



**PRESS RELEASE**



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## **CMHC Enhances Flexibility and Reduces Monthly Mortgage Costs**

**OTTAWA, Ontario, June 28, 2006** — Canada Mortgage and Housing Corporation (CMHC) is helping to make homeownership more affordable and accessible for Canadians by eliminating homeowner high-ratio mortgage insurance application fees, and offering insurance for mortgages with longer amortizations and more flexible repayment options.

"These innovative financial solutions will allow more Canadians to buy homes, and to do so sooner," said Karen Kinsley, President of CMHC. "By reducing costs and increasing flexibility, CMHC continues to help Canadians realize their dreams of homeownership."

Effective today, CMHC will eliminate application fees on all high-ratio homeowner mortgage loan insurance products. The typical fee eliminated will be \$165, but could be as high as \$235 depending on the type of insurance transaction.

"CMHC will continue to look for ways of enhancing its products and services, and reducing the cost of accessing financing for Canadians where it can," said Ms. Kinsley.

In addition, CMHC will provide mortgage insurance that allows lenders to offer borrowers with a proven history of managing their credit responsibly the option of making interest-only mortgage payments for up to the first 10 years when they purchase or refinance their home. This new option will give borrowers greater flexibility in managing their cash flow.

Earlier this year, CMHC was the first Canadian mortgage insurer to introduce, on a pilot basis, insurance on loans with extended amortization periods of up to 30 years. Building on the success of this pilot, CMHC is now moving to further facilitate homeownership by making this feature on-going, and is also introducing extended amortization periods of up to 35 years.

Extended amortizations allow borrowers to purchase their home and grow equity sooner. The premium surcharge for a 30-year amortization will be 0.20 per cent. For a 35-year amortization product, the premium surcharge will be 0.40 per cent.

Canada Mortgage and Housing Corporation (CMHC) has been Canada's national housing agency for over 60 years. CMHC is committed to helping Canadians access a wide choice of quality, affordable homes, while making vibrant, healthy communities and cities a reality across the country.

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### **Backgrounder**

#### **New Insurance Products and Enhancements**

CMHC is proud to be Canada's national housing agency and Canada's mortgage loan insurer of choice. Since CMHC introduced mortgage insurance to Canada in 1954, mortgage loan insurance has been used to facilitate the financing of nearly 9 million homes, helping Canadians achieve their dreams of homeownership.

By providing mortgage loan insurance to lenders, CMHC enables homeowners to access mortgage financing with as little as a five per cent down payment at interest rates normally reserved for homebuyers with a down payment of 25 per cent or more.

Through innovation, CMHC offers products, service, support and tools to better meet the needs of changing housing and financial markets in a cost-effective and efficient manner. Today's announcement takes further steps in this direction.

#### **Elimination of Homeowner High-Ratio Application Fees**

Until now CMHC has charged application fees as well as insurance premiums. CMHC is again reducing the cost of homeownership, by eliminating application fees on all high-ratio homeowner mortgage loan insurance products. This results in the reduction in costs of typically \$165, but up to \$235 depending on the type of insurance transaction.

Combined with the insurance premium reductions of the last three years, which reduced premium costs by up to 30 per cent, the elimination of homeowner high-ratio application fees demonstrates our continuing commitment to keep homeownership affordable for Canadians.

#### **Interest-Only Homeownership Product**

CMHC's new interest-only homeowner product is designed to allow lenders to provide borrowers with more flexibility in repayment options. Borrowers with a proven history of managing their credit can choose to make interest-only payments for up to the first 10 years of their mortgage. CMHC will qualify the borrower based on debt servicing criteria used for amortizing mortgages.

The premium surcharge for an interest-only period of five years is 0.25 per cent and 0.50 per cent for 10 years. This repayment option offers borrowers greater flexibility in managing their cash flow during the first 10 years of their mortgage. After the interest-only period, the balance will amortize in the same manner as other mortgage loans. Principal and interest payments will begin and will be sufficient to ensure the balance is paid in full within 25 years of the date the mortgage was originally initiated.

Examples of borrowers who would benefit might include young people who have a good credit history, but who may prefer more cash flow flexibility with some of the up-front, one-time expenses associated with the purchase of their first home.

#### **Extended Homeowner Amortization Periods**

Anticipating the needs of Canadians, CMHC introduced to the Canadian marketplace insurance on extended amortization periods of up to 30 years on a pilot basis earlier this year. The pilot was a great success and has helped improve access for a significant number of Canadians.

CMHC is pleased to announce today that its 30-year amortization offer is now an ongoing product feature. In addition, CMHC is introducing extended amortization periods of up to 35 years.

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For example, if a borrower were to purchase a \$200,000 home, with a five-per-cent down payment, the mortgage would be \$190,000. With a 25-year amortizing mortgage and assuming a six-per-cent interest rate over the full 25 years, the borrower's monthly mortgage payment would be approximately \$1,215. Monthly payments for a 30-year amortization would be \$1,130, and monthly payments for a 35-year amortization would be \$1,075.

The following table illustrates how extending amortization periods affect monthly payments (assuming a six per cent interest rate).

Amortization Period	Monthly Payment	Reduction in Monthly Payment	Total Interest*
25 years	\$1,215	n/a	\$175,000
30 years	\$1,130	\$85	\$217,000
35 years	\$1,075	\$140	\$261,000

\*Amounts shown in the total interest column assume that the borrower uses the full amortization period to pay off the mortgage. However, historically, most borrowers will eventually prepay their mortgage and reduce the actual amortization period including, for example, by making bi-weekly payments or increasing their monthly payment amount.

### Helping Newcomers to Canada Feel at Home

CMHC reminds lenders and potential borrowers that newcomers to Canada with permanent resident status continue to have access to all CMHC Homeowner Mortgage Loan Insurance products without any additional borrower eligibility requirements. This is true regardless of the length of time they have been in Canada.

Where foreign credit bureaus are not available, CMHC has always considered alternative payment histories. Alternative sources of information that CMHC will consider include banking history, net worth, proven liquid assets, and other investments. CMHC also considers history of rent payment as well as payment of other fixed monthly expenses when determining eligibility. As always, potential borrowers should contact their lender to discuss their own personal circumstances and the options available to them.