

New Changes in Mortgage Industry

By Sean Manoochehri, June 17, 2010

AS of April 2010 there have been some changes in mortgage rules and policies in Canada.

Some of them are the **rules by government of Canada**. In Brief there are 3 changes:

- Require a minimum down payment of 20% for the purchase of rental properties
- If you are financing a variable rate mortgage or any mortgage with a term of less than 5 years the client needs to be qualified for a mortgage rate defined by bank of Canada as qualifying rate.
- Maximum loan to value for the owner occupied property's refinance is lowered to 90% loan to value (LTV).

Previously a rental property could be purchased with at least 5% down payment as a high ratio insured with CMHC. This product is no longer available. The minimum required down payment is 20% now.

Also those who choose a variable rate mortgage or a fixed rate with the term of less than 5 years need to be qualified based on the rate, set by Bank of Canada. The current rate is 5.99% now and is posted on Bank of Canada website (<http://www.bankofcanada.ca/en/rates/digest.html> under INTEREST RATES - Conventional mortgage, 5 year). This is to lower the risk of default if the prime or variable rate increases or the mortgage comes to renewal.

However there are still some banks/lenders that act on 3 years posted to qualify for a variable rate or a fix mortgage with a term of less than 5 years. This is a lower rate compared to bank of Canada qualifying rate to qualify clients seeking **conventional** mortgages. Conventional mortgage is when someone finances a first mortgage up to 80% or less. As a result home buyers can qualify for a larger mortgage.

The maximum loan to value for refinance was up to 95% before. Limiting to 90% is a precaution to prevent people to refinance their home to the maximum possible and use it as a cash machine.

The other changes in the mortgage policy and rules are the **mortgage insurance changes in Canada**.

If the loan to value is above 80% or the amount of down payment is less than 20% clients needs to pay the insurance premium which is added to their mortgage. This is to protect the lender/banks against default in the mortgage. Briefly the changes introduced by CMHC are:

- Only 50% of rental income can be added to the client's income for qualifying.
- In order to use stated income program for self employed people, their business can not be registered more than 3 years.
- Self employed people can purchase with minimum of 10% down payment or 90% Loan to Value.
- Self employed people can refinance to a maximum of 85% loan to value.
- Any insured second home property can be maximum of 1 unit property.
- Commission based income will no longer satisfy the requirement of the stated income program.

Please remember the above mentioned rules are from CMHC, however the other 2 insurers Genworth and Canada Guarantee have almost the same rules now.

Only 50% of rental income can be added to the client's income for qualifying a mortgage. If someone had a rental property for more than a year and the rental income was claimed in T1 General it still can be used to offset directly with some lenders to the benefit of client. This is either surplus or liability in the mortgage application. There are some exceptions on rental used from basement units with different lenders/insurer. For more details on this subject please contact me.

Based on CMHC, business for self must not be more than 3 years self employed to use the stated income program. If someone has been in business more than 3 years they need to show provable income in their tax return. The rule is a bit different in Genworth and they require the client to be at least 2 years in business. Genworth is still more flexible on their stated income program.

All insurers allow no more than 85% refinance for self employed insured deals. This is in addition to the 90% rule by government of Canada.

An insured second home property purchase is down to a 1 unit property. Previously, an insured second home property could be duplex (2 units) up to 4 plex (2 units) but now it is down to 1 unit.

Self employed people with commission based income can not use a stated income program any more. Now if the deal is insured they need to show income.

The above mentioned changes apply to the insured mortgages. So on the conventional side, banks still follow their own policy.

Since banks should comply with the insurer rules in underwriting an application, now there are both bank rules and also insurer's rules that apply to a mortgage application.

There is no change in the purchasing with minimum of 5% down payment for income qualified people to purchase their first homes.

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