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## THE GLOBE AND MAIL

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# Bank of Canada won't raise interest rates to cool housing

By Steve Ladurantaye  
Globe and Mail Update

*Deputy governor says such a move would also negatively affect the broader economy as it emerges from recession*

The Bank of Canada won't raise interest rates to cool the country's hot housing market, a spokesman said Monday, preferring to leave any tinkering to the country's Finance Minister.

"Some observers - those who see a housing bubble forming - have said that since low interest rates have stimulated housing market activity, the Bank should now raise interest rates to dampen that activity," deputy governor Timothy Lane wrote in a speech delivered by an adviser on his behalf in Edmonton. "But that poses a problem."

Existing-home sales are up 73 per cent year-over-year, while prices have climbed nearly 20 per cent as buyers take advantage of historically low interest rates to finance purchases.

Those who fear a bubble worry that many people are taking advantage of cheap money to buy homes they wouldn't be able to afford once rates rise, leading ultimately to a crash in prices.

Mr. Lane said the bank understands the concern, but it uses its lending rate to keep inflation in check for the whole economy and the housing market is "only one of several factors" that influence inflation.

Other sectors could be adversely affected if the rate jumped before the broader economy was ready, he said.

"If the Bank were to raise interest rates to cool the housing market now - when inflation is expected to remain below target for the next year and a half - we would, in essence, be dousing the entire Canadian economy with cold water just as it emerges from recession."

Instead, he said, the government could increase capital requirements for lending institutions, adjust loan-to-value ratios and change the terms and conditions required to obtain mandatory mortgage insurance.

"These instruments can be targeted to risks to the entire financial system that stem from particular markets or institutions," he said. "Ultimately, it is the Minister of Finance who is responsible for the sound stewardship of the financial system."

In an end-of-year interview with CTV, Finance Minister Jim Flaherty said the government would consider raising the minimum down payment from 5 per cent "to a higher figure" and reducing the amortization period of 35 years to "something less."


But the Minister stressed that the government has not yet made that decision.

"If there is, in the future, evidence of a residential real estate bubble, the tools we have are the tools we've used before, relating to insured mortgages, lending standards, amortization periods and down payments, which is what we acted on in the summer of 2008," Mr. Flaherty said in a late-December interview with The Globe and Mail.

In the summer, the government said it would no longer insure zero-down-payment mortgages or mortgages with an amortization period of more than 35 years.

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