



## Mortgage Changes Impact Canadians' Wealth

In June 2012 the federal Finance Minister, Jim Flaherty, announced another round of mortgage restrictions designed to try to cool Canada's overheating housing markets. While not designed to significantly impact most home buyers, these changes are designed and intended to eliminate higher risk borrowers from the housing market. The broader economic risk is that this change has the potential to have cascading negative effects on the Canadian economy as the induced reduction in housing demand takes hold.

### Minister Flaherty announced for following four changes:

- the capping of mortgage amortization periods at 25 years, effectively increasing the monthly mortgage costs for many borrowers;
- the capping at only 80% of a home's value for home equity refinancing, limiting access to capital for highly leveraged homeowners;
- the elimination of government backed mortgage insurance for any homes that have a purchase price of \$1,000,000 or more; and
- the limitation on mortgage borrowers by legislating more restrictive gross and total debt service ratios.

The reduction in the number of eligible home purchasers and available mortgage financing will significantly impact the delicate balance between qualified buyers and sellers leading to lower demand, and ultimately to lower home prices. The cascading effect of these changes to Canadian mortgage rules will also impact existing home owners. As prices for real estate fall, home equity lines of credit will not only be tightened by the new 80% of home value restriction, but also be compounded by the anticipated fall in a home's value. These changes will have a further cooling effect on the overall economy because as people feel their most important assets are decreasing in value, they will be much less likely to spend.



With this new reality taking a greater hold on the finances and the accumulated wealth of Canadians, strategies are required to help clients not only weather the coming storm, but also determine how to make the most of the opportunities that will arise.

At PAISLEY PARACHUTES INC., we have the knowledge and experience to provide you with the tools and wealth management strategies that will allow you to support your advisors and clients through this difficult period. Call us to arrange a meeting so that we discuss how we can help you to best serve your clients and reassure them during the challenging times ahead. For more information on this and related topics, please contact us.

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