The Mortgage Centre

More than a mortgage

October 19th, 2016

REGULATORY CHANGE UPDATE

Compliments of your Mortgage Centre Mortgage Professional:

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Why is the Department of Finance implementing these new changes?

These new regulations are aimed at protecting the financial security of Canadians and supporting the long term stability of the housing market in Canada.

CHANGE: mortgage rate stress test to all insured mortgages

What is it?

Currently insured mortgages with a term of less than 5 years, and/or a variable rate mortgage had to qualify on the Bank Of Canada (B.O.C) rate.

UPDATE: This requirement will also be extended to low ratio mortgage insured mortgages effective November 30th, 2016

Under the new Department of Finance regulations, all insured mortgages, regardless of term (fixed or variable) will now have to qualify on the B.O.C rate.

How does this affect a home buyer with less than 20% down payment?

The biggest effect will be on the amount that the home buyer will be able to qualify for. Previously, the five year fixed qualified at the lender contract rate. Now, the home buyer must qualify at the Bank of Canada Rate.

Previously, for example, a five year fixed mortgage at 2.39% rate, was qualified at a 2.39% rate, under the new rules a five year fixed rate mortgage at 2.39% must be “stress tested” by qualifying at the B.O.C posted rate (Currently 4.64%)

The net result is an approximate 20% reduction in the amount of mortgage money available.

How does this affect a home buyer with a down payment of 20% or more?

There is no significant impact anticipated for home buyers placing 20% or more down. MCC has many different options and there are still a variety of solutions for the majority of home buyers.

Do I still have the option to refinance my home?

Yes, home buyers will still have the ability to refinance up to 80% of the value of their property. Specifics may differ from lender to lender.

WHAT IS AN INSURED MORTGAGE (High Ratio) VS. NON-INSURED MORTGAGE (Conventional/low ratio)

An Insured Mortgage is when a home buyer has less than 20% down or the mortgage is insured by either Canada Mortgage and Housing Corporation (CMHC), Genworth, or Canada Guaranty. The insurance premium is passed onto the borrower.

This insurance provides security to the Lender in the event of home buyer default.

A Non-Insured Mortgage is when a home buyer has 20% or more for a down payment and therefore is not required to pay mortgage insurance.

LENDER DISTINCTION

Are all Lenders affected equally by the new regulations?

Some Lenders take out insurance on all of their mortgages regardless of whether they are high ratio or not. Under the new regulations, brokers may need to work with Lenders that do not insure all of their mortgages in order to help home buyers qualify.

The challenge through the upcoming days will be to rethink strategy and get pre-approved again with the stress test factor included.

Start the conversation to perhaps either increase down payment or start the process of looking for a new home within your NEW imposed budget.

To place this into perspective, **in 2008, fixed rates were 5.99%.** This is still much higher than the current qualifying rate of 4.64%. Interest rates that borrowers will actually get are still expected to remain near record lows.

QUALIFYING RATE

is the Bank Of Canada Conventional 5 year fixed posted rate.

CONTRACT RATE

is the rate offered by the Lender on the home buyer’s actual mortgage payments are based upon.

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UPDATE: CMHC Advisory: October 12th 2016

New Changes:

CMHC has come out with the first of two advisories aimed at clarifying new regulation rules as they apply to high ratio mortgages. The second advisory regarding low ratio mortgages is coming at a later date.

The new mortgage rate stress test does not apply to existing mortgage applications. Applications may be grandfathered if one of the three following conditions apply:

- A mortgage loan insurance application is received **before October 17, 2016;**
- The lender has provided a mortgage commitment **before October 17th, 2016.**
- The borrower has a fully accepted purchase and sale agreement for which the mortgage is being applied for **before October 17th, 2016.**
- **UPDATE:** The new low ratio mortgage insurance legibility also do not apply if, during the period beginning on October 17th 2016, and ending on November 29th 2016, at least one of these 3 criteria is met AND the loan is funded before May 1st, 2017.

The **Grandfather period** has been changed to included mortgages, meeting one of the above criteria, before October 17th, 2016 as opposed to the original date of October 3rd, 2016. The original transition period as stated with a funding date of March 1, 2017 no longer applies.

UPDATE: Genworth High Ratio Mortgage Insurance Changes: October 12th 2016

New Changes:

Genworth's update is for high ratio mortgage insurance only. Further communication on low ratio mortgages will be coming at a later date.

The new rules for qualifying rates will not apply to applications that meet any of the following criteria:

- A mortgage insurance application was received **prior to October 17, 2016;**
- **Prior to October 17, 2016,** the lender made a legally binding commitment to make the loan; or,
- **Prior to October 17, 2016,** the borrower entered into a legally binding agreement of purchase and sale.

For applications received as of October 17, 2016, Genworth's underwriting systems will reflect the new high-ratio qualifying rate criteria for mortgage insurance adjudication, therefore Lenders may continue to submit the contract rate for the loan on submission of the mortgage insurance application.

CHANGE: Restricted insurance for low-ratio mortgages

What is it?

Mortgage loans that Lenders insure for conventional mortgages will be required to meet the eligibility criteria that previously only applied to high ratio insured mortgages.

The new criteria for low-ratio/conventional mortgages will include the following requirements:

- **UPDATE:** If the property is a single unit it will be owner occupied.
- A maximum amortization of 25 years
- A maximum property purchase price of, or below $999,999.99
- Minimum credit score of 600
- Maximum gross debt service (GDS) of 39% of home buyers income and a total debt service (TDS) of 44% calculated by using the Bank of Canada conventional 5 – year fixed posted rate.

CHANGE: New reporting rules for the primary residence capital gains exemption

What is it?

Currently, any financial gain from selling your primary residence is tax-free and does not have to be reported as income. As of this tax year, the capital gains tax is still waived, but the sale of the primary residence must be reported at tax time to the Canada Revenue Agency.

Who does it affect?

Everyone who sells their primary residence will have a new obligation to report the sale to the CRA; however, the change is aimed at preventing foreign buyers who buy and sell homes from claiming a primary residence tax exemption for which they are not entitled.

Why?

While officials say more data is needed, Ottawa is responding to extensive anecdotal evidence and media reports showing foreign investors are flipping homes in Canada and falsely claiming the primary residence exemption.

HOW CAN THE MORTGAGE CENTRE HELP?

Let us simplify the whole process of learning the new rules and regulations implemented by the Department of Finance.

Now more than ever home buyers are going to rely on mortgage brokers for their guidance and expertise in navigating through these regulatory changes.

There are differences amongst the many Lenders that we have access to and the greatest value a broker can provide is the knowledge of the lending environment and in choosing which Lender is best suited for your needs.

The Mortgage Centre will continue to report and educate our mortgage brokers and our home buyers as new data arises. The information in this document is current as of the date at the top of page 1.

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The information below is for illustrative purposes only and does not take into account property taxes, heat and household debt. Please contact your MCC Mortgage Broker for full details.

How much **HOME CAN YOU AFFORD** with a benchmark qualifying rate of **4.64%?**

YOUR ANNUAL GROSS INCOME	MONTHLY PAYMENT	MORTGAGE BALANCE	MINIMUM DOWN	MAXIMUM HOME	10% DOWN	MAXIMUM HOME	20% DOWN	MAXIMUM HOME
$25,000	$687	$122,487	$6,274	$125,483	$13,343	$133,428	$30,622	$153,109
$30,000	$825	$146,985	$7,529	$150,580	$16,011	$160,114	$36,746	$183,731
$35,000	$962	$171,482	$8,784	$175,677	$18,680	$186,800	$42,871	$214,353
$40,000	$1,100	$195,980	$10,039	$200,773	$21,349	$213,486	$48,995	$244,975
$45,000	$1,237	$220,477	$11,293	$225,870	$24,017	$240,171	$55,119	$275,597
$50,000	$1,375	$244,975	$12,548	$250,967	$26,686	$266,857	$61,244	$306,218
$55,000	$1,512	$269,472	$13,803	$276,063	$29,354	$293,543	$67,368	$336,840
$60,000	$1,650	$293,970	$15,058	$301,160	$32,023	$320,228	$73,492	$367,462
$65,000	$1,787	$318,467	$16,313	$326,256	$34,691	$346,914	$79,617	$398,084
$70,000	$1,925	$342,965	$17,568	$351,353	$37,360	$373,600	$85,741	$428,706
$75,000	$2,062	$367,462	$18,822	$376,450	$40,029	$400,285	$91,866	$459,328
$80,000	$2,200	$391,959	$20,077	$401,546	$42,697	$426,971	$97,990	$489,949
$85,000	$2,337	$416,457	$21,332	$426,643	$45,366	$453,657	$104,114	$520,571
$90,000	$2,475	$440,954	$22,587	$451,740	$48,034	$480,343	$110,239	$551,193
$95,000	$2,612	$465,452	$23,842	$476,836	$50,703	$507,028	$116,363	$581,815
$100,000	$2,750	$489,949	$25,193	$501,933	$53,371	$533,714	$122,487	$612,437
$110,000	$3,025	$538,944	$30,213	$552,126	$58,709	$587,085	$134,736	$673,680
$120,000	$3,300	$587,939	$35,232	$602,320	$64,046	$640,457	$146,985	$734,924
$130,000	$3,575	$636,934	$40,251	$652,513	$69,383	$693,828	$159,234	$796,168
$140,000	$3,850	$685,929	$45,271	$702,706	$74,720	$747,199	$171,482	$857,411
$150,000	$4,125	$734,924	$50,290	$752,900	$80,057	$800,571	$183,731	$918,655
$160,000	$4,400	$783,919	$55,309	$803,093	$85,394	$853,942	$195,980	$979,899
$170,000	$4,675	$832,914	$60,329	$853,286	$90,731	$907,314	$208,228	$1,041,142
$180,000	$4,950	$881,909	$65,348	$903,479	$96,069	$960,685	$220,477	$1,102,386
$190,000	$5,225	$930,904	$70,367	$953,673	$100,000	$999,999	$232,726	$1,163,630
$200,000	$5,500	$979,899	$75,000	$999,999			$244,975	$1,224,873
$250,000	$6,875	$1,224,873					$306,218	$1,531,092
$300,000	$8,250	$1,469,848					$367,462	$1,837,310

Discounted APR: 4.64%
GDS Ratio: 35%

Notes: 35% of the indicated gross income is used to calculate the borrowers maximum shelter expenses such as mortgage payments, taxes, utilities and condo fees. In addition, the chart assumes that borrowers spend no more than an additional 8% to 10% of their gross income on non-shelter debt obligations. This data is for information purposes only and should not be relied upon without verification by contacting your MCC Mortgage Broker. The above discounted rate is not an offer or a rate commitment. APR assumes no fee(s) apply. Should any fee(s) apply the APR would increase. The above information is based on a 25 year amortization period