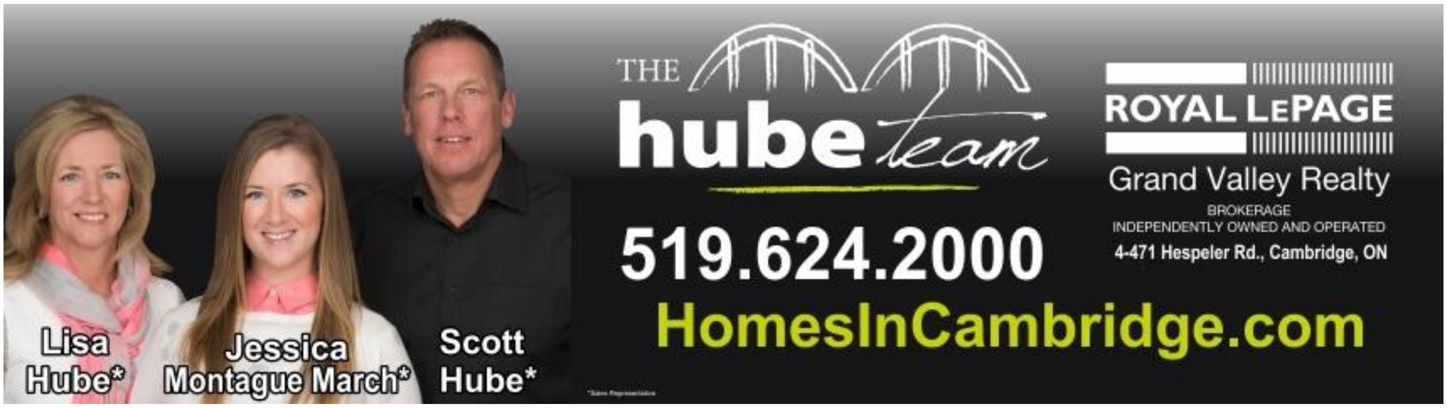


**November 2016**


**The Hube Team**
Royal LePage Grand Valley Realty
Brokerage
Independently Owned & Operated
**Phone:** 519-621-2000
**Cell:** 519-624-2000
**Fax:** 519-621-4027
E-mail
Website



Welcome to the November issue of the *Real Estate Journal*, which is designed to help keep you in the know regarding Real Estate and Mortgage related matters!

This month's edition discusses interest rates, as well as why contracting for a longer amortization up front may be worth considering. Please let me know if you have any questions or feedback regarding anything outlined below.

Thanks again for your continued support and referrals!

# In This Issue



## Bank of Canada on hold as housing expected to slow

It is no surprise to anyone that the Bank of Canada maintained its target overnight rate at 1/2 percent during it's last meeting Oct 19,2016, judging that the

Growth this year in Canada was revised down to 1.1 percent (from 1.3 percent in July). As well, 2017 growth is now expected to be 2.0 percent (down from 2.2 percent). For 2018, the growth forecast remains at 2.1 percent. The Bank now believes the economy will reach full

**DID YOU KNOW...**

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. The numbers came as a shock to Equifax officials, given that the July survey of 1,500 Canadians was really aimed at gauging their concerns about protection of personal data. Click here for the full article in The Star.

underlying trend in total CPI inflation will edge upward to 2 percent starting early next year. Temporary offsetting factors, such as the fall in commodity prices and the decline in the loonie are dissipating. Slack in the Canadian economy will continue to put downward pressure on inflation. The risks to the inflation outlook are deemed to be roughly balanced.

Consistent with private-sector economists' expectations, the Bank is expecting a strong rebound the second half of this year as the negative effects of the oil production cuts and the wildfires conclude. Consumer spending in the second half will be boosted by the July introduction of the Child Benefit, government infrastructure spending and accommodative monetary and financial conditions. The non-resource sector in Canada is growing solidly, particularly in the service sector and business investment continues to underperform.

As widely expected, the Bank once again cut its growth forecast for the Canadian economy. The central bank has been repeatedly disappointed by the poor performance of Canadian exports, hoping that the decline in the Canadian dollar since oil prices plunged in mid-2014 would boost manufacturing exports. While recent export data are improving, the bank has revised down its growth expectation for exports in 2017 and 2018 owing to lower estimates of global demand and the "composition of US growth that appears less favourable to Canadian exports, and ongoing competitiveness challenges for Canadian firms." The US economy is forecast to strengthen from a very weak first half reflecting strong consumer spending boosted by rising employment and strong consumer confidence. Business investment, however, will remain anemic, as evidenced not just in the US and Canada, but globally as well.

capacity utilization around mid-2018, significantly later than earlier expected.

**Housing slowdown highlighted**

The Bank attributed the downward revision to the economic outlook in large measure to the federal government's new initiatives "to promote stability in Canada's housing market". The Bank of Canada reported that these measures are "likely to restrain residential investment while dampening household vulnerabilities."

According to today's newly released Monetary Policy Report, the housing initiatives will dampen this year's GDP growth by 10 basis points and by 30 basis points next year. Government sources say they expect the growth in housing resales to decline 8 percentage points in 2017 from the forecasted 6.0 percent growth pace this year. Private estimates of the negative impact of the new housing measures on overall economic growth vary, but most expect the contractionary effect to be roughly a 30-to-50 basis point reduction in growth over the next twelve months. Given that baseline potential growth is less than 2 percent, this is a very material dampener.

Many are speculating that the new federal housing initiatives open the door to BoC rate cuts next year. Clearly, Governor Poloz sees the enhanced mortgage stress tests as mitigating his concerns of overextended homebuyers–forcing all buyers to qualify at the posted mortgage rate, well above current contract rates. Nevertheless, I believe it would take a material negative shock to growth for the Bank to cut rates. That shock might come from a larger-than-expected contraction in housing activity among other sources.

There are two types of amortizations: the paper, and the effective.

The paper amortization is the number written on your initial mortgage payment contract, and the effective amortization is the actual, real-world version of your payments.

These two numbers can significantly vary over time.

It is worth considering setting, or re-setting at renewal or refinance time, the paper amortization to the maximum possible timeframe. This is typically 30 years in conventional financing or 25 years in high-ratio financing, with the latter being defined as a purchase with less than 20% down.

Now, although you likely have hopes and dreams of paying off your mortgage within the first 10, 15, or 20 years, your contract on paper should always extend to the longest period of time. If for any reason you ever wanted to lower your minimum payment and stretch the amortization back out, you would not be able to; it’s a one-way street. Your amortization cannot be extended further than the initial contracted number of years, as this would break the mortgage. This would potentially trigger a pre-payment penalty, as well as leaving you with a higher interest rate than when you originally began the mortgage.

These are the two main reasons for wanting to lengthen an amortization and lower minimum payments.

**Reason #1: Good News**

After receiving some sort of good news, lengthening an amortization can be beneficial for long-term success or financial growth.

Let’s look at an example:

You’ve received a raise or a windfall gain and are looking to buy another property. your son or daughter to live in while attending university, your qualifications are potentially hampered on paper.

In reality, these payments are manageable. However, the artificially-inflated payments on paper for your current mortgage could hinder your qualifications for a new property.

This is the sort of situation where you would need to lower your minimum payments.

Triggering a multi-thousand-dollar penalty or a higher interest rate on a fresh mortgage simply to allow an additional one to work on paper, especially when you know it is capable in real life, is frustrating, simply put.

What you know you can afford in reality and what the banks claim you can afford are often two different things.

**Reason #2: Bad News**

In contrast, there can also be discouraging or unfortunate reasons for needing to lengthen an amortization and lower minimum payments. For example, there could be a problem in health, a loss of employment, or any other situation which would result in a lower overall income. Even with potential disability insurance, lower minimum payments are often necessary.

A simple e-mail or phone call to your bank can reduce your payments back to the minimum. If your original contract was for 30 years, this is the timeline you’re able to re-amortize back to with no fees, no costs, and no problems.

Remember, this is a one-way street. It is simple to shorten the effective amortization, but difficult and potentially very costly to extend it beyond the original contracted figure.

The freedom to lengthen your amortization and lower minimum payments allows for financial flexibility. Ensure you have the control over this call from day one.

Although the financial surge may not be significant, you’re still capable of meeting the initial down payment and making future payments. Whether this is an investment property, a second home, or even a condo for

And it can be a pretty fantastic call to be able to make in certain circumstances.

# 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