

Invis in the News

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Mortgaged Dreams

Owning your own home is the great Canadian dream, and a wide range of mortgages means almost everyone can choose the debt that suits them best

Attitudes to debt have changed over the generations as real estate prices have skyrocketed in Greater Vancouver and the rest of B.C. While survivors of the Great Depression worked to be mortgage-free, many younger people have been anything but reluctant to borrow money to finance the home they have always dreamed about.

Lindsey McDonald bought her first real estate in Cloverdale two years ago when she was 22. The ambitious student sees her mortgage as an opportunity to build wealth and expects to sign up for more and bigger loans in the years to come.

In contrast, John and Joan Ross bought their first home in 1959 and "survived and sufficed" to become the mortgage-free owners of a bigger home on Vancouver's west side by the end of the 1970s. As children of the Great Depression, the two seniors have avoided significant debt ever since.

In the middle are baby boomers such as Bill and Marlene McLean who bought their first property in the early '70s, worked like the dickens to pay off the mortgage within eight years, and have repeatedly refinanced their home to renovate or build 40 houses for sale. With retirement on the horizon, most of their contemporaries can only wish they had been so bold.

Attitudes to debt have changed over the generations as real estate prices have skyrocketed. At the same time, mortgages have evolved to do much more than simply sustain the great Canadian dream of home ownership.

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Immigrants Jorge Aguirre and Luigia Zilli are taking advantage of the latest wrinkle in the mortgage market-- amortization periods that extend beyond the traditional 25 years to 30 years, 35 years and even 40 years.

Longer amortizations mean lower monthly payments and greater borrowing capacity at the price of much higher long-term interest payments, unless payments can be accelerated as incomes grow.

For Aguirre, 35, and Zilli, 40, a 30-year mortgage means they and children Julia, 5, and Sophia, 3, can move into a 33-year-old three-bedroom townhouse in their current north Burnaby neighbourhood instead of a two-bedroom apartment.

"We wanted more space because . . . we are four already and I need workspace and a gallery," said Zilli, an artist who immigrated from Italy seven years ago after visiting family here and falling for Aguirre who moved to Canada from Guatemala in 1992 and now works as a supervisor for a transport company.

"I am not worried to sign a 30-year mortgage if it helps us to get into the market and then we are going to deal with it later," Zilli said. "We expect our finances to get better in time. I don't think I am going to have a mortgage when I am 70."

Aguirre notes that their \$325,000 townhouse allows them to remain in the community where they work and to avoid time-consuming and expensive commutes. The home has been fully updated and passed a professional inspection "with flying colours."

Once upon a time, the best mortgage was no mortgage. That's if Joe or Jane Average could even find one.

The big banks were barred from offering residential mortgages until 1953 and initially shunned any Vancouver homes east of Cambie, leaving a market that helped build Vancity into Canada's largest credit union.

Single women had to wait many years before being taken seriously as potential homebuyers and the incomes of married women still weren't counted for mortgage qualifying purposes until well into the 1970s.

Until recently, the standard wisdom was to pay your mortgage down quickly because mortgage interest generally cannot be written off against other income. Debt was seen by many as an intolerable burden to be shaken off as soon as realistically possible.

"My parents had been through the Depression and my generation learned that you didn't go into debt any more than you could afford," said Ross, 72, a retired UBC geology

paid off as soon as possible."

Today we are hanging on to our mortgages for longer, sometimes into retirement. The modern mortgage has evolved into a source of capital for investments, which typically makes the interest cost tax-deductible, and a personal money machine or ATM to minimize the interest cost of consumer spending.

To many, a mortgage has become a flexible friend that allows more first time buyers to enter the real estate market and permits repeat borrowers to maintain their living standards and, potentially, grow their wealth.

To others, the mortgage has become the modern-day equivalent of the company store, enticing Canadians to ratchet up debt beyond their means and keep them chained to work when they might be embracing retirement.

There is a nagging concern that easy money is pushing home prices to unsustainable levels and that younger buyers could find they are in too deep when interest rates move up or when the real estate market sours.

When the Royal Bank entered the consumer mortgage market in the 1950s, its advertising showed an "average" house valued at \$8,000 could be bought with monthly payments of \$48.88 after an \$800 down payment. Fast forward 50 years and the average detached home in Greater Vancouver is selling for \$718,687. If you can come up with a 10-per-cent down payment of \$71,869, your monthly payments will be \$4,023, assuming a five-year term at 5.70 per cent and a 25-year amortization.

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The modern mortgage offers a range of features that were largely unknown a generation ago. There are weekly, biweekly and lump sum prepayment options to reduce the total interest paid. There are open mortgages with rates that track the bank rate and fixed-rate mortgages for terms from six months to 10 years, and even longer. And there are interest-only mortgages that allow people to remain in homes where they have built up equity but which they might otherwise be unable to afford.

The mortgage has even become a tool to reduce borrowing costs through "all-in-one" or "total equity" products such as Envision Financial's "Redfrog" which keeps the customer's money working all of the time.

Coquitlam Mountie Mark McCutcheon, 43, and his wife, Jodie, a 35-year-old nurse, like the idea that money sitting in their bank account is applied against the mortgage until it is needed for spending, something that Envision says can shave nearly four years off the amortization of a \$325,000 mortgage and save more than \$44,000 in interest.

"Why have a savings account and have the money sitting there earning 1.0 per cent or 1.5 per cent on which you will have to pay tax when you could have your total debt being reduced," the McCutcheons ask.

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Twenty-four-year-old McDonald, an interior design student with plans to train as an architect and become a property developer, put down \$5,000 of her own money and borrowed \$15,000 from her parents to buy her two-bedroom townhouse as an investment for \$209,900 in 2005.

"I was at a job and I was making a good amount of money and realized at that point that if you don't get in now you are really not going to have the opportunity. The longer you wait the harder it gets," said the vivacious North Vancouver single who is currently holding down a summer job in plumbing sales and working part-time as a bartender.

Today, the property is valued at \$269,500 and the rent covers the mortgage which, thanks to her parents prior dealings with Vancity credit union, was secured at a three-year rate of 4.3 per cent.

McDonald is not worried that her mortgage costs will likely be higher when she renews in 2008. "What I get back out of my investment is worth so much more than if I have to start throwing in another couple of hundred dollars."

She also owns international mutual funds, but says: "Just looking at what property has done in the last little while, and then looking at how the stock market has done, it has been so much safer to go with real estate."

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Mortgages have become increasingly flexible and so much more than a necessary tool to acquire a home, says Vancouver's Rob Regan-Pollock of mortgage brokers **Invis** Inc.

"Looking back at the previous generation, the mindset was to pay it down and become free and clear as quickly as possible, and then you have a certain number of years to amass some assets for retirement.

"Mortgages were never really thought of an investment vehicle or a way of creating wealth or minimizing interest costs for consumer goods or other items that might be required."

Increasingly, Regan-Pollock is dealing with clients who are borrowing against their principal residence for the down payment on an investment property.

"People are realizing that leveraging, whether to invest in the stock market or to acquire rental properties, is a proven way to create wealth. It's using other people's money to help better your circumstances long-term.

"Of course, there are downsides to that, including market risk and budget comfort, and that's where professional guidance is really essential."

North Vancouver's Bill McLean, 58, toiled in construction in places such as Tumbler Ridge and Dawson Creek in the 1970s to shake off his first mortgage in less than a decade. Since then, he and his wife, Marlene, have repeatedly refinanced to build and renovate houses while raising three children and building a plumbing contracting business.

"Last year we built our first triplex and this year we're going to start two triplexes, and it's all through leveraging of mortgage money," McLean said.

Still, he wonders if younger people are taking on more debt than they can handle. He says his own son got married and built a fancy house which they've now put on the market with a view to getting something more modest "because they found they were just living for the mortgage and not living for themselves at all."

Mortgages have morphed into a continuous credit facility with homeowners tapping into their equity to pay for investments, renovations, debt consolidations, post-secondary education and even car purchases, says Ben Eyton, an investment specialist with North Shore Credit Union.

"The younger generation feel a lot more comfortable with credit than their parents or grandparents did. They really grew up watching their parents carry debt, so they are familiar with it. They've never really had to feel the pinch of going without."

Eyton worries that today's borrowers fixate on getting the lowest interest rate possible when he would prefer they sit down with a financial adviser to assess how "this ongoing facility through life" is going to impact their cash flow, taxes and estate planning.

He notes that a 40-year mortgage can lower monthly payments on a typical \$350,000 mortgage by about \$300 monthly but it will increase the borrower's total interest payments by a whopping 75 per cent unless they can make extra payments later on.

Now Canada Mortgage and Housing Corp. has introduced a mortgage that is interest-only for up to 10 years while "sub-prime lenders" are moving into the Canadian market from the U.S. to offer higher cost mortgages to higher risk borrowers.

"It does cause me some concern, especially among the younger buyers who, for the most part, haven't seen real estate markets go down," Eyton said.

As recently as the last decade, from 1995 to 1998, the price of the average detached home in Greater Vancouver dropped by 23 per cent. Apply that same decline to today's average price of \$718,000 and the downside potential is about \$165,000.

Some buyers could find themselves with mortgages worth more than their homes, a situation last widespread in B.C. in the early '80s when interest rates spiked to 20 per cent, the real estate bubble popped, and old timers like John Ross remember colleagues losing their homes.

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Scarlett Chan, 24, picked up the keys to her new 690 sq. ft., one-bedroom condo near Burnaby's Simon Fraser University on Friday-- less than three weeks before she weds information technology consultant Paul Wong, 25. A honeymoon is one of the things she's had to sacrifice to get into the market.

Chan dipped into her registered retirement savings plan and cash savings to put 10 per cent down at the pre-build phase when the price was \$209,000. Today some buyers are trying to flip their units at \$339,000.

She locked in her mortgage at Prospera Credit Union for a five-year term at 5.5 per cent and says her payments are similar to rent, plus an extra \$300 monthly for condo fees and utilities.

While she's a little stressed over the risk of a change in her financial situation over the next five years, she feels she is doing well at her job as a financial services manager with Mercedes Benz on West Broadway and sees the condo as a symbol of stability.

"I am committing to something and even if, in a few years time, we want to move to something bigger, I expect I will have developed some equity. I don't think that I can really lose and I am sure I will get mortgages again.

"A lot of my customers are realtors and they say the best thing is to get into the market as soon as you can and just keep borrowing against your existing property when you are looking at buying more property. That's what I'm hoping to do."

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While rising prices and interest rates are making it tougher for first-time buyers, homes in Greater Vancouver are still more affordable than they were 15 or 20 years ago, says Kevin Lutz, regional mortgages manager with RBC Financial Group.

Of course, mortgage amounts have risen sharply to keep pace with prices. In July, 1999, the average mortgage approved by the Royal's specialists in B.C. was \$143,000. In July, 2006, it is up exactly \$100,000 to \$243,000.

Lutz says borrowers are comfortable with bigger loans when their equity is growing and "they are seeing their homes as their retirement nest eggs more than they ever have before."

As for buyers biting off more than they can chew, Lutz notes that mortgage defaults remain rare and home buyers still have to qualify for a mortgage under the same debt-to-income ratios that applied a generation ago, although they are more likely to push those limits to the maximum today. The rules are even stricter for buyers of investment property.

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Family and real estate lawyer Kaajal Hayer, 32, and her husband Mandeep Jhutee, an ICBC claims adjuster, have a combination RBC mortgage and line of credit worth up to 75 per cent of their two-storey detached home in Richmond which they estimate has grown in value by \$200,000 since they bought in 2004.

They also own a condo in Yaletown and are planning to tap into their line of credit to buy more property.

Is Hayer tempted to use the credit line for consumer purchases? "So far, it is not part of the plan, but you never know. It is there if we need it."

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The art of mortgage making is to view each person as an individual and ask all the right questions to make sure you are filling a need for them rather than for the lender, says Janis Allan, a branch manager with Prospera Credit Union.

"I think some people are too eager to find out how much they can borrow when they should really be asking how much they can afford. If they are paying rent of \$600 and then going to a mortgage payment of \$2,200, it is a big lifestyle change. There are repairs, upgrades, and other expenses that they probably don't see coming."

Allan also sees many more people borrowing against their equity to buy investment or recreational property. While they remember that the stock market crashed earlier this decade, they may have forgotten that real estate prices fell in the 1990s.

Allan doesn't have a crystal ball but, like many, she wonders if people are buying as the real estate market peaks.

Mortgage Facts

Homeowners, their lenders and their rates.

- Canadians typically pay off their mortgages in 22.5 years, a number that has not changed significantly over several years of tracking.
- The chartered banks hold 72 per cent of the mortgage market but share held by credit unions has grown to 16.6 per cent from 6.4 per cent in 1970.
- Roughly 60 per cent of Canadian homeowners have mortgages. Average remaining mortgage principal is \$116,800.
- Two-thirds of Canadians have fixed-rate mortgages, 22 per cent have variable rates, and 11 per cent have a combination of fixed and variable rates.
- 56 per cent of people aged 55-plus hold a mortgage but seven in 10 say it is very important to pay it off by retirement.
- 17 per cent of homeowners say their homes will be their primary source of retirement income.
- Only 28 per cent of baby boomers are very confident they will be financially secure in old age compared to 41 per cent of those who are younger and 47 per cent of those who are older.

SOURCES: Canada Mortgage and Housing Corp., Statistics Canada, Canadian Institute of Mortgage Brokers and Lenders, RBC Financial Group, BMO Financial Group.

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