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Signs of recovery for market
Mortgage expert looks into crystal ball for this year

Last year was an eventful one in the mortgage and housing industries -- and 2010 will likely see more of the same.

Karen Blomquist, Calgarybased mortgage specialist with Mortgage Intelligence, takes a look back at trends last year and what might happen as builders and consumers find themselves in a resurging housing market:

Question: What was the mortgage world like in 2009?

Answer: **It may have been rocky for the economy, but for homeowners, the news hasn't been all bad.**

In 2009, house prices started to fall, making it more affordable for Calgary buyers. The housing market is showing signs of sustained recovery, with more than 65 per cent more single-family homes being sold compared to 2008.

We expected housing to slow down. However, we are seeing healthier conditions for both buyers and sellers in most markets across Canada.

With rates at an all-time low, buyers headed out to buy their new home and investors rallied to get another home into their portfolios.

Question: Are variable rates the way to go?

Answer: **Through 2009, we saw a resurgence in better discounts on variable mortgages. Since last January, competitive variable rates have gone from prime plus one per cent to as low as prime minus 0.25 per cent for the popular five-year term.**

A homebuyer with a new variable mortgage of \$300,000 at a competitive 2.15 per cent (prime at 2.25 per cent minus 0.10 per cent) would have a monthly payment of \$1,292, assuming a five-year term and a 25-year amortization.

That's \$368 lower than the \$1,660 per month on the same size mortgage that a homebuyer would have been paying in January 2009 (prime at 3.50 per cent plus one per cent).

Variable mortgages with a three-year term are currently priced even lower -- as low as prime minus 0.25 per cent, which can mean a mortgage rate of just two per cent.

Question: Then what about fixed rates?

Answer: **In January 2009, a competitive rate on a five-year fixed mortgage was 4.99 per cent. At this rate, the monthly payment on a \$300,000 mortgage with a 25-year amortization was \$1,743.**

With the competitive five-year rate of 4.09 per cent commonly available today, the monthly payment falls to \$1,593, which is a difference of \$150 per month.

A product that more and more borrowers are opting for is a so-called 50/50 mortgage, with half of the mortgage at a five-year fixed rate and the other half at a five-year variable rate.

The mortgage holder can convert to a fixed rate at any time during the five years if variable rates spike upward.

Question: There have been some changes to rental offsets?

Answer: A recent change to lender guidelines allows mortgage holders to put up to 80 per cent of the rent received on a rental property towards the mortgage on that property -- up from 50 per cent this time last year.

This can make a big difference in the size of rental property for which an investor can qualify.

Question: So, what's the scoop on 2010?

Answer: Economic conditions appear to be stabilizing and there are increasing numbers of purchase transactions versus refinances.

The unemployment rate was down in the last report, which bodes well for the mortgage market in 2010.

Stronger demand and economic conditions are expected to boost housing sales in 2010.

Demand for existing homes has also rebounded since the beginning of the year, with lower inventory levels characterizing both the new and existing home markets.

As a result, stronger housing demand will be reflected in higher levels of housing construction starts in 2010.

The Bank of Canada has pledged to keep its key lending rate at a low level until at least June 2010.

Whether they will stick with this policy depends on the outlook for inflation.