Still more new mortgage rules

The government has announced that as of July 9, 2012, new rules will apply to government-backed insured mortgages where the borrower has less than a 20% downpayment.

The government will:

- reduce the maximum amortization (pay back) period on a mortgage to 25 years from 30 years;
- lower the maximum amount borrowers can refinance to 80% loan-to-value (LTV) from 85%;
- limit the Gross Debt Service (GDS) ratio to a maximum of 39% of income. The GDS ratio represents the amount of household income spent on the mortgage, property taxes and heating;
- limit the Total Debt Service (TDS) ratio to a maximum of 44% of income. The TDS ratio represents the amount of household income spent on all debts including the mortgage; and
- limit government-insured mortgages to homes priced at less than $1 million. Buyers of homes priced at $1 million or more must have a minimum 20% downpayment.

The new rules apply to mortgages on residential property with four units or less. They DO NOT apply to:

- mortgages with a 20% downpayment or more which don't require government-backed mortgage insurance;
- borrowers renewing their existing insured mortgages, where there are no new funds being added to the mortgage; or
- development or construction of multi-unit buildings of five units or more, owned by a landlord.

Federal Finance Minister Flaherty explained that the reasons for the changes are to "keep the housing market strong, and help ensure households do not become overextended."

This explanation doesn't make sense to Cameron Muir, BC Real Estate Association's chief economist.

"Instead of helping make the housing market strong, the new rules will erode the purchasing power of first-time buyers who will be restricted to borrowing less money for their homes."

Muir explains the effect of the changes is the equivalent of having a 1% increase in interest rates. This translates into about $50 more on each monthly payment for every $100,000 of mortgage loan.

What this means is new buyers who can afford a home today with a benchmark price of $625,100 will now only be able to afford a home priced at $550,550 under the new rules. This is a potential loss of $74,550 in buying power.

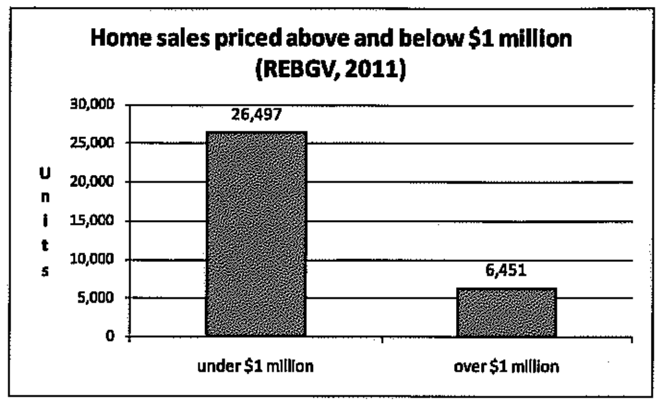
"Given that the market is already slowing, the new rules are totally unnecessary," says Muir.

Refinancing

What will the new rules cost buyers refinancing a home valued at $625,000?

- When refinancing at 85%, the home owner can access up to $531,250.
- When refinancing at 80%, the home owner can access up to $500,000.

What about the new rule limiting mortgage insurance on homes priced at $1 million or more?



Four years of tightening borrowing rules

This is the fourth time in four years that the government has tightened borrowing rules.

- In 2008, the government reduced the maximum amortization period to 35 years from 40, required home buyers to have a minimum downpayment of 5% (compare to the previous 0% down), and introduced new loan documentation standards.
- In 2010, the government required all borrowers to meet standards for a five-year fixed-rate mortgage, reduced the maximum amount borrowers could refinance to 90% from 95%, and for non-owner-occupied investment properties, required a minimum 20% down payment.
- In January 2011, the government reduced the maximum amortization period for government-backed insured mortgages to 30 years from 35 years and reduced the amount borrowers could refinance to 85% from 90%.

What will the new rules cost home buyers?

Comparison of mortgage loan payments on a $625,100 home before and after new rules

Interest rate	Before new rules 30-year Amortization (Monthly payment)	After new rules 25-year Amortization (Monthly payment)	$ and % increase in monthly payment
3%	$2,366	$2,662	$296 or 11%
4%	$2,675	$2,959	$284 or 10.6%

Note: calculations assume a 10% downpayment. $625,100 is the benchmark price of a home in the REBGV area as of June 1, 2011.

Changes your clients need to know about

Mortgage activity	Rules before July 9, 2012	Rules on or after July 9, 2012
Applying for new high ratio mortgage (less than 20% down)	Maximum 30-year amortization	Maximum 25 -year amortization
Applying for mortgage with a 20% downpayment or more	No set maximum amortization	No set maximum amortization
Applying for high-ratio mortgage for $1 million+	High-ratio, government-back insurance available; maximum 30-year amortization	Not available
Mortgage renewal	Doesn't apply if additional funds are being added	Doesn't apply if no additional funds are being added
Mortgage refinancing	Can refinance LTV ratio of up to 85%	Can refinance LTV ratio of up to 80%

Q & A

What is required to qualify for an exception to the new parameters?

The new measures apply as of July 9, 2012. Exceptions will be made to satisfy a binding purchase and sale, financing or refinancing agreement where a mortgage insurance application has been made before July 9, 2012. While the changes come into force on July 9, 2012, any mortgage insurance applications received after June 21, 2012 and before July 9, 2012 that do not conform to new measures must be funded by December 31, 2012.

Will a purchase and sale agreement dated prior to July 9, 2012 be considered binding if there are outstanding conditions that have not been fulfilled prior to July 9, 2012?

Yes, if the date on the purchase and sale agreement is earlier than July 9, 2012, and a mortgage insurance application has been made prior to that date, the new parameters will not apply, even if the conditions of the agreement have not been fulfilled.

Will the new refinancing rules allow a borrower with a mortgage above 80 per cent loan-to-value (LTV) to refinance by extending the amortization period?

No. Effective July 9, 2012, borrowers will not be permitted to refinance a mortgage above an 80 per cent LTV, unless the borrower has a binding refinance agreement dated prior to July 9, 2012, and a mortgage insurance agreement has been made prior to that date.

I have a written mortgage pre-approval from a lender, dated before July 9, 2012 with a 30-year amortization. Will I be eligible for a 30-year amortization if I don't sign an agreement of purchase and sale until July 9, 2012 or later?

No, a mortgage pre-approval without an agreement of purchase and sale is not sufficient to qualify for a 30-year amortization. You may have a 30-year amortization only if your agreement of purchase and sale is dated before July 9, 2012 and you have made a mortgage insurance application before July 9, 2012. You may wish to discuss with your lender to revise your mortgage pre-approval using the new parameters announced.

Will the new parameters apply to assignment ("switch" or transfer) of a previously insured loan from one approved lender to another?

No. As long as the loan amount and amortization period are not increased, the new parameters will not apply to a switch/transfer/assignment of the mortgage to a different lender.

If I sell my current home and buy another, will the new parameters apply if I transfer the outstanding balance of my insured mortgage to the new home?

As long as the outstanding balance of the insured loan, the LTV ratio and the remainder of the amortization period are not increased, the new parameters will not apply when the mortgage insurance is transferred from one home to another.

What if I need to increase the amount of my insured loan when I sell my current home and buy another?

In this situation, the new parameters will apply for any insured loan.

If I bought a condo that is not expected to be built for another two years, will the new parameters apply?

If you bought a condo and have made a mortgage insurance application on or before June 21, then the new parameters would not apply. If you buy a condo and make a mortgage insurance application after June 21, the new parameters will apply if the mortgage loan is not funded by December 31, 2012.

REALTORS® should remind clients to seek advice from a lender about mortgage pre-approvals under the new rules.

For information, visit **www.fin.gc.ca** and select News (left hand side) and then Harper Government Takes Further Action to Strengthen Canada's Housing Market. Here you will find a backgrounder and a detailed FAQ.

If you have questions, please contact Harriet Permut, Manager, Government Relations at **hpermut@rebgv.org**.