Finance Minister Jim Flaherty outlined new rules aimed at reining in a hot housing market Thursday and ensuring Canadians aren't taking on more debt than they can afford.

Flaherty outlined a series of changes to the rules that govern the Canada Mortgage and Housing Corporation, the crown corporation that effectively oversees the housing market by insuring the vast majority of Canadian mortgages.

The most important new change is that the maximum amortization period to 25 years, down from 30. The longer a mortgage is spread out, the lower the monthly mortgage payments are — but the more the borrower ends up paying overall over time.

'Wealthy people can borrow whatever they want …that is not my concern.'
—Finance Minister Jim Flaherty

The impact of the change is likely to be significant. It's about the same as a 0.9 percentage point increase on a typical mortgage, Bank of Montreal economist Robert Kavcic noted.

It's also likely to affect a huge segment of the market, as about 40 per cent of all new mortgages were amortized over 30 years last year, the Canadian Association of Accredited Mortgage Professionals estimates.

Anyone who needed or wanted a 30-year mortgage before is going to have to qualify under tougher 25-year requirements now.

Ottawa has now moved three times to rein in the maximum mortgage term, since the CMHC briefly started insuring mortgages with 40-year terms in 2006. The limit was brought down to 35 years, then 30 and now the more traditional 25.

"The reductions to the maximum amortization period since 2008 would save a typical Canadian family with a $350,000 mortgage about $150,000 in borrowing costs over the life of that mortgage," Flaherty said.

"Our government has encouraged Canadians to borrow responsibly," Flaherty said. "Most Canadians have done so."

Refinancing limit set at 80%

Flaherty also outlined a few other measures Thursday.

The government has lowered the total amount that Canadians can withdraw when refinancing their homes to 80 per cent of the home's value, from 85 per cent.

"This will promote saving through home ownership and encourage homeowners to prudently manage borrowings against their homes," Flaherty said.

Flaherty also moved to cap the maximum gross debt service ratio at 39 per cent and the maximum total debt service ratio at 44 per cent in order to get CMHC insurance. Although they both have obscure, technical names, they're both effectively just limits on how much debt a borrower is allowed to take on as a percentage of their overall income.

This move, too, is aimed at making sure a borrower can't bite off more than he or she can chew.

The final change was to limit CMHC insurance to homes priced under $1 million. "Wealthy people can borrow whatever they want from banks, and they can work that out from banks," Flaherty said. "That is not my concern."

July deadline

In addition to not being able to access CMHC insurance, Flaherty said the new rule will be that a buyer of a home priced higher than $1 million must have 20 per cent or at least $200,000 down. That's also likely to have a major impact on a comparatively small segment of the market.

All of the changes will be in effect as of July 9, 2012. In the interim, the action in hot Canadian housing markets is likely to get even hotter, experts say, as borrowers scramble to get in under the new, more onerous deadline.

"As we've observed around prior mortgage rule changes, some housing market activity will likely be pulled forward ahead of the implementation date," Kavcic noted.

But there’s likely to be a subsequent pullback, too, he says. The last time Ottawa tinkered with CMHC rules, home sales fell by three per cent in the two months following the implementation date.