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Federal Government Changes to Mortgage Insurance Rules - October 3, 2016

The Federal Government announced significant changes to regulations for new-government backed insured mortgages today. Effective **October 17, 2016**, all insured homebuyers will have to qualify at the posted 5-year qualifying rate. This is a change from previous policy where only variable rate mortgages and mortgages with terms less than 5-years were subject to a higher qualifying rate.

With this move, the Federal Government has chosen to offset a modest risk to the taxpayer by severely eroding affordability for low equity home buyers, particularly first time home buyers. The qualifying rate is updated weekly and available on the Bank of Canada website. It is currently 4.64 per cent, about 200 basis points higher than the best bank offered rates.

To qualify for mortgage insurance, a homebuyer's debt servicing ratio must be no higher than:

- Gross Debt Service - 39 per cent of household income, including mortgage payment, taxes and heating costs.
- Total Debt Service - 44 per cent of household income, including mortgage payment, taxes, heating costs and all other debt payments

The announced measure will apply to new mortgage insurance applications received on **October 17, 2016** or later. This measure will not apply to mortgage loans where:

- before October 3, 2016: a mortgage insurance application was received;
- the lender made a legally binding commitment to make the loan;
- the borrower entered into a legally binding agreement of purchase and sale for the property against which the loan is secured.

Mortgage loans for which mortgage insurance applications are received after October 2, 2016 and before October 17, 2016 are also not affected by the rule change, provided that the mortgage is funded by March 1, 2017. Homeowners with an existing insured mortgage or those renewing existing insured mortgages are not affected by this measure.

The Federal Government is also instituting new eligibility rules for low-ratio (higher than 20% down payment) mortgages backed by government insurance. As of **November 30, 2016**, to be eligible for government insurance, new mortgages must meet the following requirements:

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.

These new criteria, in particular requiring a maximum purchase price below $1 million, will essentially make the majority of single family homes in Metro-Vancouver ineligible for government issued insurance for low-ratio mortgages.