

Wolf at the door

Mortgage relief slight as big banks lower fixed rate — but only a bit

Go ahead, throw us a bone. Canada's big banks — who refused to match a 0.75% cut in the Bank of Canada rate, now at 1.5%, by only lowering their prime lending rate by 0.50% to 3.5%, while interest rates on credit cards rise — are giving us a small break on fixed-rate mortgages.

The rate cuts up to 0.20% kicked in yesterday, just as the Bank of Canada released a chilling report, warning if this global crisis gets any worse, Canadians could start losing their homes as they default on mortgages. The central bank also warned defaults on consumer debt will rise "significantly" as household balance sheets — which owe a record \$1.3 trillion — feel the squeeze from layoffs, weak equity markets, softening house prices, slow income growth and record high debt-to-income ratios.

"If the risk of a prolonged global downturn materializes, then there will be a strong moderation in house prices, which could lead to a more significant increase in default rates on mortgages," the cen-

tral bank stated in its December Financial Systems Review. It also warned the number of "vulnerable households" — with debt-to-income ratios above 40% — could double from 3% to 6% by the end of 2009.

And to think: Only months ago, Canadians were told, "don't worry, be happy." Our housing market was sound, our financial system solid — and any subprime fallout would be minimal.

Banks moved swiftly to follow Royal Bank's lead and cut fixed mortgage rates by one-fifth of a percentage point. Yesterday, at TD Canada Trust the posted five-year closed mortgage dropped by 0.20% to 6.75%, while a 10-year closed mortgage fell to 7.5%. The rate for a one-year closed mortgage was unchanged at 5.6%.

But TD also hiked its variable rates to prime plus 0.6% for its closed mortgage and to 0.85% for an open mortgage.

Variable rates, by the way, are tied to prime, while fixed-term mortgage rates are dictated by the bond market.

Scotiabank cut its one-

year rate to 6%, but at BMO the one-year closed remains unchanged at 8.55%. BMO, though, dropped its three-year and five-year variable mortgage rates by a half a point to 4.5%.

Experts say shop around to get the best deal, but they warn it's getting tougher and tougher to negotiate sweet deals with discounts drying up. Some also argue even though the Bank of Canada rate is expected to fall another 0.50% next month to a historic low of 1% when it meets again in January — it may be a good time to find the best fixed rate, lock it in and ride out this storm.

That's because they also fear our Big Six banks — which raked in combined profits of \$12.15 billion in fiscal 2008, down 38% from a record 2007 — will continue to feel the squeeze in 2009.

And that means despite billions of our tax dollars being flushed into the banking system, while \$75-billion in CMHC mortgages were wiped from their books, they'll continue to dig in their heels on passing on interest rate relief.

"Canadians have every reason to be concerned about the future," said Mark Silverthorn, a Kitchener lawyer who authored the book *A How-to-Guide for Dealing with Collection Agencies in Canada*.

Silverthorn also predicts more and more Canadians will start to default on consumer debt and will seek relief through a consumer proposal or personal bankruptcy, while others will go for credit counselling or debt settlement.

Silverthorn's book lists eight options for handling debt. His website is helpwithcollectioncalls.ca.

The lesson in all of this is we've got to get back to basics. Don't spend what you don't have. If you must have it, but can't afford it, use a lay-away plan, like the one offered by Santas Choice, the largest catalogue retailer of premium brand seasonal food and gift items. Don't let greed get in the way of common sense investing. GICs are not dirty dogs, after all. Derivatives and asset-backed commercial paper are. A mortgage-free home is your best asset. Cash is king. Debt is out.



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