Guide to the Upcoming Mortgage Rule Changes

Effective December 15, 2024

Are You Ready for the Upcoming Changes?

The Canadian mortgage landscape is about to undergo significant changes that will impact **insured mortgages***. The Department of Finance Canada announced a number of reforms to make mortgages more affordable and unlock homeownership for more Canadians. What follows is an overview of some of these changes.

Insured Purchase Price Cap is Increasing

WHAT IS CHANGING?

Effective December 15th, 2024, the purchase price cap for insured mortgages* will increase from $1 million to $1.5 million. This change means the maximum purchase price to qualify for an owner occupied insured mortgage will increase from $999,999.99 to $1,499,99.99.

WHAT COULD THIS MEAN FOR BUYERS?

By increasing the purchase price cap, it will help more Canadian qualify for a mortgage who have saved less than a 20% down payment, or want to keep some money aside for improvements, furniture, investments, etc. This change helps not only first-time buyers, but also those seeking larger homes or homes in higher-priced markets.

DOWN PAYMENT EXAMPLE: $1,250,000 PURCHASE PRICE

To illustrate the potential impact of this change, we have compared the minimum down payment required for a $1,2500,000 purchase Before vs. After December 15th:

- Before = $250,000 minimum down payment required (requires 20%+ down payment)
- After = $100,000 minimum down payment required (based on new rules)

Effective December 15th** the minimum down payment required will be calculated as 5% on the first $500,000 of the purchase price, and 10% on the remainder up to a $1,499,999.99 purchase price. Any purchase that is **$1,500,000 and above**, requires a minimum down payment of **20% or more**.

*WHAT IS AN INSURED MORTGAGE?

An **insured mortgage** in Canada is a mortgage that requires mortgage insurance because the down payment is less than 20% of the home's purchase price. This insurance protects the lender in the event that the borrower defaults on the mortgage. The insurance is provided by Canadian government-backed and private insurers, including the Canada Mortgage and Housing Corporation (CMHC), Canada Guaranty, and Sagen (formerly Genworth).

Insured mortgages allow buyers to secure a mortgage for up to 95% of the purchase price (slightly less than 95% for homes over $500,000), and often provides more favourable interest rates compared to uninsured mortgages.

Up to 30-Year Amortizations for Insured Mortgages (First-Time Homebuyers)

WHO COULD BENEFIT?

First-time homebuyers with less than a 20% down payment will soon be eligible for up to a **30-year amortization**. Previously, the maximum amortization period for these buyers was **25 years**. Extending the amortization can significantly reduce monthly payments, making homeownership more affordable.

The eligibility criteria for qualifying as a first-time homebuyer are similar to those for the First-Time Homebuyer's Plan (HBP) that allows RRSP withdrawals [click here to read more]. If you meet the first-time homebuyer requirements under the HBP, you will likely also qualify as a first-time homebuyer for the extended amortization.

AMORTIZATION EXAMPLE - ASSUMPTIONS:

- **Home Purchase Price:** $1,250,000
- **Minimum Down Payment:** $100,000 (based on new rules)
- **Base Mortgage:** $1,150,000
- **Mortgage With CMHC Insurance Fees:** $1,196,000
- **Sample Interest Rate:** 3.99% (sample insured mortgage rate)

CARRYING COST COMPARISON:

- **25-Year Amortization**: $6,285 per month
- **30-Year Amortization**: $5,680 per month

The example above illustrates how extending the amortization period can lower monthly payments by approximately 10%, or in the above example, approximately $600. While this will provide payment relief over the short-term, extending the amortization will increase the amount of time it will take to pay off the mortgage.

Up to 30-Year Amortizations for New Construction Homes (All Buyers)

The extension of amortization to 30 years is not limited to first-time homebuyers. **All insured buyers** purchasing **new construction properties** (condo or freehold properties) with less than a 20% down payment will also be eligible for the extended amortization option.

This policy change aims to boost the new construction market, making it easier for more Canadians to access newly built homes with manageable monthly payments. By extending the amortization, the government is aiming to alleviate some of the affordability challenges currently faced by buyers in high-priced housing markets.

**Important Considerations When Making a Purchase

If you have an **approved mortgage before** December 15th and want to take advantage of these new changes, your bank, lender or mortgage broker will need to **resubmit your application** to the insurer (e.g., CMHC, Sagen, or Canada Guaranty) after the December 15th changes take effect. As long as there is enough time between December 15th and your **closing date**, you may be able to qualify under the new rules.

Recent publications, and additional details regarding these changes can be found at the following links:

- [Department of Finance Press Release]
- [Canada Guarantee Update]
- [Sagen Update]
- [CMHC Update]

We recommend contacting your mortgage advisor to understand the best course of action for your mortgage application or approval, as the transition could affect your eligibility or mortgage terms.

HOW OUTLINE FINANCIAL CAN HELP

Navigating these new rules can feel overwhelming, but you don't have to do it alone. At **Outline Financial**, our mortgage advisors are ready to assist you in understanding how these changes may impact your home buying plans and help you take advantage of the opportunities they bring.

Want to Learn More? Reach out to an Outline Financial mortgage advisor today to explore your options under these new rules and see how we can help make your dream of homeownership a reality.

Outline Financial
T: (416) 536-9559
E: hello@outline.ca
W: www.outline.ca

Note: This guide is for illustrative purposes only and subject to change at any time.
Mortgage Brokerage Licence #13151