



Felice Corcione B.MGT  
Mortgage Associate  
403-973-6849  
[www.anytimeanywhere.ca](http://www.anytimeanywhere.ca)  
[felice@shaw.ca](mailto:felice@shaw.ca)

Dear clients,

Last week's federal budget generated plenty of headlines, mostly based around bloating deficits and federal job cuts, but there was almost nothing new for the housing and mortgage sectors. Virtually all the government's housing plans were laid out during the election campaign and many are already being implemented.

For example, the budget did formalize a GST exemption for a narrow band of homebuyers. First-time buyers purchasing a newly built home priced at less than \$1 million will not have to pay GST. There will also be a GST reduction for first-timers buying a new build priced between \$1 million and \$1.5 million. Both of those measures are in a bill that is already making its way through Parliament.

The government's highly touted Build Canada Homes initiative received its formal launch in the budget. The new agency, which is already being put in place, will focus on increasing the stock of rental and social housing in an effort to address the need for shelter rather than satisfying the desire for ownership.

With the flurry of activity and analysis surrounding the federal budget winding down, market watchers are turning their attention back to interest rates.

The latest data to draw their scrutiny are the October employment numbers. Statistics Canada reports the economy generated 67,000 new jobs, dropping the unemployment rate to 6.9%.

The Bank of Canada has shifted its focus away from inflation and onto job growth, so most analysts expect the Bank will hold rates steady at its December meeting, as the labour market shows signs of resilience.





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On the other side of the boarder, in a bid to ease criticisms about housing affordability in the United States the current president has grabbed a lot of attention with a pitch for longer mortgage terms. He recently floated the idea of extending mortgage pay-back periods from 30 to 50 years.

“All it means is you pay less per month. You pay it over a longer period of time. It’s not, like, a big factor,” he said in an interview with Fox News.

It is true, the payments would be smaller – which can be tempting – but when they are spread over a longer period of time the interest paid becomes a big factor.

Using some current U.S. numbers Reuters did the math: on a \$400,000 mortgage, at a fixed 6.5% interest rate, interest payments over 30 years come to \$510,000. Over 50 years total interest comes to \$953,000 (\$443,000 more).

Longer mortgages are considered riskier than shorter ones because it takes longer to build equity, which could increase the chances of a home buyer going “underwater” (owing more on their home than it is worth) and defaulting in the event of an economic downturn.

Canada is not heading in that direction. The U.S. mortgage collapse and ensuing global financial crisis in 2008 saw policymakers here reverse course and reduce allowable amortizations from 40 years back to 25 and 30 years.

Mortgage funding in Canada heightens the aversion to risk. Here mortgages are funded through bonds and deposits like savings accounts. Lenders are more exposed to default risks. In the U.S., mortgages are commonly bundled into investments known as mortgage-backed securities, which pushes the risk off the lender and onto investors.

