



THE CREDIT CRUNCH – ITS IMPACT ON MORTGAGES

by Peter Dolezal [The Naked Homeowner](#)

Who among us is not aware of the crippling credit issues gripping the world, in particular the U.S., in recent months? Although Canada has suffered what is probably the least adverse impact, it has not escaped entirely. When we look at our mortgage market, several effects emerge.

First the GOOD NEWS. Interest rates, available to the smart shopper with a good credit rating, remain at near record lows.

It is more important than ever, to shop around for the best possible interest rate. Quoted bank rates hover at almost two percent higher than those available through any Mortgage Broker on the Peninsula. While Banks are willing to negotiate if pressed, they are unlikely to match the rate you will find with a Mortgage Broker. Not surprisingly, approximately 40% of all residential mortgages in British Columbia are now arranged by Mortgage Brokers.

I recently encountered two couples about to finalize at their respective Banks, a 5-year mortgage renewal, at the Bank's posted rate. I suggested they shop around. Both succeeded in lowering their renewal rate by 1.85% over the original offering.

REMEMBER: If your credit is good, agreeing to the bank's posted mortgage rate is akin to paying full price for a used car! It's your money. Don't waste it!

Several Credit Unions are much more competitive than the chartered Banks in their posted rates, approaching, although not quite matching, the rates available through Mortgage Brokers. Unlike Banks however, they tend to *not* negotiate beyond their reasonable, posted rate. Do check with a Mortgage Broker before committing to any mortgage offer.

We tend to negotiate hard when buying our home, often risking the loss of a successful deal, by arguing over amounts as low as one or two thousand dollars. Inexplicably, many of us are not as conditioned to bargaining for best-value when arranging a new or renewal mortgage, where the dollar impact on our cost of ownership is much more significant.

To emphasize the potential risk, consider the example of a \$200,000, 5-year fixed-rate mortgage amortized over 25 years at a 5% vs. a 7% rate of interest. A 5% rate will cost you \$1,163/month for the 60 months; a 7% rate will cost \$1,400 – a premium of \$237/ month. Over the 5-year term, your extra cost would amount to a staggering \$14,220! Few of us can afford to waste that kind of money. Don't get caught. Shop around!

Now the NEGATIVE IMPACTS of the credit crunch. Three primary issues have emerged in Canada.

1) Builder Financing

For most home builders, traditional sources of financing have all but disappeared. With the catastrophic housing crash in the U.S., and a softening housing market in Canada, even financially-secure builders must rely more and more on private lenders. Even so, in addition to a substantial signing fee, the interest rate they are offered is well over 10%. This fact, coupled with softening demand, is the reason that housing-construction start rates are dropping significantly. The good news in this, is that this credit

squeeze will tend to bring our Canadian real estate market back into balance more quickly than it otherwise would.

2) Variable-Rate Mortgages

In previous articles, I explained that over the past 50 years, a mortgage holder with a variable-rate mortgage would have reduced his total costs, compared to a fixed-rate mortgage, almost 90% of the time.

Until a few months ago, variable-rate mortgages were readily available at rates as low as 1% below prime rate. At today's prime rate, Banks are losing on most of these previously written mortgages. The Bank's cost of borrowing funds is now higher than for example, the 2.75% rate that my daughter is currently paying on the variable-rate mortgage she signed last June.

As a result, the best variable-rate mortgages now available are all above prime rate. Again, Mortgage Brokers tend to offer the most competitive rates. While not as attractive as previously, variable-rate mortgages are still worth considering.

3) Credit Risk

If you are shopping today for the best rate on a new or renewal mortgage, you now must have a higher minimum credit score than just months previously. If your score is less than expected by a lender, you will pay a significant interest premium or, in the worst case, be denied a mortgage. Canadian lenders, having seen how loose lending practices have devastated many U.S. lenders, are intent on avoiding the same risks.

The message in this, particularly for prospective first-time buyers is: Eliminate debt, or at least ensure that all your debt obligations are in good standing. Softening home prices and low interest rates will do you little good, if a low credit score prevents your qualifying for a mortgage.

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Despite changes in lending practices, the prudent mortgage shopper with a good-to-excellent credit rating, can still arrange a very low-cost mortgage, while at the same time picking up a bargain in what is today, clearly a Buyer's Market.