CANADIAN MORTGAGE BROKERS ASSOCIATION

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NEWS RELEASE

For Immediate Release
October 4, 2016

Federal Government Mortgage Rules Changes Announced October 3, 2016

Yesterday, the Federal Government announced several new mortgage rules changes which will come into effect on October 17, and November 30, 2016. The new rules affect CMHC insured and Low Ratio Bulk Insured Mortgages. At this time CMBA is in contact with Genworth and Canada Guaranty to see if they will follow suit.

New Qualifying rules for 5 year fixed terms – Insured Mortgages

Currently, to ensure that borrowers can afford their mortgage payments should interest rates rise, insured mortgages with variable rates and fixed terms under 5 years require borrowers to qualify at the 5-year benchmark rate. As of October 17, 2016, ALL high ratio mortgage borrowers, including those opting for fixed terms of 5 years or longer, will need to qualify at the 5-year benchmark rate, even though their contract rate is significantly lower.

As an example, a well qualified borrower opting for a 5-year fixed term may obtain OAC, a rate of 2.39% but will now need to qualify at the benchmark rate of 4.64%. Assuming an income of $80,000, this borrower qualifies for a $475,000 mortgage under current rules based on 25-year amortization and 2.39% contract rate OAC.

Under new rules, the same borrower qualifies for $375,000 with the same 25-year amortization at a 4.64% benchmark qualifying rate. This means that a borrower with 5% down who could previously afford a property worth $500,000, can now buy a property worth a maximum of $395,000 once the new rules come into effect.

Should this change be implemented as planned, it is estimated this rule change will:

- disqualify a significant number of preapproved mortgage borrowers who have not yet purchased a home;
- disproportionately impact first time homes buyers by limiting their mortgage qualification; and

- lead many borrowers to struggle to find housing, as they can no longer qualify for a mortgage and rental options are limited due to low vacancy rates in many urban centers.

New Qualifying Rules for Low Ratio Mortgages or Mortgages Backed by Portfolio Insurance

On November 30, 2016, new rules will come into effect for low ratio mortgages (higher than 20 per cent down payment), which are backed by government insurance and sold as Mortgage Backed Securities or through the Canadian Mortgage Bond.

Effective **November 30, 2016**, mortgages that lenders insure using portfolio insurance, and other discretionary low loan-to-value ratio mortgage insurance, must meet the same criteria applicable to high-ratio insured mortgages. The new eligibility requirements for low-ratio mortgages to be insured will include:

1. A loan whose purpose includes the purchase of a property or subsequent renewal of such a loan;

2. A maximum amortization length of 25 years;

3. A maximum property purchase price below $1,000,000 at the time the loan is approved;

4. For variable-rate loans that allow fluctuations in the amortization period, loan payments that are recalculated at least once every five years to conform to the original amortization schedule;

5. A minimum credit score of 600 at the time the loan is approved;

6. A maximum Gross Debt Service ratio of 39 per cent and a maximum Total Debt Service ratio of 44 per cent at the time the loan is approved, calculated by applying the greater of the mortgage contract rate or the Bank of Canada conventional five-year fixed posted rate; and,

7. A property that will be owner-occupied.

It is estimated that these rules changes if implemented by all insurers will:

- significantly reduce lender competition and harm consumers as many single family homes in major urban centers will be ineligible for low ratio or portfolio insurance as the average cost in these areas is well in excess of $1 million;

- disadvantage existing homeowners who may be unable to shop for their mortgage renewal under the new rules;

- significantly increase consumer borrowing costs as lenders retain mortgages on their balance sheet or securitize via more costly methods. Increased lender costs will be passed along to consumers worsening affordability; and

- place increased pressure on already overheated rental markets. Privately owned investment properties significantly contribute to rental stock. The proposal to limit bulk insurance to principal residences will have a ripple effect on rental supply especially in Vancouver and Toronto. The new rules which disadvantage potential homeowners who no longer qualify are at the same time limiting financing options for private investors who provide rental units.

The Canadian Mortgage Brokers Association is an umbrella group of mortgage broker associations across the country, which includes the Canadian Mortgage Brokers Association - BC, the Canadian Mortgage Brokers Association – Ontario and the Canadian Mortgage Brokers Association - Atlantic Canada. CMBA advocates for its Broker members and consumers. The CMBA will continue to seek clarification on these changes and confirm if other insurers are following suit. The CMBA is deeply concerned by these proposed changes. These measures if implemented by all insurers will have a significant impact on affordability and competition for all potential and existing homeowners.

Media Contact

CMBA is available for media interviews on this subject. For further information, contact CMBA Executive Director, Samantha Gale or CMBA Chair, Ajay Soni at 604.408.9989 or samanthagale@mbabc.ca