

MULLIN DEMEO

BARRISTERS & SOLICITORS

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MULLIN DEMEO ELECTRONIC LEGAL UPDATE **February 16, 2010**

On the morning of February 16, 2010, the Government of Canada's Department of Finance (the "Government") announced a series of changes to the rules concerning government-backed insured mortgages. These changes are intended to ensure that the continuing trends of record-high housing prices and historically low interest rates don't result in an uptick in the rates of mortgage default among Canadian homeowners.

The Government's recently-announced changes (the "Changes") comprise three elements. First, all borrowers will be required to meet the standards for a five-year fixed rate mortgage even if they choose a mortgage with a lower interest rate and a shorter term. This provision is intended to ensure that borrowers don't become so highly leveraged as to default on their repayments when the Bank of Canada and institutional lenders start to increase interest rates.

The second element of the Changes is a reduction of the maximum amount homeowners will be permitted to withdraw when refinancing their mortgages. Currently, owners can refinance for up to 95 per cent of the value of the home. The Changes will limit this to a maximum of 90 per cent of the house's value. This adjustment is intended to ensure that owners maintain some equity in their home and remain unlikely to default on the terms of the mortgage agreement.

Finally, the Government will require that buyers purchasing non-owner-occupied properties make a minimum down payment of 20 per cent in order to receive government-backed mortgage insurance. The Government's goal is to ensure that speculative buyers hold significant equity in their investment properties.

One additional note concerns a much-rumoured change left unaddressed by the February 16th announcement. The Government has recently considered increasing the minimum down-payment requirement for government-backed mortgage insurance from the current 5% to 10%. No such change was addressed as part of today's announcement. The Government has neither introduced this change in down-payment requirements nor ruled out such an increase in the future.

These announced changes are expected to come into force on April 19th of this year. Mullin DeMeo will update you further if and when more information becomes available.

Please note that this is a preliminary discussion of the matter. In the meantime, should you have any questions or concerns with respect to this or any other aspect of real estate law, please contact Mullin DeMeo at lawyers@mdlawcorp.com, or (250) 477-3327.

Thank you for your time,