

New rules would hit condo buyers



Brett Gundlock/National Post

Sources say rules now being discussed would add 100% of condominium fees to the list of expenses that is measured against income to decide whether a buyer can afford a mortgage.

Garry Marr, *Financial Post* · Thursday, Jan. 13, 2011

The federal government's efforts to get tough on borrowing are now focused on the condominium sector, with new rules in the works to make it more difficult to qualify for a loan on a high-rise apartment, the National Post has learned.

Sources say rules now being discussed would add 100% of condominium fees to the list of expenses that is measured against income to decide whether a buyer can afford a mortgage. Currently,

only 50% of the fee is considered. The move has the potential to squeeze thousands of consumers out of the market.

“I know for a fact they are talking about it,” said one source close to finance officials who asked not be identified, about the proposal which is part of series of a new rules that the government is described as “seriously considering.”

It is almost a guarantee that the government will once again lower the maximum length of amortizations for a mortgage, down to 30 years from 35. Longer amortizations lower monthly mortgage fees making it easier for consumers to borrow more.

The Canadian Association of Accredited Mortgage Professionals says 30% of new mortgages last year were for amortizations of 35 years, so a considerable percentage of Canadians are taking advantage of the current rules.

About three years ago, amidst a battle for customers between federal Crown agency Canada and Mortgage and Housing Corp and private mortgage default insurers, amortizations lengths rose almost overnight from 25 years to 40 years before Ottawa cracked down. “Going from 35 years to 30 does almost nothing,” said the source, adding that’s why the government is looking at the changes to condominium qualifications.

Ottawa is also still considering a far more controversial proposal to increase the minimum downpayment required to buy a home but it is unlikely to go from the current 5% to 10%, as some have speculated. A 6% to 7% range seems more likely, said the source.

The proposals only affect those Canadians who require mortgage default insurance. Anyone borrowing from a financial institution covered by the Bank Act must get insurance if they have less than a 20% down payment.

“I’m concerned and disturbed if they are making changes, particularly to condos,” said Stephen Dupuis, chief executive of the

Toronto-based Building Industry and Land Development Association. “They have already imposed stricter rules and that was plenty.”

In April, 2010 new mortgage rules went into affect that forced consumers to qualify based on a higher interest rate than was on their actual contract. It also required all housing investors, as opposed to people who use a home as principle residence, to have a 20% down payment which mostly affected the condo industry.

Mr. Dupuis said he can live with the amortization period being shrunk but any attempt to increase the minimum down payment will only hurt the market. “There seems to be a fatal obsession with real estate and engineering the real estate market which may be an unhealthy obsession.”

But Ottawa has coming under increasing pressure from the financial industry to tighten mortgage rules. Ed Clark, chief executive of Toronto-Dominion Bank, has called on the federal government to take steps to curb consumer access to bank loans.

The government is said to have looked into imposing new rules on lines of credit but that would be tougher to implement because it would require a change to the Bank Act, said a source.

The condominium proposal would have an immediate impact because the average condominium fee on an existing home is 55¢ a square foot in Toronto, according to research firm Urbanation Inc. which says the average condominium apartment in Toronto is 900 square feet.

Currently only half that approximate \$500 in monthly condo fees counts toward monthly expenses for qualifying purposes. To qualify for a mortgage only 32% of gross income can go towards housing, which also includes mortgage payments including principle and interest, taxes and utilities.

Vince Gaetano, a vice-president with Monster Mortgage, said he too has heard the discussion of condominium fees being included in debt calculations and figures it makes sense.

“Yeah, condos provide extracurricular activities like swimming pools, gyms tennis courts and all that stuff. But the reality is you are paying the fee so why make it 50% it should be 100%,” says Mr. Gaetano. “This is going to put some pressure on people. The rules have not changed in ages and this is way before the proliferation of condos.”

Brad Lamb, a real estate broker and developer, said the practice would discriminate against condominium owners. “When you buy a house you don’t put any future maintenance costs [in your debt calculation],” says Mr. Lamb.

“All it is is a knee jerk reaction by idiot bankers pressuring idiot politicians that don’t understand the nature of the condominium market in Canada. What is driving the condominium market in Ottawa, Vancouver, Toronto and Montreal is investors. This won’t affect them. This just attacks the lowly first-time buyer.”

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