



# What does it all mean to mortgage brokers?

**Croft Axsen and Rob Regan-Pollock explain how the current economy impacts mortgage brokers.**

**A**s we've seen, today's economy is impacting various regions of Canada in different ways. Nationally, the housing market will begin to level off in 2006. This will be especially apparent in Ontario, where brokers may have difficulty matching 2005 levels of growth. However, if you take a longer view, 2006 will still rank as one of the better years on record. In contrast, Alberta and B.C. will experience significant growth in 2006, as evidenced by these observations from two western Canadian mortgage brokers.

**NP: How is the high Canadian dollar affecting opportunities for mortgage brokers?**

**CA:** The rising dollar is having a moderating impact on interest rates. As it rises, it tends to do the work of the Bank of Canada, which is trying to slow down the economy with higher interest rates. At some point, the high dollar is going to have an impact on Ontario to the point where we're likely to have interest rates leveling off and retreating. But that could be a year and a half out.



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**RRP:** The higher dollar does have a negative effect on the manufacturing sector and how attractive our exports are to other countries. For that reason, I think interest rates will taper off shortly. Maybe one or two more hikes, but basically rates will remain close to where they are now. For mortgage brokers, that's good news. If rates were to continue to escalate, it would take a lot of first time buyers out of the market and slow overall growth.

**NP: What about high energy prices?**

**RRP:** Energy prices and the dollar are closely related because Canada is a net exporter of oil. Our dollar is reaping the rewards of increasing energy costs. As energy costs continue to climb, the dollar will continue to rise which should keep interest rates low.

**CA:** In Calgary, high energy prices are creating a very strong market for brokers. There's so much money flowing into this area. Real estate prices are rising. An awful lot of people are moving to Alberta so there's strong demand.

**NP: Are there any signs that people are opting for more energy efficient homes?**

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**CA:** In the late 70s and early 80s, there was lots of talk about energy efficient houses, R2000, etc. But I haven't heard of anyone renovating today just for energy efficiency. There's lots of renovation going on, but not for that reason.

**RRP:** I haven't noticed that yet. But when we speak with clients about how comfortable they'd

be with their mortgage payments, we do factor in rising energy costs and commuting costs, especially if they're looking for a lower priced property in outlying areas.

**NP: Any trend toward inner city properties to reduce commuting costs?**

**RRP:** I've had a few clients who were living in the Fraser Valley and decided to move back into the city because of commuting costs and all the time they were spending in traffic. It's not a trend yet, but it's certainly a consideration.

**CA:** The inner city in Calgary has been an extremely strong market. Prices have been moving up at a higher rate than the suburbs. But I'm not sure how much of that is related to the cost of commuting as opposed to convenience and access to amenities.

**NP: How hot is the renovation market in your area, and what can brokers do to capitalize on it?**

**CA:** There aren't a lot of listings in Calgary right now. So for a lot of people, renovating their existing home is the only way they can upgrade.

**RRP:** Aside from a limited inventory, property values in Vancouver have increased significantly. So clients can cus-

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tomize their existing property by tapping into home equity.

**CA:** Brokers should focus on developing and maintaining contacts with renovation companies or local trades people for referrals. Also, if your database is

specific to neighbourhoods and the age of those neighbourhoods, you could market to areas where renovations are likely to occur.

**RRP:** We do a quarterly newsletter and recently asked clients to contact us if they're planning renovations. Since we already have their information on file, we can offer them a streamlined process instead of them starting from scratch with someone else. Another idea would be to participate in trade shows or home shows where people are looking for ideas on renovations.

**CA:** Mortgages involving lines of credit are a good marketing tool for prospects who are planning renovations. Various companies have various products, but with FirstLine it's the Matrix Mortgage which splits the fixed portion and the line of credit portion. This provides homeowners with a fixed mortgage for when rates are rising, along with the flexibility of a line of credit to cover renovation expenses.

**NP: Can renovations keep the refinance market as strong as it's been over the last few years?**

**CA:** The refinance market was really strong when interest rates were dropping. As rates increase, the refinance market slows to a degree. But refinancing to obtain money for renovations is still a strong segment.

**RRP:** Because of limited inventory, we're still getting quite a few calls for renovations. I'm not sure whether we're receiving as many calls for refinances as we were when rates were declining. It's still too early to tell.

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**NP: With rates rising, how is the market for variable rate mortgages?**

**RRP:** They're still attractive. With discounts of Prime minus 0.8-0.95% right now, they're still in the mid 4% range, as opposed to locking in at a 5 year rate of 5.0-5.1%. If the economy does start to slow next year and rates



drop, a variable rate could work out well. They're still very attractive if clients are buying below their means and can withstand the ups and downs of Prime. For people with tighter budgets, long term rates are definitely more attractive.

**CA:** Giving advice as to whether a person should be in fixed or variable has an awful lot to do with their individual circumstances. If they're into a very tight family budget, perhaps the security of a longer term fixed rate is more important than hoping inflation goes the right way so we have lower rates in the future.

### **NP: How might a slowing U.S. housing market impact Canadian brokers?**

**RRP:** If there's a slowing of the U.S. housing market, we'll see a cooling off in our housing market as well, and a slowdown in our economic growth. The Canadian government has been making an effort to attract new trading partners by sending trade missions to emerging Asian economies, but despite this diversification, a U.S. slowdown will still affect us.

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**CA:** It could have a moderating impact on our housing input costs, particularly lumber. But at the same time, the rebuilding of the Gulf area from the hurricanes creates extra demand for lumber. Depending on how that plays out, we may or may not see some moderation in materials costs. Of course, if their interest rates begin to decline, ours tend to follow.

### **NP: Will a leveling off of Canadian housing markets be felt by brokers in your market?**

**RRP:** Canada's a tale of two economies. The west is more robust than the manufacturing economy in the east. A leveling off of the housing market will have a national effect, but I don't think it will be felt as much here as in the east.

**CA:** We're not seeing it in Calgary at all.

### **NP: What does the election of a Conservative government mean to mortgage brokers?**

**CA:** It should reduce the likelihood of a negative national energy policy. Another positive is that they've talked about eliminating capital gains taxes. If there's no capital gains tax, there's likely to be more trading in the rental market.

**RRP:** I think it's pretty much status quo. Being a minority

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government, their powers are somewhat limited. They don't have the mandate to move forward with everything they talked about during their campaign.

### **NP: Are there any local factors creating opportunities for brokers in your area?**

**RRP:** Significant infrastructure projects for the 2010 Olympics—like the RAV transit line and the twinning of the Port Mann bridge—are attracting a lot of labour to B.C. That's having an impact on the local economy and demand for housing, which makes it a good time to look at expanding broker business. We're planning to expand our team to capitalize on the continued strong housing growth, and we expect the good market to continue and ramp up as we move closer to the Olympics.

### **NP: What actions can brokers take to minimize any risks created by today's economy?**

**CA:** If I was a broker in an industrial town that was heavily dependent on manufacturing, I'd probably become more aware of the subprime market.

**RRP:** One risk in a booming market is that people may be attracted to becoming brokers because they think it's easy and they'll make lots of money right away. The future of our industry is dependant on how we're perceived by the public. As new brokers enter the business, they should be encouraged to create solid business plans, take the required amount of time to understand product offerings, and be able to attract and maintain clients in a sustainable way. For us as an industry to succeed, we have to be as well trained and professional as possible.

### **NP: Is 2006 going to be a good year for brokers?**

**CA:** Because there are so few listings in Calgary right now, our overall number of units might drop a little bit. But that should be compensated for by the fact that the dollar-per-unit has gone up so much. So 2006 should be a reasonably good year. Is it going to be as good as 2003, 2004 or 2005? I'm not sure.

**RRP:** I believe it will be a good year for brokers. There are lots of opportunities. The mortgage market is expanding, and consumers are becoming more and more aware of what mortgage brokers can do to assist them. As long as we keep raising the bar of professional standards, I expect we'll continue to be the choice of consumers moving forward. ■