Kam's Mortgage Monthly

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Change, change, change!

Has the mortgage industry changed? In a single word, yes! The landscape of the mortgage industry in February 2008 is certainly different than the one from February 2007. Back in February 2007, if you were to stop the average person walking down the street and ask them about "sub-prime" mortgages, they would have a puzzled look on their face, and be able to tell you little if anything at all about them. Now flash forward to February 2008, and it seems that the word sub-prime mortgage is part of everyday language. You have everyone from the so called "experts", to your friends and acquaintances talking about the impact that sub-prime mortgages are having on the mortgage industry specifically, and the economy in general.

Over the past couple of months I've discovered that a lot of the people I've had discussion with around this topic, feel it's basically a problem that affects our neighbors to the south and does not have much impact up here! Many have told me that from what they have heard, the root of the problem is basically mortgages being granted to folks who should not have received them in the first place. I would agree with this. After all, how could I not, when in the US last year, they had mortgages such as the NINJA (No income, no assets, no job). In other words, you were able to get a mortgage on a home without having to prove any of the aforementioned. With products such as these, it didn't take a rocket scientist to figure out that this could cause problems down the road! But were loans such as these entirely to blame, and why were they granted in the first place? In my opinion, they were a part of a larger underlying problem, namely, greed and security. With a booming real estate market in many parts of the US, there were a lot of folks who stood to make a lot of money, and for a few years, many of them did, up until now! The whole house of cards was built on the premise that property values would continue to skyrocket indefinitely, and even though some may have felt deep down that at a certain point, this would come to an end, no one really wanted to believe it would happen on their watch. It's akin to that game we all played called musical chairs, all of us knew that at some point the music would stop and we would have to grab a seat, but we all played, either hoping or believing that we would be that kid left standing!

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Newsletter Highlights

Something to Ponder

Speed is not paramount in the journey, endurance is!

Kam Brar

Change, change, change continued…

Joe homeowner was experiencing skyrocketing prices, so he was happy. Realtors were doing their job listing and selling homes, while at the same time, shaking their heads from time to time at the crazy prices. Being a mortgage broker, I'm not going to leave my profession out, as they too were making money hand over fist, and in some cases, putting folks into mortgages that they knew full well the clients would have difficulty making the payments for! Banks and mortgage lenders, not wanting to miss out, were at times looking the other way when handing out money as well. In turn, many of these financial institutions were then selling these loans off to the wizards at Wall Street, who in turn, repackaged them and sold them off as sound investments built on the cornerstone of real estate. The investors that were buying these were happy as they were getting excellent rates of return on their investments, and feeling that they were not missing out on the great real estate boom! Everybody was making a lot of money, that is, up until the market started dropping when these mortgages went into default. The more defaults, the more the market tanked; a vicious cycle feeding upon itself. Now if I'm old enough to know that the "sun" doesn't always shine and there are rainy days from time to time, I would figure that amongst this diverse group of folks, many of them would know this, wouldn't they? So knowing this, why would they then tend to ignore the obvious? The reason: money!

So what about this security thing I'm talking about, where does that fit in? In my opinion, this mostly applies to the purchasers of these homes. Many of them were first time buyers who always had the dream of home ownership, but found the reality of actually owning a home fairly elusive. In my opinion, these purchasers fit into two categories: the first one being those looking to give both themselves and their family a better way of life by taking them out of more challenging neighborhoods. These were folks who were not looking to become land barons, they simply just wanted their very own piece of dirt, and were willing to do whatever it took to achieve this. They did not want to miss out on this once in a lifetime opportunity to fulfill their dreams of home ownership. The second group were those who saw this as a tremendous opportunity to profit. They were hoping that even though they were putting little, if anything, down at all, the rise in property values alone would give them instant equity; equity they could lever to acquire more and build even more equity, principles that many of them had learned by attending the various "Profit from Real Estate Seminars", which promoted the "no money down" concepts. Their entire plan was built around escalating property values. Not all were first time buyers; in some cases, they already owned another home, but just did not want to miss out on the real estate boom! So I guess for this group, you could say they wanted security, but were a little greedy as well!

So what are the lessons we can learn from all of this up here? And more importantly, could this happen in Canada? I guess the best way to answer that is to ask, can real estate values drop in Canada? Yes they can. Canada is not immune from fluctuations in prices. It's happened before and it may happen again; as the old saying goes, what goes up surely must come down. The precise moment this might occur is the $64,000.00 question. Knowing this, now can you position yourself to withstand a correction, whether it be minor or major in nature? Well, if we look to the South of us, the group that has felt the greatest pain are the one's who got in with little or no down payment. Some of you might be thinking that this is not possible in Canada, but actually it happens every day.

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Canadian lenders are willing to lend you 100% of the purchase price of a home, provided the mortgage is insured. In Canada, there are three companies that do this: CMHC, Genworth, and AIG. Now these insurers charge a fee for doing so, which is added to your mortgage, so this ultimately means that you wind up financing more than 100% of the present value of the property. Is this the kind of mortgage you should get into if you have no wiggle room for yourself in case your financial circumstances change? Absolutely not! You should not only be able to meet the payments today, but make sure you can do so if rates increase. Factor into your calculations at a 1% to 2% increase, and make sure that is not going to devastate your budget. Those who have little or no down usually feel the greatest impact of a real estate market downturn.

Another area that caused many US homeowners woes, were equity take outs. In a nutshell, if you had purchased your home a couple of years ago for say 200K, and had mortgaged the whole amount and now your property was worth 300K, you had equity! For many it felt like they had just won the lottery! So what did a lot of them do with this equity? Well, they went out and spent it of course, they bought new trucks, cars, 5th wheels, went on vacations, etc. Now fast forward to present day and say the home is worth $200K again (some US cities have experienced up to a 70% correction in prices); what do you think is going to happen when the mortgage is up for renewal? Some of these fine folks also did not pay cash for their toys and the like; they took that equity and used it as a down payment, and took out a loan on that new truck, car or camper.

My purpose in sharing this with you is not to alarm or scare you. I do, however, want you to give serious thought to your major financial decisions, especially those that revolve around your home! What has happened to the South of us may not necessarily happen here, but it should give us pause for reflection! I believe with sound and prudent financial planning, the impact of such events can be greatly mitigated. With the right steps and planning, for most of us, your home should become your primary asset, not your greatest liability ! As a mortgage broker I don't consider my role to be someone who simply gets my clients into a mortgage, but instead, someone who works with you to make it fit your own unique personal situation.

Referrals

Your referrals are always welcome, so if you can think of someone who may benefit from my services please send me an e-mail to kam.brar@vericoselect.com or call me at **250-686-4246.**
Never dealt with me, not sure what kind of service you're going to get? click here to see what some of my clients have to say!

If you have any questions or comments please contact Kam at kam.brar@vericoselect.com or visit www.kamthemortgageman.com