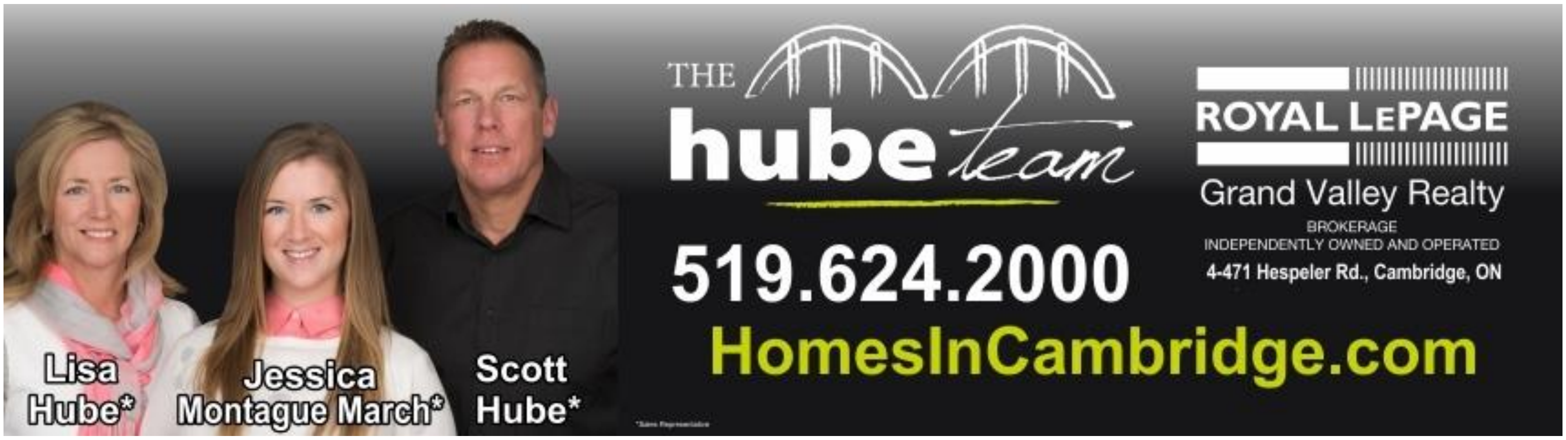

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DID YOU KNOW...

According to an Equifax study, only 23% of Canadians know their credit score, and just 26% knew their credit rating at the time they applied for a mortgage, reports a recent Equifax survey. A good credit score can be a major negotiating tool in getting lower interest rate mortgages from financial institutions. The study also found that 10% of Canadians surveyed say it's okay to inflate your income when applying for a mortgage. And 9% say they have lied on credit card or mortgage applications.

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

This month's edition looks into the real math of household debt to income ratios, and we offer some thoughts on whether today is the right day to purchase a property?

Please feel free to ask questions or offer feedback on anything outlined below via phone or email.

Thanks again for your continued support and referrals!

In This Issue

Debt-To-Income Ratio; Real Or Imagined Threat?

If one were to stop a citizen on the street and ask them if they believe today's low interest rates have allowed Canadians to borrow more money than they should have, most will say yes.

If one were to stop a citizen on the street and ask them if they believe today's low

That aforementioned household debt-to -income number currently reported at 167 per cent and painted as an alarmingly high – a sky about to fall number – let's look at it in the context of the above mortgage example.

HOMEOWNER TIPS

Spring Lawn Care:

Soon, the ground will be thawing across Canada and the time for gardening and lawn care will be upon us.

Aeration is often referred to as the best fertilizer for your lawn - and it's fairly simple to do. The process involves the removal of small cores - or plugs of soil - which are then deposited on the surface. Within a month or so, these soil plugs will work their way back into the grass, thus ensuring a lush thick lawn requiring a weekly cut. Perhaps also a reason to avoid aeration for some! However for those pursuing greenskeeper perfection, aeration should be followed by sanding and overseeding. Between the bulky, heavy aeration machine and load of sand required, this is often a task best coordinated with a few neighbours, ideally ones with fiscally motivated teenagers. The aeration and overseeding should lead to a reduction in weeds throughout the summer as well.

Allow your local garden centre expert to suggest a proper fertilizer and schedule to suit your lawns needs. Some gardeners prefer no lawn at all, as do some non-gardeners. Yet as much as I may prefer a yard that is palatial decking from fence to fence, the reality for children is that a lawn is a canvas on which to paint many a summer memory. From picnics, to slip and slides and cloud watching to earning an allowance lugging a mower around. Lawns absorb water and release clean oxygen all while being aesthetically pleasing with a modest amount of effort.

interest rates have allowed housing prices to rise too high too fast, most will say yes.

If on the heels of these two questions you then asked one more: Should government step in and tighten regulations?

Most will say yes.

And these citizens would be inaccurate.

We have a journalistic climate less interested in one set of numbers and more interested in another, and the relentless reporting of specific numbers while ignoring others is a problem.

Nearly every news story on the topic of debt is framed in a negative light, and this is a problem.

We have endless reporting of the rising debt-to-income ratio, almost always with alarmist overtones. There is never any acceptance that debt is in fact not a bad thing in the majority of households. At least not when it relates to buying a home.

Returning to our citizen in the street, let’s ask a few more questions.

Would it sound reasonable to take on a $2,000 mortgage payment if your annual household income were $100,000?

Do you think it’s fair to say that the same household income could support a $2,600 monthly payment?

Likely we are going to get a ‘yes’ to both of these questions. Those numbers are quite reasonable in relation to one another.

Here’s where it gets a touch more interesting…

That $2,000 per month payment represents a monthly payment at today’s rates on a $500,000 mortgage balance.

The $2,600 per month payment represents a monthly payment at double of today’s rates when that mortgage balance come up for renewal.

That household with a $500,000 mortgage balance and a $100,000 household income, their debt to income ratio is in fact 500 per cent.

Are they freaking out?

Not at all, I mean they are a little bit – but only when they think about you and your debt to income number, not their own. Because they are concerned that today’s low rates have allowed you to borrow more than you should have – and as you know, you have not.

Canada enjoys 69 per cent home ownership, and when I say enjoys, I mean truly enjoys the benefits thereof. Home ownership provides stability to families, and thus stability to communities and by extension stability to our country. Home ownership is the thread with which the fabric of Canadian society has been woven. We are not a nomadic bunch at all, we like to stick close to our hometowns in many cases, or once we adopt a new hometown we tend to stay planted there for decades. The ability to purchase a home is a key part of that.

Half of Canada has no mortgage at all, the other half have bigger mortgages than their parents can even fathom, but then they also have larger paycheques than their parents would have fathomed.

The payments are more than manageable for the majority, even if rates were to double at renewal from today’s record lows.

So the suggestion that a household with a 167 per cent debt-to-income ratio is on the brink of disaster is hyperbole. If the bulk of that debt is mortgage debt, then our $100,000 per year household would have a $750 per month payment on the $167,000 mortgage.

More likely that $100,000 income household has a larger mortgage than $167,000, but not much larger than the above example, as current qualification standards limit such a household to $445,240 if they have less than 20 per cent down.

This is still a 445 per cent debt-to-income ratio.

But again, how concerned are we about a household with $8,333.00 gross monthly income making their $2,000 per month payment?

As the kids say 'Keep calm and carry on'.

May yours be stunning and low maintenance.

(using 20 per cent down on a 30-year amortization with five-year fixed-rate products – for illustrative purposes)

Our readers quick with numbers may see where this is going.

This question arises on a near daily basis within our social circles.

If the conversation is about an owner occupied property which one plans to reside at for at least the next seven to 10 years, then arguably yes, the right time to buy is today.

Over a seven to 10-year horizon the day-to-day, even the month-to-month gyrations of the market will tend to resemble those of a small yo-yo on a large escalator. There are some ups and downs, although with the lows often not dropping below the second last high. This is true of nearly any major urban 25-year chart of real estate values.

There are some key considerations that will dictate not only the continued value, but perhaps more importantly, your own ability to stay put for that magic seven to 10-year timeframe.

- Location
- Layout
- Age
- Size
- Recreational amenities
- Schools
- Distance from workplace
- Potential basement suite revenue
- the list goes on...

Getting all of these variables aligned is something that takes dedication on the part of the both the buyer and their Realtor. The hunt itself can easily consume a few months or more, and for some may result in over 100 viewings. This is more than enough to juggle without also trying to ‘time the market’ on that perfect home.

marginal costs of bridge financing. The costs involved are surprisingly lower than most clients expect.

Keep in mind during your search that the MLS numbers are an imperfect indicator of what is happening today in the market, as in literally ‘today’. MLS data reflects purchase contracts that were negotiated 30, 60, 90 or even 120 days prior to the completion date which was itself in the previous months report. In other words, by the time the MLS data indicates a trend one way or another, said trend has in fact been in motion for as long as six months and could be either reversing or ramping up further.

Where then to get the most accurate data?

Talk to front line folks, Realtors, brokers, appraisers, etc. for a better handle on up-to-the-minute trends. Ask an industry expert.

Short term fluctuations in values and/or interest rates are themselves not the key factors in many peoples decision to buy, instead it is finding that perfect combination of all the factors that create a home within a community and the realization that homeowners win in the long run by owning, not by sitting on the sidelines.

It is all about finding a place you can call home for the duration. To be able to plant roots and become a part of a community. Home ownership will undeniably continue to be a part of living the Canadian dream.

Speaking of timing; consider allowing for a small overlap during which you have access to both the current residence as well as the new one. Being able to install new flooring throughout, complete interior painting, or upgrade kitchens and bathrooms, without having to live in the middle of the disruption is well worth an extra month of rent or the

Perhaps the (short term) timing will feel imperfect, as it did for presale buyers in 2007, whose completion dates were set for Spring 2009. However seven to 10 years later, most will be glad that they bought when they did. In fact, many were smiling again as soon as the Spring of 2010.

Home ownership remains the one true forced savings plan, and one of the best investments we make socially, as it provides an individual and/or a family with a certain sense of security, stability and community.

About ROYAL LEPAGE

Royal LePage is Canada's oldest and largest Canadian owned real estate company. Founded in 1913 by Albert LePage when he was just 26 years old, Royal LePage is now Canada's largest real estate company with more than 14,000 agents in more than 600 locations across the country. And we firmly believe that you can only become the oldest and largest company by being the best.

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.

Throughout our successes, we remain dedicated to helping you through the real estate process. Our commitment to innovation and customer service is as strong as ever.

We offer all of our REALTORS® – from those serving tiny communities to those in major urban centres – strong support from our national pool of knowledge, skill and technical expertise. We regularly invest time, money and resources to develop and provide the knowledge and tools they need to best market your home, including:

- Up-to-date information about local market conditions
- Quarterly housing reports
- Creative brochures and newspaper ads to showcase your home
- Ongoing negotiation, marketing and technical training