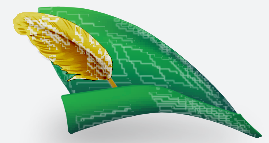


# Understanding the recent MORTGAGE CHANGES



Sherwood Mortgage Group breaks down the new changes to the mortgage industry, answering your most asked questions — What, Who and Why? — And how WE can help!

October 19, 2016



## Why is the Department of Finance implementing these new changes?

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

### CHANGE:

MORTGAGE RATE STRESS TEST TO ALL INSURED MORTGAGES

#### ● WHAT

The overall goal of the new mortgage rules is to **STRESS TEST** high ratio mortgage borrowers to ensure they can afford financing should interest rates rise.

Under the new Department of Finance regulations, ALL insured mortgages, regardless of the mortgage term (fixed or variable) will now have to qualify on the Bank of Canada posted rate. (previously, the only insured mortgages that followed this rule were mortgage terms of less than 5 years and/or variable rates).

#### ● THE EFFECT ON ALL BORROWERS

The biggest effect will be on borrowers with less than 20% downpayment (high ratio mortgage).

**INSURED MORTGAGE (High Ratio)** - Home buyers will now have to qualify for a mortgage at the B.O.C. rate. This will change the AMOUNT the borrower will qualify for as the previous rules were based on a lower contract rate.

Example: previously, if a borrower received a five year fixed term at 2.39%, they were qualified at the 2.39% rate. With the new rules, although the borrower may still receive the same five year fixed term at 2.39%, they must pass the "stress test" by qualifying at the B.O.C. posted rate (which is currently at 4.64%)

The result is an approximate 20% reduction in mortgage amount a borrower qualifies for.

**CONVENTIONAL MORTGAGE (Non-Insured)** - We do not anticipate a significant impact on borrowers with 20% or more downpayment as these new rules vary from lender to lender. Sherwood Mortgage Group works with over 25 lenders that offer a variety of solutions for homebuyers - we've got options!

**REFINANCE** - Borrowers can still refinance their home for up to 80% of the value of their property. Conditions and specifics of the refinance option vary from lender to lender.

#### ● THE LENDERS

Are ALL Lenders affected equally by these new regulations?

Every Lender has their own set of regulations. Some take out insurance on all of their mortgages regardless of whether they are High Ratio or not. The key is working with a knowledgeable mortgage broker that has access to various lenders, some of which do not insure all of their mortgages.

### DID YOU KNOW

INSURED MORTGAGE (HIGH RATIO) VS.  
NON-INSURED MORTGAGE (CONVENTIONAL/  
LOW RATIO)

**Insured Mortgage** - when a homebuyer has less than 20% downpayment the mortgage is insured by either Canada Mortgage & Housing Corporation (CMHC), Genworth, or Canada Guaranty. The insurance premium is paid by the homebuyer/borrower.

**Non-Insured Mortgage** - minimum 20% downpayment with no mortgage insurance premium.

#### Qualifying Rate VS. Contract Rate

**QUALIFYING RATE** - The Bank of Canada's (B.O.C.) conventional 5 year fixed posted rate that is currently 4.64%.

**CONTRACT RATE** - The rate offered by the Lender. The mortgage payments will be based on this rate.



Let's place this into perspective:

In 2008, fixed mortgage rates were 5.99%.

This is MUCH higher than today's qualifying rate of 4.64%.

The interest rates borrowers will receive (the contract rate) are still expected to remain near record lows.



### THE BOTTOM LINE:

Now is a crucial time for all borrowers to seek expert advice from a professional mortgage broker and start discussing options such as increasing downpayment and/or looking for properties that fit within this new imposed budget. Although the industry is still trying to assess this challenging period for borrowers, mortgage brokers continue to have access to numerous lenders and unique mortgage products that can meet each individual clients' needs.

**UPDATE:** CMHC HIGH RATIO MORTGAGE ADVISORY

The new mortgage rate stress test does not apply to any existing mortgage applications. An advisory regarding conventional (low ratio) mortgages will be provided at a later date.

Applications may be grandfathered if any of the following conditions apply to a mortgage application:

- Application was received prior to Oct. 17,2016
- Lender provided a mortgage commitment before Oct.17,16
- Applicant has a fully accepted purchase agreement (for which the mortgage is being applied) before Oct. 17,2016

**UPDATE:** GENWORTH HIGH RATIO MORTGAGE ADVISORY

Genworth’s advisory is for high ratio mortgages only. Communication on conventional mortgages will be coming at a later date. Any applications received as of October 17,2016 will undergo the new high-ratio qualifying rate stress test.

The rate stress test will not apply to any applications that meet any of the following criteria:

- Mortgage Insurance Application was received prior to Oct. 17,2016
- Lender made a legally binding commitment to make the loan prior to Oct. 17,2016
- Applicant entered into a legally binding agreement of purchase and sale prior to Oct. 17,2016

**CHANGE:** RESTRICTED INSURANCE FOR LOW-RATIO MORTGAGES

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:

- Property must be owner occupied (Rental properties are excluded)
- A maximum amortization of 25 years
- A maximum purchase price of \$999,999.99
- Minimum credit score of 600
- Maximum gross debt service (GDS) of 39% of a home buyers income & a total debt service (TDS) of 44% calculated by using the B.O.C. conventional 5 year fixed posted rate.

Take a glimpse: HOW MUCH 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 |
|--------------------------|-----------------|------------------|--------------|--------------|----------|--------------|-----------|--------------|
| \$40,000                 | \$1,100         | \$195,980        | \$10,039     | \$200,773    | \$21,349 | \$213,486    | \$48,995  | \$244,975    |
| \$50,000                 | \$1,375         | \$244,975        | \$12,548     | \$250,967    | \$26,686 | \$266,857    | \$61,244  | \$306,218    |
| \$60,000                 | \$1,650         | \$293,970        | \$15,058     | \$301,160    | \$32,023 | \$320,228    | \$73,492  | \$367,462    |
| \$70,000                 | \$1,925         | \$342,965        | \$17,568     | \$351,353    | \$37,360 | \$373,600    | \$85,741  | \$428,706    |
| \$80,000                 | \$2,200         | \$391,959        | \$20,077     | \$401,546    | \$42,697 | \$426,971    | \$97,990  | \$489,949    |
| \$90,000                 | \$2,475         | \$440,954        | \$22,587     | \$451,740    | \$48,034 | \$480,343    | \$110,239 | \$551,193    |
| \$100,000                | \$2,750         | \$489,949        | \$25,193     | \$501,933    | \$53,371 | \$533,714    | \$122,487 | \$612,437    |
| \$120,000                | \$3,300         | \$587,939        | \$35,232     | \$602,320    | \$64,046 | \$640,457    | \$146,985 | \$734,924    |
| \$140,000                | \$3,850         | \$685,929        | \$45,271     | \$702,706    | \$74,720 | \$747,199    | \$171,482 | \$857,411    |
| \$160,000                | \$4,400         | \$783,919        | \$55,309     | \$803,093    | \$85,394 | \$853,942    | \$195,980 | \$979,899    |
| \$180,000                | \$4,950         | \$881,909        | \$65,348     | \$903,479    | \$96,069 | \$960,685    | \$220,477 | \$1,102,386  |
| \$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  |

The information in this chart is for illustrative purposes only and does not include extra payments such as property taxes & household debt. All figures are courtesy of Mortgage Architects Change of Space article Oct 14,2016. Please contact your Sherwood Mortgage Broker for all details.

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, this chart assumes that borrowers spend no more than an additional 8-10% 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 you Sherwood 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. DISCOUNTED APR: 4.64% GDS RATIO: 35%