

U.S. housing market still sinking



by Miranda Jollymore

Sub-prime lending continues to create waves in the U.S. economy, but so far Canada's conservative lending practices have kept our housing market virtually unaffected.

How does sub-prime lending work? Sub-prime lending refers to the financial institution's process for lending homebuyers money to mortgage a house. It involves a number of criteria such as credit checks, employment history, etc, to determine if a client is eligible to receive the mortgage. The U.S.' instability in this instance is a result of not adhering to the process. The American approach has been lax and obtaining a mortgage through the sub-prime channel is easy.

When a traditional bank in Canada declines a client, the client is forced to look for an alternative lending option. These alternate lenders are known as non-conforming lenders or "B" and "C" lenders. In general, clients looking to borrow from a non-conforming lender are people who are considered to be a higher risk, for

various reasons. Maybe they have a bruised credit history or cannot prove a consistent cash flow. This type of lending is considered risky and therefore non-conforming lenders charge a higher rate of interest (usually about 2%). Often, the non-conforming lender relies on the actual property being held for security. If the non-conforming lender feels the home can be resold at a profit, they are generally willing to mortgage it.

Getting money from a non-conforming lender is not as easy in Canada as it is south of the border and therein lies the reason why Canada's housing market is more stable. The Canadian "B" and "C" lenders require that their clients fulfill any number of requirements before funding a deal. They all but ask for one's first born and blood type before looking at the

deal. Borrowers can be required to present at least three months of detailed bank statements, returned rent cheques, letters from landlords, pay stubs, and even reference letters. From the client's point of view it seems overwhelming but from a market stability point of view, this approach seems to be the right one. Clients looking at non-conforming lenders already had some issues, so it would make sense that the lenders would complete their due diligence. Canada's housing market stands strong despite the continued news about our U.S. neighbors battling foreclosures.

"The number of homes entering some stage of foreclosure -- from notice of default to bank ownership -- increased 45% in January over the same period a year earlier," according to Irvine,

Calif.-based RealtyTrac. "That was one new foreclosure for every 1,117 U.S. households." One financing firm in the U.S., GMAC, had to borrow \$21.4 billion to try and salvage their business when their home lending arm lost \$254 million in the three months up to June, as reported by BBC News. The overall effect on the economy cannot be measured because in most cases outstanding debts are repackaged and sold again. The biggest problem is that the financing companies are not able to borrow any more money because they cannot secure the risk.

The Bank of Canada will have to make some difficult decisions over the next few months. With the

Canadian dollar so strong, exports are costly. Does the Federal Government decrease interest rates to encourage spending? This is a perilous path to take. If Canadians continue to borrow money and go into debt, as recovery at higher interest rates will be impossible.

Miranda Jollymore is an Independent Mortgage Broker who lives and works in Toronto and is the Personal Finance columnist for the European Reporter. She is a member of the Mortgage Brokers Association and the Financial Services Commission of Ontario and an amateur boxer with the Ontario Amateur Boxing Association. www.simplicitywithmiranda.com.

ER