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Homeowners gain from falling rates; U.S. economic woes have silver lining for those with mortgages

For B.C. homeowners struggling with huge mortgages, falling interest rates could be the silver lining to the cloud cast by the deepening economic slump in the U.S.

Homeowners watching the headlines and wondering what to do with their mortgage would be wise to take advantage of variable-rate mortgages, unless the cost of breaking a closed contract is too high, analysts agree.

If you already have a variable-rate mortgage, this is a good time to stick with the choice you've made, and take advantage of lower interest rates to pay down a whack of your mortgage or use home equity for other purposes.

Mortgage financing is one of the least costly ways of financing anything, says **Rob Regan-Pollock**, a mortgage broker and senior consultant with Invis Financial Group.

"So for borrowing purposes it makes sense to tap into equity to pay off credit card debt, consolidate debt or to pay for home renovation and improvement," Regan-Pollock said yesterday.

Just keep a close eye, as a mortgage-holder always should, on what interest rates do in the future.

"At some point, rates will revive and go up, but lower interest rates are likely to prevail throughout this year and into next year," said Helmut Pastrick, chief economist for Credit Union Central of B.C.

Some variable mortgages offer a fixed monthly payment, which in the case of rate reduction means more of your money will go towards paying down the principal.

If your variable-rate mortgage fluctuates in tandem with lower rates, you can reduce your mortgage principal faster by keeping your mortgage payment the same.

Canada's mortgage-lending practices are more "focused and conservative," in contrast to the "wild west" lending in the U.S., where banks handed out mortgages to those with poor credit and income history, Pastrick said. Canada may not be vulnerable to the same subprime mortgage-default catastrophe as the U.S., but the economy of the eastern provinces in particular is closely-tied to the U.S., said Pastrick.

B.C. is much less dependent on the U.S., except for the forest sector, but many Canadian banks and private companies have suffered substantial losses, he said.

These will inevitably be passed on to the consumer.

Homeowners locked into a fixed-rate mortgage should look into the cost of breaking a contract.

"As a general rule of thumb, borrowers should investigate paying a penalty and breaking their contract when a two-per-cent reduction in rate applies to the remaining balance of their term," Regan-Pollock said.

If you're close to the end of your fixed contract, your lender may be agreeable to offering you a more attractive lending rate to keep your business, Regan-Pollock said. "The U.S. subprime crisis has actually offered us a window of opportunity for lower rates and better affordability," he said.

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