

Tue 24 April 2007

## **Homebuyers get down payment break; Change lets borrowers get conventional financing with just 20% down**

Ottawa is reducing the cost of buying a home by raising the threshold for compulsory mortgage insurance.

An amendment to the Bank Act allows borrowers to receive conventional financing with a 20-per-cent down payment.

Previously homebuyers were required to make a down payment of at least 25 per cent to avoid the added expense of mortgage insurance.

The change in law means savings of \$2,500 for a borrower with a \$250,000 mortgage representing up to 80 per cent of the home's value, said Rob Regan-Pollock of mortgage brokers Invis in Vancouver.

"We believe that a great number of home buyers will benefit from this change," Cid Palacio, Bank of Montreal vice-president, said in a release.

"We see a number of customers scrambling to meet the 25-per-cent down payment in order to avoid paying the insurance premium."

Regan-Pollock said the change harmonizes Canadian regulations with those in the U.S. where the cut off for conventional mortgages has long been 80 per cent.

In addition to insurance savings, the change will make it easier to obtain a bigger mortgage.

"This will have a big impact on our lenders in providing more flexible guidelines for financing up to 80 per cent," Regan-Pollock said. "In the past lenders were required to follow more stringent guidelines set by high-ratio mortgage insurers for financing above 75 per cent."

High-ratio mortgage insurance will still be required for mortgages greater than 80 per cent of the home's value.

Those borrowing 80 to 85 per cent of the purchase price pay a premium of 1.75 per cent of the amount borrowed, rising to 2.0 per cent on 85-90 per cent, 2.75 per cent on 90-95 per cent, 2.9 per cent if they are borrowing with a five-per-cent down payment, and 3.1 per cent if they have no down payment.

While the insurance premium is a one-time charge, it is typically added to the mortgage amount and subject to compounding interest.