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Company to insure 40-year mortgages: Genworth Financial to make ownership more affordable

Genworth Financial announced on Tuesday that it will be insuring 40-year mortgages in an effort to help more Canadians afford a home while expanding their choices.

The extended repayment time could shave \$300 from the monthly cost of a typical \$300,000 loan in Vancouver. However, if borrowers make those payments for 40 years, the final cost of their loan will be \$741,681, or \$187,941 more than if they used the standard 25-year payment schedule.

The 40-year option is designed to provide lower monthly payments for the initial years of ownership, said Peter Vukanovich, president of Genworth Financial Canada. As household income climbs, buyers can increase payments to reduce the life of their mortgage.

"This isn't for somebody who doesn't see any growth in their income," Vukanovich said in an interview. "The reality is that this will add to the cost of the mortgage if you let it go for 40 years, so you want people to take advantage of the pre-payment privileges that lenders offer."

Since Genworth pioneered 35-year mortgages earlier this year, they have been chosen by more than 20 per cent of buyers with less than a 25-per-cent down payment, according to Invis mortgage brokers.

"I have been surprised how much this does seem to fit our customers' needs," said Andrew Moor, Invis president and CEO. "Real estate prices are so high in certain urban areas that young people need these kinds of improvements to be able to afford to carry a mortgage."

Wells Fargo Financial Corp. Canada launched the first 40-year mortgage available across the country this past June. GE Money had already offered a 40-year mortgage in just B.C., Alberta and Ontario.

In Vancouver, Invis broker Rob Regan-Pollock is seeing increasing demand for extended mortgages from young professionals who expect career and income growth.

He also has clients who have chosen a longer mortgage to get the home they want rather than settle for something smaller or move to a more affordable neighbourhood. They expect to shorten the life of their mortgage by increasing payments as household income improves.

An extended mortgage might also be considered by single-income families where a stay-at-home spouse plans to return to work when children start school.

Regan-Pollock cautioned that the lower monthly payment must be balanced against higher Genworth insurance costs, higher interest payments and the fact that home equity will build more slowly.

Like government-owned Canada Mortgage and Housing Corp., publicly traded Genworth makes low down payment loans possible by insuring banks, credit unions and other mortgage lenders against the risk of borrower default.

The homeowner pays the insurance premium, which includes a 0.20-per-cent surcharge for every five years of amortization beyond the traditional 25-year period.

Someone putting five per cent down and borrowing \$300,000 over 25 years would pay \$8,250 -- added up front to the total loan -- for Genworth insurance. For a 40-year loan, the premium would be \$10,050.

Someone borrowing the same amount after 20 per cent down would see their premiums reduced to \$3,000 on a 25-year loan or \$4,800 on a 40-year loan.

Long-term borrowers are subject to standard credit rules which include using no more than 40 per cent of income to service debt, Vukanovich said.

CMHC matched Genworth's 35-year mortgage earlier this year but a spokeswoman for the government agency Tuesday said there are currently no plans to insure 40-year loans.

PAY NOW, OR PAY LATER

Four options for a \$300,000 mortgage after five per cent down at today's widely available five-year rate of 5.3 per cent:

Amortization	15-year	25-year	35-year	40-year
Insurance rate	2.75%	2.75%	3.15%	3.35%
Insurance amount	\$8,250	\$8,250	\$9,450	\$10,050
Total mortgage	\$308,250	\$308,250	\$309,450	\$310,050
Monthly payment	\$2,476.72	\$1,845.80	\$1,609.92	\$1,545.17
Total cost	\$445,809	\$553,740	\$676,166	\$741,681
Total interest paid	\$137,559	\$245,490	\$366,716	\$431,631

Source: Invis