the government has toughened mortgage borrowing standards.

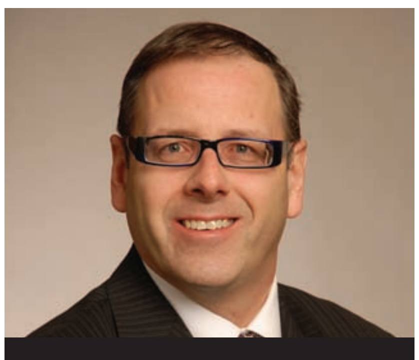
Necessary changes

Many of the original changes were needed. The government eliminated 40 year amortizations and no money down mortgages. The mortgage industry, including the Canadian Association of Accredited Mortgage Professionals (CAAMP), supported these initial changes. But CAAMP also provided extensive research to the federal government that shows the vast majority of Canadians can handle a rate increase. The federal government is walking a tightrope between concerns over debt levels and maintaining a healthy housing market which is important to the overall Canadian and British Columbian economies.

It is also important to note that Canada is not in the same boat as the USA or Europe. We do not have the same products as the USA; we finance our mortgages differently and we have the backstop of mortgage insurance. As a result, Canada's overall economy and housing market remain in relatively good shape especially when compared to our major trading partners.

Look to experts for guidance

During such times, it is important to seek the advice of an Accredited Mortgage Professional (AMP). The AMP designation is the only proficiency standard for Canada's mortgage professionals and was developed as part of CAAMP's ongoing commitment to increasing the level of professionalism in Canada's mortgage industry.


Jim Murphy
President and CEO, CAAMP

AMPs demonstrate commitment to the highest standards of industry performance. They differentiate themselves from other mortgage professionals and provide assurances to business partners and clients that they are dealing with a qualified professional who has met the highest standards of industry performance, continuing education and ethical business practices. In addition, the AMP can help mortgage professionals grow their business as an increasing number of Canadian mortgage consumers are becoming more aware of the AMP designation and are increasingly seeking the advice of mortgage professionals.

While using the services of an AMP is key, doing your own research is also important. In today's modern world of technology, a range of mortgage related information is available. There are consumer websites available for a wide variety of mortgage related information including mortgage calculators, first-time buyer check lists and mortgage glossaries. Understanding each step of the home buying process is key to ensuring you will make a wise decision that suits your financial situation.

JIM MURPHY
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New mortgage rules bring stability to the Canadian market

While many feared the new mortgage rules would most negatively impact the first time homebuyer market, in actuality these changes present an opportune time for our clients to take advantage of the historical low mortgage rates and allow for negotiations on better housing prices, specifically in the condo/townhome market. Take a look at these numbers to help put it in perspective:

- In 2007: 40 years of amortization (the longest you could get at the time) at an average interest rate of 5.71% - $350,000 = $1,831* would have been your monthly mortgage payment.
- In 2012: 25 years of amortization at an average interest rate of 3.29% - $350,000 = $1,704* monthly mortgage payment.

*For sample purposes only. Rates are subject to change. On approved credit.

Right away, homebuyers will notice a truly substantial savings in that you'll pay your mortgage off 15 years earlier and save approximately $330,000 in interest that would have developed over the 40-year amortization.

Impact of future changes

Probably the greatest impact of these changes is for consumers looking to refinance. Refinancing has been reduced from 85% to 80% loan-to-value (LTV). While 5% does not seem like significant change, a settling of home prices in some regions in BC has affected their property values and the equity available therein. At first glance this may seem restrictive, however, in the long run these changes will instill more discipline and stability into the market. This limits consumers to using their homes as an ATM, and supports building strong equity in the home yet again.


Jared Dreyer, AMP
President, MBABC

Along the same lines, secured lines of credit will also see changes this fall. They will be limited to a maximum of 65% of your home's value, which is lower than the current maximum of 80%. Some lenders have already started to implement these lending policy changes. Therefore, if you are considering accessing equity in your home with a line of credit product, you will want to explore this option sooner rather than later.

Balanced consumer debt load

Regionally, the policy change on million dollar properties (properties purchased over $1 million will no longer be eligible for mortgage insurance) has had a bit more of an impact in BC and Ontario than other parts of the country due to our higher end housing prices. That being said, if the home purchase price is under $1 million dollars, consumers can still purchase up to 95% LTV with insurance. Anything over, and a 20% down payment is required to purchase the property. This means you won't be able to borrow as much against higher priced homes, as this policy was put into effect to ensure more prudent borrowing and lending.

At the end of the day, it is important to know that these changes bring a more balanced consumer debt load and help all Canadians create a valuable property asset, not a liability.

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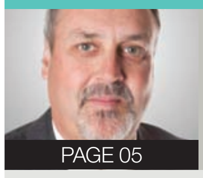
WE RECOMMEND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Alan Cross
Looking for a stable place to invest your savings? Give MICs more than a passing glance.

"Mortgage Investment Corporations (MICs) aren't seen as the lender of last resort anymore, we are viewed as an alternative lender."

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INSPIRATION

Celebrate homeownership: Seek out the professionals

When a house no longer feels like a home, financial and emotional concerns can leave a homeowner wondering — Renovate or real estate? Love It or List It hosts David and Hilary help fed-up homeowners decide.

2

YOU MAY BE ABLE TO BORROW AGAINST THE EQUITY IN YOUR HOME TO FINANCE OTHER NEEDS SUCH AS A HOME RENOVATION OR COLLEGE TUITION

Question: "My daughter and her husband are looking to buy their first home; what advice would you give to parents like myself?"

Answer — David: "As a parent you obviously want what's best for your children, and it's normal to want to be part of the process to make sure they make a decision that is best for them. How much you are part of the process might be determined by the age and business smarts of your child. If your kids are young and have very little experience in the business world, being there for them is very important.

Ask lots of questions about what your children want and need in a house. If you are going to go and look at houses with them, give them space — let them go through the house alone with their agent first, and if they say they love it and want to buy it, then ask them to take you through it and tell you why they love it. From there you can give them your opinion and hopefully come to a conclusion."

Q: "What is the best way to build equity through my home?"

A — David: "This starts before you even buy the house, through smart financing. When setting up a mortgage, most people try to get the most for the least. Wanting the biggest house they can afford, at the lowest payments possible, they take on longer amortization periods and the standard monthly payments format. Your home is your biggest investment…not just a roof over your head. The fact is, the less money you give to the bank, the more that goes into your pocket when you eventually sell.

This is easily done by shortening your amortization period, making your payments weekly or bi-weekly and making the lump sum payments allowable on a yearly basis. Keep in mind - in order to do this and still have affordable payments, it might mean buying a $400,000 house instead of a $500,000 house."

Q: "What are some renovations that you recommend that can save me money?"

A — David: "Most renovations cost money and almost never save you money, but many can pay for themselves over time. These are the energy saving renovations — replacing old windows that are drafty and leak will save you money in heating costs, and prevent any water damage that could cost you thousands in unnecessary repairs. New appliances versus old energy-sucking appliances can also save money. There is always going to be an outlay of money when you are doing any improvement to your house but unlike a new granite countertop — windows and new appliances can begin to pay you back."

Q: "The housing market is confusing, especially for new home buyers. Who do you recommend home buyers consult to help them navigate this exciting but complicated terrain?"

A — David: "There are three very important people that will help you in making that first purchase go smoothly, fun and financially smart. The first is your realtor, who is your encyclopedia of everything relating to the house, such as neighborhood, pricing and negotiating.

The second is your mortgage specialist, advising you and approving you for likely the biggest debt you'll have. You are going to have this mortgage for years to come so you want to be sure it is tailored to your needs.

The third person are your friends that have already purchased a home - they are filled with information, stories, helpful tips and general advice, [and they] have no investment in you buying a house…except to make sure you get what you want."

Q: "Are there any new trends for fall and winter that people are looking to incorporate in their own homes?"

A — Hilary: "I am not seeing any radical new trends for fall. More a reinforcement of what we've been seeing for the last year. Natural woods, hardwood that is lighter but still warm, with a nod to the past using designs such as herringbone but oversized to give it an edge. With fall we inevitably start to think of cooler temperatures and want our homes to be inviting havens when we enter them."

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LOVE IT OR LIST IT? The dynamic duo compete every episode ensuring homeowners find happiness in a new or renovated home.
PHOTO: BIG COAT PRODUCTIONS

DON'T MISS!

PHOTO: CINEFLIX INTERNATIONAL MEDIA LTD.

Insight from The Property Brothers

What is your current assessment of the BC real estate market — how do you see it changing in the next year?

"The BC real estate market is maintaining a steady pace. According to the Real Estate Board of Greater Vancouver, the benchmark price of residential property in Greater Vancouver is up 3.7% since April 2011. Even though the actual number of sales this month has declined since last year, I feel the market is in solid shape. Chat with your broker to see what rates are available to you. It's possible to make money in a hot or cold market, just do your homework so that you ensure you are making a sound investment."

Brand new episodes of Property Brothers air Tuesday's at 8pm on W Network.

EMILY RITCHIE
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NEWS

Planning to invest? Look to capitalize in mortgage financing

Chances are you've never heard of a Mortgage Investment Corporation (MIC), or are hesitant as to what they do. But if your bank has turned you down for a mortgage, or you're looking for a stable place to invest your savings, then you'll want to give MICs more than a passing glance.

Mortgage Investment Corporations were set up by the government in the 1970s to increase the availability of mortgage funds, but it has only been in the past decade that MICs have become more common. The concept is pretty simple - MICs gather investment capital and in turn provide residential mortgages. All earnings are distributed to shareholders, and the dividend is then treated as interest-earned income.

Individual assessments

"More than $1.5 billion in mortgage capital has been raised by our 20 members," says Alan Cross, President of the BC MIC Manager Association (BCMMA), and President of First Circle Financial. "It's very rewarding, because each of our clients has a different story. Some are dealing with family tragedies, illness, job loss, separation of a marriage or have impaired credit, but we are able to take time and assess each person individually."

"It's very rewarding, because each of our clients has a different story... we are able to take time and assess each person individually."

Alan Cross
President, BCMMA

Cross adds that often people only need a year or less to repair their credit or are new to Canada and need to build up a credit history, and then they'll get a mortgage with a conventional bank. While yields can vary depending on the type of MIC, investors can often expect about 8%, which is greater than one would currently earn on many investments. And with recent changes to mortgage rules, the banks are tightening up on their lending. This is where a MIC can help finance that home mortgage or a residential construction project that traditional banks are unsure of.

Looking to alternatives

Fisgard Capital is one of the largest MICs and holds about 400 mortgages. "We are larger than 70-80% of credit unions, and if you walked into our office it would look just like a bank, we just don't take deposits," says Hali Strandlund, Fisgard's President of Business Development. "[MICs] aren't seen as the lender of last resort anymore, we are viewed as an alternative lender."

If you've been turned away from the bank, then a MIC could be your solution. And for investors, the beauty of the MIC is that they have professional managers, so you can invest in mortgages without having to worry about the administration.

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QUESTIONS

Questions to ask before investing

Investing in mortgages can be a way to get a solid return; but don't leap without a careful look.

- What is their track record and longevity?
- Is the MIC a member of the Better Business Bureau? Ask the BCMMA for references
- What management experience and qualifications does the MIC have?
- What is the consistency of dividends?

Consider MICs that have produced dividends without interruption for several years.

- When can you redeem (cash out) your investment? Avoid investing in a MIC that is vague or open-ended in terms of when you can get your money out. If it is not clear as to when you can get your money out, then don't put it in.

TIPS

Pino Decina
Senior Vice President, Residential Mortgage Lending, Home Trust Company

Can't qualify at a bank? Try an alternative lender.

New rules tightening mortgage eligibility aren't the only barrier to getting into the housing market. Alternative lenders serve groups typically denied loans by major banks, says Pino Decina, Senior Vice President of Residential Mortgage Lending, Home Trust Company.

These are people who:

- Don't meet the bank's first and foremost criteria of income (including retirees who've built significant home equity)
- Have an insufficient history of credit (often new immigrants who simply haven't been in Canada long enough)
- Had previous credit difficulties but have since resolved these

One group who find themselves in one or more of these categories are people who are self-employed, especially those who have recently started their own business. In such cases they may only be able to provide tax assessments for the past year, whereas banks often require two or three years' worth of such documentation.

"This doesn't mean the person isn't a good candidate for approval," says Decina. "In fact their client list may include the very same people they've worked for in the past."

Decina says that an alternative lender who departs from a standardized cookie-cutter assessment will be the best bet for someone who doesn't qualify for a bank mortgage. He advises borrowers to look for a lender who:

- Conducts an in-depth personal interview
- Accepts references from a wide variety of sources that can give a fuller picture of your risk profile
- Allows tax assessments from previous salary if newly self-employed
- Knows how to assess foreign documentation including income
- Doesn't hold past credit problems against you if your recent history is up to par

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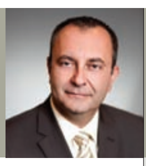
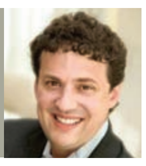
PANEL OF EXPERTS



Gino Tieri
Vice President, Sales
MCAP Service Corporation

Lester Shore
Vice President,
Optimum Mortgage
Canadian Western Bank



Mark Kerzner
President & COO,
The Mortgage Group Canada
(TMG)

Question 1:

With the recent changes to policies, the market has shrunk and there is more competitive pressure — how do you deal with the increased competitiveness in the market place?

Gino Tieri: **There will always** be competitive pressures in our market as there is in any other – it all comes down to understanding what you are signing up for. Mortgages are not as simple as some make them out to be, especially when rate is all that is considered. You need to educate yourself on what is contained within the mortgage; pre-payment terms, penalties, fixed vs. variable, open vs. closed, etc. When a borrower works with a licensed mortgage broker, that broker can educate you so that you are fully informed. The broker will take the time to first understand your needs, both short term and long term, then recommend the right mortgage and present options.

Lester Shore: **In regards to high ratio rules** becoming slightly more restrictive – although these rules have shrunk the market, will this be a permanent reduction? The consumer must adjust; people want to own their own home and will do what is needed to meet the criteria. With respect to the new conventional guidelines, we believe brokers have an opportunity to prosper during this period of change. Talk to your lender, understand their "new" requirements and communicate these new rules to your clients. By having a clear understanding of your clients' needs and the lender requirements you can structure a solution that is in the client's best interest.

Mark Kerzner: **There are hundreds of thousands** of housing sales each year – while the policy changes may slow down the real estate and mortgage markets, it will NOT eliminate it. It is a competitive business and as such we all have access to similar interest rates; what differentiates us is the service we provide to our clients. For many of our clients, their broker is a problem solver and a trusted advisor. Mortgage brokers are not limited to home purchases – we work with clients who are refinancing to consolidate debt, and who are looking for alternatives at the time of renewal. There are still plenty of reasons mortgage brokers will thrive, even in today's environment.

Question 2:

In the current market, it seems like there is an increased feeling of less choice and more restriction — what are some tips to handle this?

Gino Tieri: **With respect to choice, I disagree** that the market is limited. There are numerous lenders in the market place for brokers to work with on behalf of their customers. I recommend that if you are looking for a mortgage broker, do some research first. Don't just look on the internet for the lowest rate, as those rates are not always available and may have restrictive conditions. Each consumer has their own specific needs. If you don't know who the brokers are in your community, here are some ways to find one; contact your provincial mortgage broker association, web search, ask your lawyer, ask your financial advisor, etc. There are many ways to find a licensed broker in your area that can help you.

Lester Shore: **Our world has suddenly** become more complicated. How should you, the residential mortgage broker handle this? Only deal with a lender who has reliable and responsible business development managers. Connect with them - make sure you understand that lender's criteria, get access to their underwriters and make sure you have clear communication with them. When dealing with your client, make sure you understand their circumstances and ensure the transaction is in the best financial interest of the client. Remember, you are your client's financial advisor in the largest transaction most consumers will ever make. You must ensure they are not getting in over their heads.

Mark Kerzner: **I understand why it may seem** as though there is less choice, and in fact some lenders have left the market. As brokers, we are fortunate to have a variety of lenders that we can access who have different criteria than the banks. In fact, we also see new lenders coming on board to fill the gap others have left. We even have three mortgage default insurers in Canada. The best thing someone can do is get educated on the various products and understand what works best for them. There are still plenty of interesting mortgages available, and no channel more knowledgeable and informed than the mortgage broker channel in Canada to help customers with these decisions.

Question 3:

In a shrinking market, how do you adapt and add value?

Gino Tieri: **It comes down to demonstrating** that you add value. There is no better way of accomplishing this then using actual customer testimonials that show credibility. When you deliver on your promises and you add the value your clients are seeking for, others will come to you looking for advice and meaningful solutions. There are four basic reasons why brokers add value to Canadian consumers: choice, advice, service, and savings. In my opinion, these are the four pillars that create the advantages of working with a broker.

Lester Shore: **As a lender who is focused** on alternative lending, we know that our success is completely dependent on the success of our brokers. Therefore, we adapt and add value by building relationships with our brokers and doing what we can to aid in their success. The foundation of our process is to provide our brokers with clear, consistent and frequent communication. We stress error free, hassle free, on time delivery of approvals and mortgage proceeds, and teach you how to identify an alternative borrower and how to close your client with our commitment. In a nutshell, we will show you how to become a more effective broker.

Mark Kerzner: **In any market** you have to be accessible, knowledgeable and add value. Many of our clients are doing research online and we encourage that. We take care of our existing clients, build our referral network, understand our lenders and keep educating ourselves. We add value by making sure we understand what a client wants and needs – their financial and personal goals – not just in the short term but over the long haul. Brokers can also counsel clients who have less-than-stellar credit or home buyers who don't qualify under the new mortgage rules on ways they can get that home.