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DID YOU KNOW...

There are two types of debt: secured and unsecured. When you borrow money to buy a house, the bank can take back the house to recoup their money if you don't pay the debt. That means the debt is secured – it's being balanced against something that you want to keep, and gives the bank some measure of security that it's going to be able to recover the money it's loaned you. Unsecured debt, on the other hand, means the bank can't reclaim the thing you're buying with the borrowed money. (Credit card debt is unsecured, and so are student loans.)

Welcome to the July issue of my monthly newsletter which is designed to help keep you in the know regarding Real Estate and Mortgage related matters!

Summer vacation at last! Two months of fun in the sun lie ahead! This month's edition takes a look at the recent interest rate-hike warnings in the media, and a closer look at the housing market.

Thanks again for your continued support and referrals!

Rate Hikes: Still As Much A Matter Of 'If' As 'When'

One month of headlines suggest interest rates are dropping to new lows, another says no changes anytime soon,

month increase in payments per $100,000 of mortgage balance.

And keep in mind that the majority of Canadians are in fixed rate mortgages, and the majority of them have renewal dates a year or two away. And for those

HOMEOWNER TIPS

Summer 'To-Do' List:

We truly struggle with assigning you a to-do list for the month of July, but here goes:

Do – enjoy the sunshine.
Do – walk barefoot and wiggle your toes in the grass.
Do – enjoy long summer evenings on a patio, deck, or dock.
Do – take a road trip with friends or family.
Do – make the most of each day.

and recently many headlines seem to be suggesting an increase soon. This stream of mixed messages contradicting one another has been steady since rates dropped to 50-year record lows in 2009.

Many were adamant in 2009, and each year since, that rates could go no lower, and yet they have. Sure there have been a few shortlived blips upward along the way, in defiance of all who are calling for a return to normal... whatever normal may now be.

The key driver of interest rate movement is the economy in general. Not a thin slice of it such as real estate. What drives interest rates down? Economic bad news. What will drive rates up? Economic good news.

Economic good news seems in short supply since 2008.

Interest rates are a very large economic lever, far too large to be used simply to cool the arguably overheated real estate markets of two particular cities. Cooling of real estate is not addressed via interest rate hikes, markets are cooled and have been cooled as of late through lending policy changes.

Many commentators forget that only a few short years ago there existed 40-year amortizations with 100% financing not just for owner-occupied but for investment properties, and variable-rate mortgage qualifications that were much easier than today.

The reality is that borrowers in 2007 – at nearly double the current interest rates – qualified for larger, and arguably riskier, mortgages than borrowers today do.

And always do the math, yes math is no fun, but here is a shortcut:

A 0.25% rate increase equals a $13 per mortgage holders an increase from todays rates of 0.25% - 0.50% would in fact only be equal to their current rate.

A 0.25% increase in the Bank of Canada rate would impact less than 10% of households across Canada, perhaps less than 5% of households. And that impact would be on average ~$39 per month.

Could you handle a $39 increase in your mortgage payment? Odds are you have actually already increased the minimum payment on your own as so many Canadians do. In that case you are already ahead of any increase.

Is the economy truly strong enough for an increase? We shall see come July 12 what the Bank of Canada thinks.

Are the small percentage of variable rate mortgage holders in Canada not already making higher payments ready for a 0.25% increase – overwhelmingly yes, they absolutely are.

The big beneficiaries of these uncertain times or trepidation around even a slight interest rate increase will be those in fixed rates approaching renewal dates over the next 12 months, and those enjoying the ride in their variable rate mortgages.

Be sure to start the renewal conversation with your broker six months out from the mortgage renewal date. Your current lender may suggest that rates are about to move and suggest locking into something early as the right move, but always consult with your independent mortgage broker first to determine if the move being suggested is right for you – or simply just right for the lender.

What is right for you matters to us.

Canadians have options when it comes to housing

By Dr. Sherry Cooper

Despite the variation in real estate markets across Canada, homebuyers face the same fundamental question whether they are first time buyers in Toronto, families purchasing a fixer-upper in Atlantic Canada, or down-sizing boomers in the West, says Dominion Lending Centres chief economist Sherry Cooper: What are you willing to do to achieve your goal.

"For the first-time homebuyer, it's a trade-off between living close to your workplace and having to pay more for your home versus living farther away and facing a meaningful commute to get more for your money," she says.

Baby boomers with their retirement nest egg tied up in their single-family homes, face very similar circumstances. For boomers, staying in the city usually means downsizing to a condo, which is more expensive per square foot and can take a serious bite out of that nest egg.

Moving out of the city often means giving up family, friendship, and services.

In between, there's the move-up market – people with growing families who are looking for their second home. They have equity, so they can afford a larger down payment and typically, they are close to their peak earning years. The challenge they face, particularly in regions where the market is strong, is a shortage of suitable homes. Investors and developers are frequently bidding for the same properties. People thinking of moving up may want to consider another option: Buying a larger condo in the suburbs or in smaller communities. There is a demand for more choice in this market segment, she says, that has led to developers start building

The lifestyle issues, Cooper says, are best solved by family discussion. First, sit down and talk. Then, talk to a mortgage broker, a real estate agent and possibly an accountant.

"For a first-time home-buyer in particular, you really do need to know how much you can afford. It may be less than what you can borrow. You don't want to go right to the edge because there's just too much risk," she says. "You want to have enough of a cushion that you could take care of an emergency, or in the event of one of you losing a job. You have to have some precautionary savings."

For all demographic groups Cooper advises locking into a fixed-rate mortgage. "I would go for a five-year fixed if I were buying right now. Because rates are low and the chances are that in the future, they will be higher."

Mortgages are complex, and she cautions against simply taking the best deal a bank has to offer. For example, the first-time buyer may want the option of paying down the principal more quickly.

"That's the whole story of why mortgage brokers make so much sense, because they can shop the loan for you and can find something that is much more customized to what your personal needs are."

For first-time buyers and boomers, renting is also an option that shouldn't be ignored, she says. Boomers can then get the full amount of equity from their home while first-time buyers can continue to save for their down payment. Similarly, those in the move-up market may want to consider using the equity in their home to finance a home renovation rather than buying a new residence.

two and three-bedroom units in the suburbs thatinclude amenities like indoor and outdoor play areas.

About ROYAL LEPAGE

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Over the years, we've learned a lot about real estate – and how to provide the best possible service for our clients. Since the mid-1990s, Royal LePage has more than tripled the size of its sales force and almost doubled its market share.

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- Quarterly housing reports
- Creative brochures and newspaper ads to showcase your home
- Ongoing negotiation, marketing and technical training