



2012 World Outlook Conference

# Dustan Woodhouse - AMP



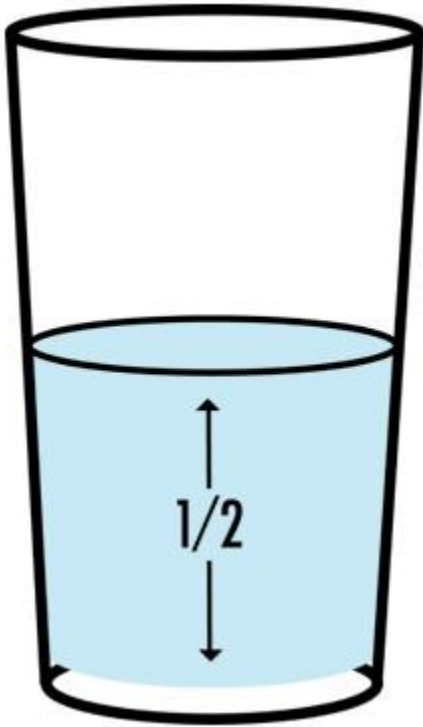
# Dustan Woodhouse - AMP



- *My Goal during this presentation;*
- *For you to gain a better understanding as to;*
- Interest rates
  - Fixed vs. Variable
  - Impact of Prepayment Penalties
  - Outlook 2012 and beyond
- The fact that lending restrictions are going to continue to tighten and why that is. (are we headed the same route as the US?)
- Free & Clear? Why you may **want** a mortgage in your life.
- Options, Options, and more Options...



# What am I about...



# The highway of life...



# Signs along the way...



# Signs along the way...



# Signs along the way...



*powered by*





A sign I was not expecting...





# The start of perfect day for me...





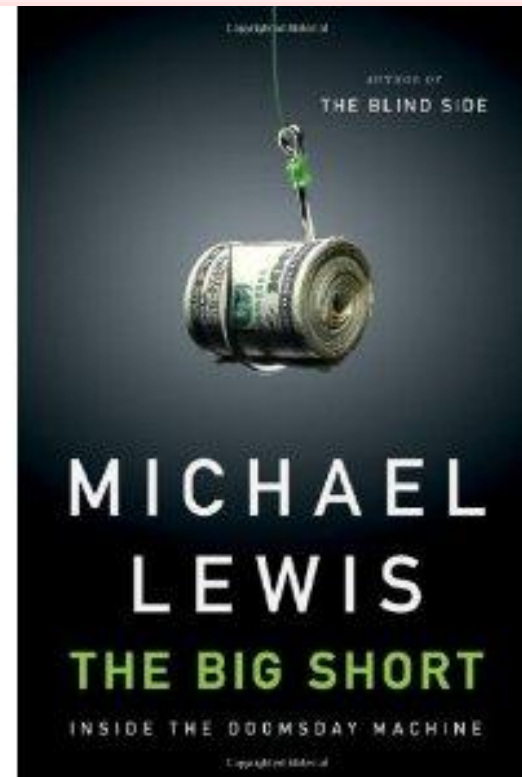
..at the end of the day.



# The News Headlines...



# Read books, not headlines...





# United States



# United States



# United States





# United States



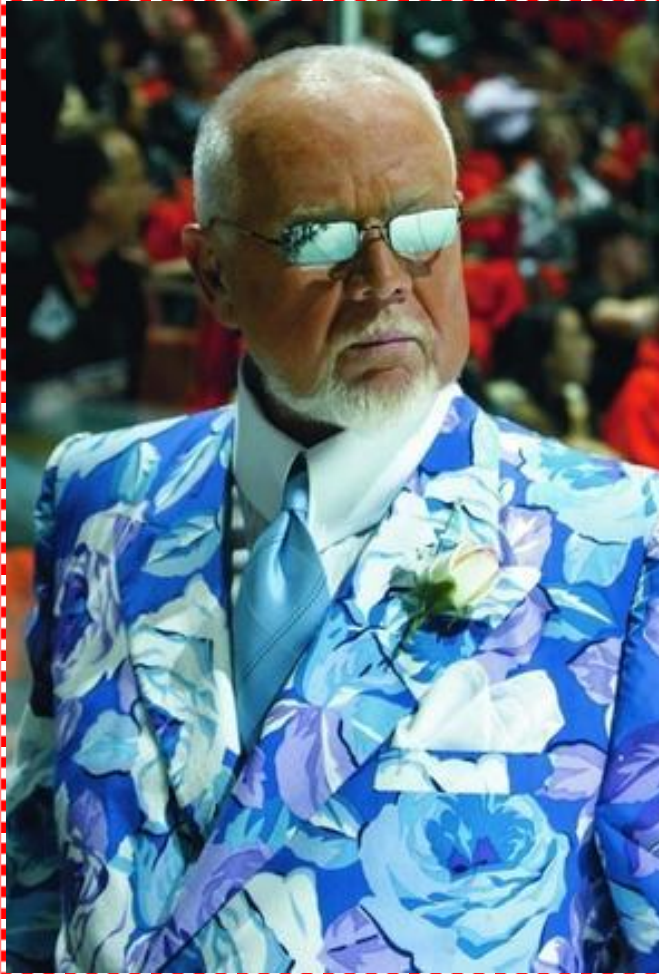
# United States



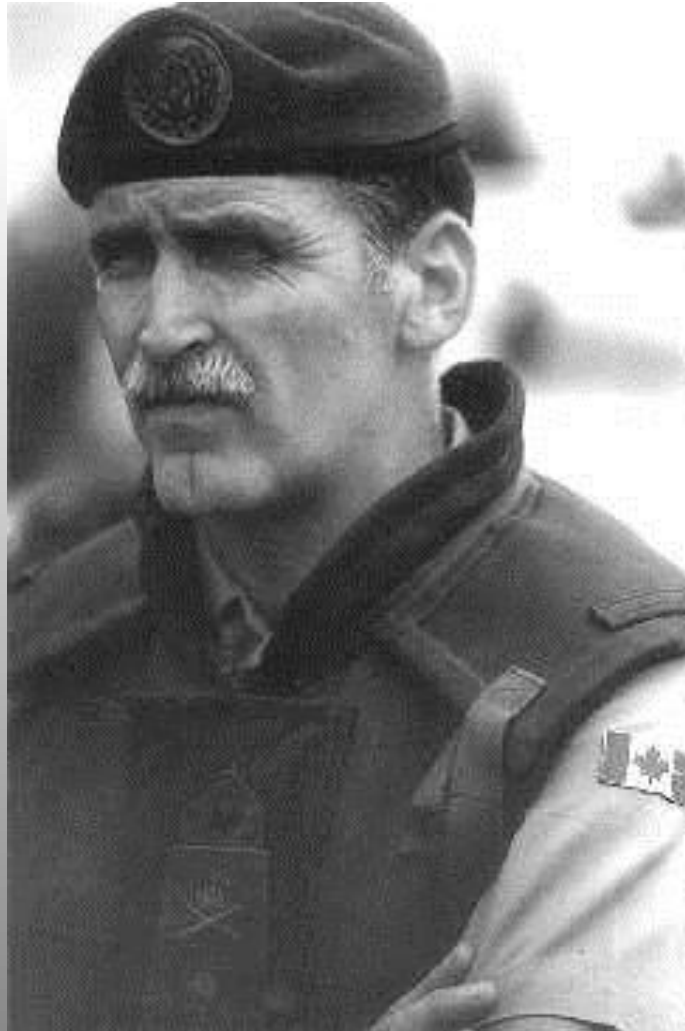
# What about Canada?



# Canada



# Canada





# Canada



# Canada





# Canada



# Canada



- Benjamin Tal
- Deputy Chief Economist of CIBC World markets Inc.
- My Rock Star.



# Canada by the #'s

- 39.2% of Canadian Homeowners are 'mortgage' free.
- The remaining 2 out of 3 homeowners with a mortgage...
- ...have a balance of \$151,630
- Average amortisation; 25 years
- At the other end of the scale >2% of CDN's have negative Equity.



# Alberta (in June)



# Alberta



# Alberta, Calgary & Edmonton

- 33% of Homeowners in Calgary are mortgage free.
- 40% of Edmonton Homeowners mortgage free.
- The average Albertan Mortgage Balance is \$220,721.00





# British Columbia (in June)





# Vancouver

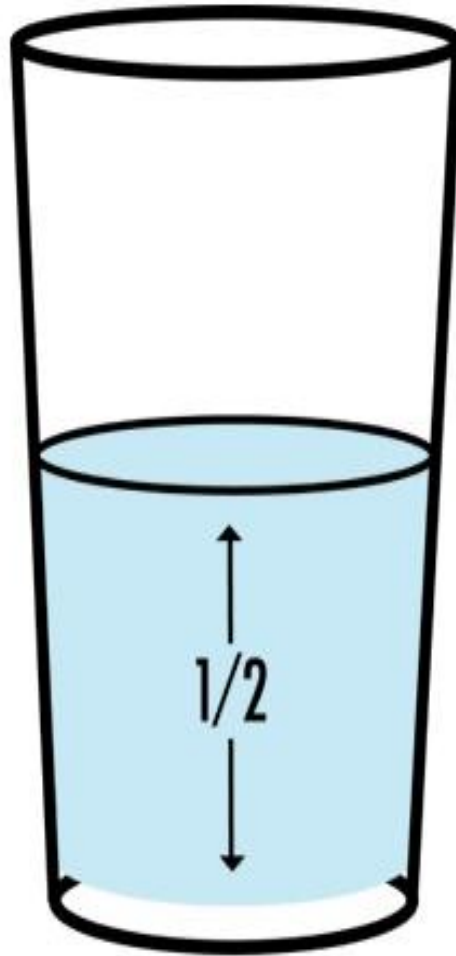


# British Columbia

- 47% of Vancouver Homeowners mortgage free.
- 42% of Victoria Homeowners mortgage free.
- The average British Columbian Mortgage Balance is \$237,209.63



# Sounds pretty good so far...



# Interest Rates...

- Is that glass still half full?
- What moves mortgage rates...
- ...it depends on whether we are talking fixed or variable mortgages.



# Variable Rate Mortgages (VRM)

- VRM Rates are dictated by Prime.
- Prime is set through monetary policy by the Bank of Canada. (BOC)
- The BOC's mandate is to keep inflation within 1% +/- of the target 2% rate.
- Ultimately the BOC largely follows the lead of the US Fed.



# Fixed Mortgage Rates

- Fixed Mortgage rates are dictated by a mix of both Bond yields and the spreads that the banks determine over said yields.
- Even though fixed rates have never been lower, the spreads have never been higher.
- When the current strong flow of Capital to Canada slows (supply) we will see rates rise to attract more (demand) – and at that point fixed rates will rise.
- Although Banks can push spreads even higher if they feel the market will bear it.





# Conflicting Headlines

- Rates are Up...
- Rates are Down...
- Do I go fixed or do I go variable?
- A key factor...
- Prepayment penalties.





# Variable Rate prepayment.

- Prepayment Penalties are the #1 reason at least half of my clients choose a variable rate mortgage over a fixed rate mortgage.
- In a closed VRM the prepayment penalty is (99% of the time) only ever 3 months interest.
- Typically the penalty amounts to less than 1% of the mortgage balance.
- Never an Interest Rate Differential (IRD)



# Fixed Rate prepayment. (IRD)

- An interest rate differential penalty is calculated a variety of ways by a variety of lenders.
- As of late, in many cases they account for about 3-4% of the total mortgage balance.
- 60% of Fixed rate mortgages are broken prematurely, often with an IRD penalty.
- Mortgages that have been written over the past few years, at historic lows, are in fact triggering IRD penalties 2-3 years later.
- The same could well occur over the coming few years.



# Fixed Rate product... so inviting



# Behind the curtain...



# Everything is cool...



**..until it is not.**





# Where did I sign up for this?



# Now what?



# Moving Forward...

- ***Engage an Expert.*** (or in this case perhaps a time machine)
- Plan ahead with your mortgage advisor.
- Specifically ask them what they have done with their own personal residential and investment mortgage(s) and ***why***.
- Recognise that with an average .85% margin on Variable rate product and a 2.00%+ premium on Fixed rate product your bank may have some bias.

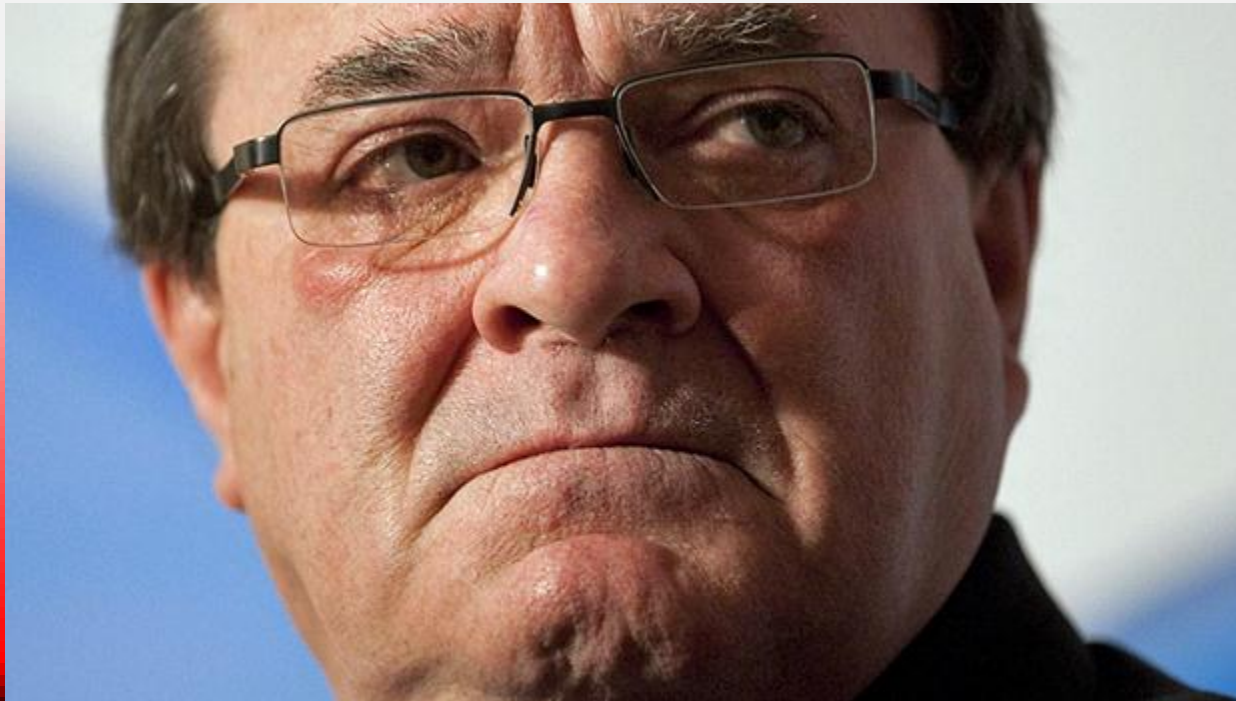


# But what should I do today;

- General Terms.
- in a variable at Prime minus on your residence, with a reasonably 'low' mortgage? Most likely you should stay there\*\*\*\*.
- Have the option to renew, refinance, or lock in investment properties at 2.79-2.99% or better? Seriously consider this, after you ***engage an expert***.
- The cost of money is unlikely to change significantly anytime soon. However the ease with which you are able to access that money likely will, and not in a good way.



# What is on this mans mind...



# Limited access to cash money.

PRE 2008



THE FUTURE...IS NOW





# Perception of RISK...

- Since July of 2008 we have seen an almost annual tightening of lending guidelines from the Federal Government
- Yet current arrears in Canada are at 0.38%!



# 2012 - Still more Risk????

- Expect lending guidelines to get tighter!
- Expect entire lending programs to vanish.
- Further reduction in Max Amortisation
- Increased Equity requirements
- Increased Liquidity requirements
- Documents, Documents, and still more Documents,
- a hair sample...



# Why are 'we' still worried?

One little quote from the OFSI that was teased out of a report and turned into a Bloomberg news story regarding CDN NIQ (*No Income Qualifier*) Mortgages.

*"have some similarities to non-prime loans in the U.S. retail lending market,"*



# 'Similarities'

## USA NIQ OR 'NINJA' LOANS

- **No** income confirmation.
- **No** proof of 'Business for Self'.
- **No** Proof of liquid Assets.
- **No** down payment.
- *No problem...*
- \*\*\**46% of US lending at peak.*

## CDN NIQ MORTGAGES

- **Proof** of no taxes owing to CRA.
- **Proof** of Business for self.
- **Proof** of liquid assets\*\*\*.
- **Proof** of down payment from own resources, 90 days History and no 'gifts'.
- **Excellent Credit.**
- Minimum 10% down for insured, however Chartered bank minimums are 35% down.
- Less than 5% of CDN lending.



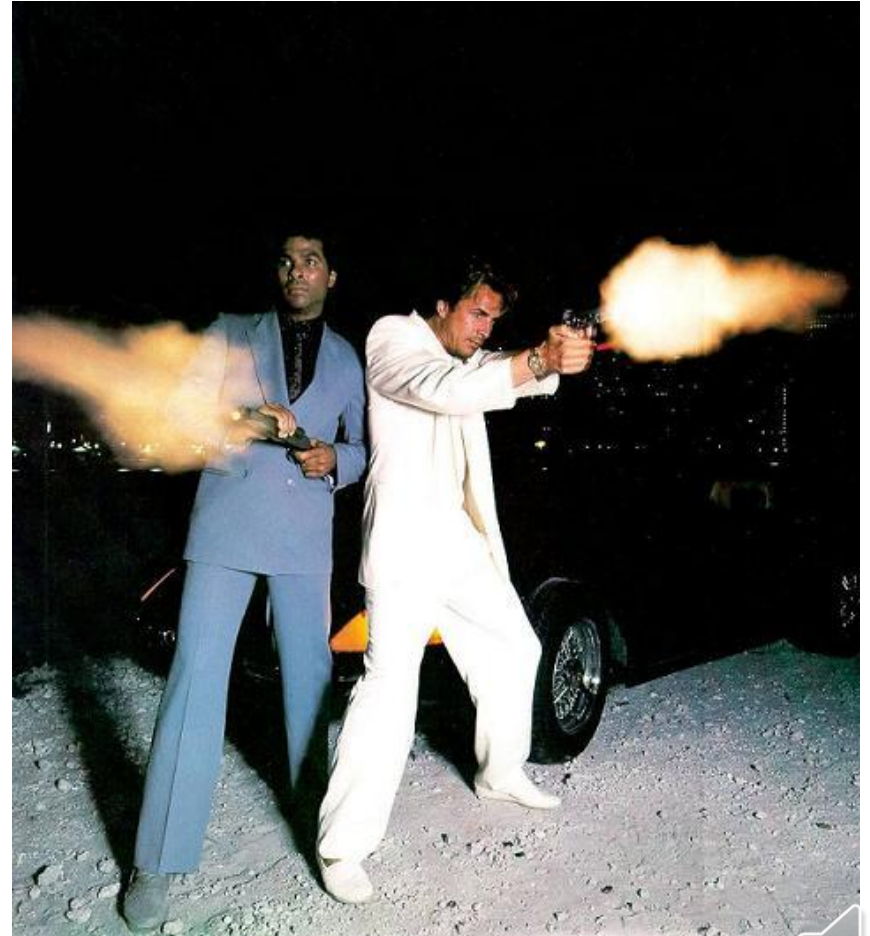
# 'Similarities'





# The Vice closes tighter...

- *Money has never been cheaper...*
- *...but it has never been tougher to access.*
- *It will get tougher still.*



# Too conservative?

- Indeed we CDN's are very conservative. Keep that in mind when you are listening to the news, the news I told you to stop tuning in for.
- Most of us are all pretty similarly programmed.
- For all the talk about crazy Vancouver prices, half of us here do not even have a mortgage.
- The Albertans are working towards the same.



# My main concern.



# Home Equity Line of Credit (HELOC)

- Am I suggesting that you retire with debt?
- My suggestion that *you **not** be mortgage free when you retire* is a play on words. i.e. a HELOC is technically a 'mortgage'.
- I am suggesting you set up a **HELOC**. (that you may never access)



# Why a HELOC?

- Create options for tomorrow;
  - With today's low rates
  - Utilise lending programs that may not exist in 5 years....or 5 days.
  - 'Bubble' house prices????
  - Your current Employment/Business position
  - To Create Options for your family.
  - position yourself to help your kids with a down payment – not to have to co-sign their entire mortgage. i.e. help out all three kids, not just your favourite.
  - The 50K proof of 'liquid assets' rule.
  - Write an all cash offer on a new property without have to have sold your current one. (downsizing...maybe)



# HELOC stats

- 25% of HELOC's in Canada have a Zero balance.
- 79% of Canadians with a HELOC said they were quite confident of their level of knowledge about the product.
- Yet when quizzed further;
  - Only 55% had reviewed the loan documents with a loan officer
  - 11% admitted they didn't even read the documents
  - Only 12% consulted with a lawyer prior to inking the arrangement.

# HELOC

- There are a wide variety of features, benefits and ***key distinctions*** between various lenders products.
  - There is typically no set up or annual cost for my clients.
  - The National Bank HELOC affords you up to 99 independent accounts.
  - Some lenders HELOC products restrict the offerings within.
  - Options, Options and more Options to be navigated.

***Engage an Expert*** to find the Right HELOC



# Banking in 2012 and beyond.

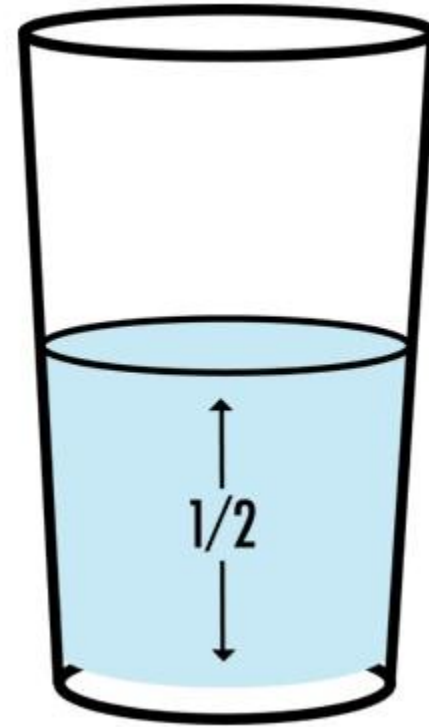
- Gone are the days of a 'special' relationship with your branch manager. That person has been downsized, moved laterally, or sent to the US to run the expansion there.
- In the banking world there is a growing shortage of experienced quality staff.
- The concept of having a relationship with your bank is history, and if you still have some semblance of one, soon it will likely be gone.
- **Engage an Independent Expert.**



# Maybe one who looks like this...



# Or perhaps this...





# Final thoughts...

- Am I here to push debt on you? No.
- I am here to get you asking questions, lots of questions. Hopefully of the right people.
- Access to capital is a low priority when you need none, and it can become an impossible task to access it when you do need it.
- Change is the only Constant in life.
- I am not the final word on any of this, I am just a part of your balanced approach.



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DWAYNE PEACE



# Conclusion.

- I try to *engage experts* wherever I can;
  - A professional accountant
  - The Pool chemical guy
- ...even hanging Christmas lights





# Thank you!

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# Consumer Debt.

FROZEN?



THE TRAP REMAINS SPRUNG!





# With the banks profiting at the rate that they do on these products...

## CREDIT CARD DEBT

- \$27,000.00 @ 19% yields ~\$411.50 per month in interest.
- The bank has their principal back in 6 years, and from their forward it is all gravy...
- For the remaining 121 years it takes to pay that balance off via the minimum payment.

## MORTGAGE DEBT

- \$166,175.00 @ 2.99% yields ~\$411.50 per month in interest.
- It is 19 years before the bank gets back its principal which is earning the same as 27K over in the credit card division.
- The Bank is paid off in full over 30 years, 23 if we are dealing with the typical CDN.