



## MORTGAGE TERMS YOU NEED TO KNOW:

Insured Mortgage / High Ratio Mortgage = Less than 20% down payment

Non Insured Mortgage / Conventional Mortgage = 20% or greater down payment / equity

Bank of Canada Rate = the 5 year fixed posted rate (currently 4.89%)

Contract Rate = the actual rate offered by the lender to the consumer

Benchmark Rate/Qualifying Rate = Stress Test: Bank of Canada Rate **OR** Contract Rate +2%, whichever is greater

LTV (Loan To Value) = the size of a mortgage compared to the value of the property securing the loan

OSFI has implemented 3 new mortgage rule changes starting January 1, 2018:

### CHANGE 1: QUALIFYING RATE STRESS TEST TO ALL NON INSURED MORTGAGES

Non insured mortgage consumers (buyers with a 20% or greater down payment) must now qualify using a new minimum qualifying rate. The minimum rate will be the greater of the five-year benchmark rate published by the Bank of Canada **OR** the lender contractual mortgage rate +2.0%.

#### How does this affect the mortgage consumer with a down payment of 20% or more?

The biggest impact will be on the amount in which the homebuyer will be able to qualify. Previously, the homebuyer qualified at the rate offered by the lender. Now, the homebuyer must qualify at the benchmark rate which is the higher of the Bank of Canada Rate (currently 4.89%) **OR** the rate from the lender plus 2%. This applies to all terms, fixed and variable rates.

#### For example:

Mortgage Amount \$400,000	If Your Contract Rate is 3.44%	Benchmark Rate 5.44% (3.44% + 2%)
Monthly Payment	\$1,985.00	\$2,427.00
Minimum Income*	\$70,000	\$85,000

\*The chart above is based on 35% GDS RATIO (Gross Debt Service Ratio) and a 25 year amortization.

#### Do I still have the option to refinance my home?

**Yes**, homebuyers will still have the ability to refinance up to 80% of the value of their property. You will have to pass the same stress test which is the higher of the Bank of Canada Rate (currently 4.89%) **OR** the rate from the lender plus 2%.

## STRESS TEST SUMMARY

### UNINSURED MORTGAGES

Homebuyers/owners qualify for a mortgage using the benchmark rate, which is the Bank of Canada rate (currently 4.89%) **OR** the lender rate +2%, whichever is greater.

### INSURED MORTGAGES

You must qualify for a mortgage at the Bank of Canada rate (currently 4.89%)

## CHANGE 2:

### LENDERS WILL BE REQUIRED TO ENHANCE THEIR LOAN TO VALUE (LTV) MEASUREMENT AND LIMITS TO ENSURE RISK RESPONSIVENESS

Mortgage lenders (excluding credit unions and private lenders) must establish and adhere to appropriate LTV ratio limits that are reflective of risk and updated as housing markets and the economic environment evolve. We are awaiting more details on this policy from lenders. As we have new information, we will update this document.

### What does this mean?

OSFI directs lenders (excluding credit unions and private lenders) to have internal risk management protocols in higher priced markets (sometimes called “hot real estate markets” like Toronto and Vancouver). This is a continuation of a policy already in place. Many mortgage lenders have been following the principles of the policy for the last 10 to 12 months.

## CHANGE 3:

### RESTRICTIONS WILL BE PLACED ON CERTAIN LENDING ARRANGEMENTS THAT ARE DESIGNED, OR APPEAR DESIGNED TO AVOID LTV LIMITS

Mortgage lenders (excluding credit unions and private lenders) are prohibited from arranging with another lender: a mortgage, or a combination of a mortgage and other lending products, in any form that circumvents the institution’s maximum LTV ratio or other limits in its residential mortgage underwriting policy, or any requirements established by law. This is often referred to as “bundling” or “bundle partnership”.

### What does this mean?

For example: a consumer applies for 80% LTV mortgage and the lender can only approve 65%. The lender then partners with a second lender for the additional 15%. The original lender then “bundles” the 15% LTV mortgage with the original 65% mortgage to form the complete 80% LTV loan. This is no longer permitted as per OSFI.



### HOW CAN MORTGAGE ARCHITECTS HELP?

*Now, more than ever, new homebuyers and existing homeowners are going to rely on mortgage brokers for their guidance and expertise in navigating through these regulatory changes.*

*There are differences amongst the many lenders that we have access to and the greatest value a broker can provide is the knowledge of the lending environment and in choosing which lender is best suited for your needs.*

Mortgage Architects will continue to educate our mortgage professionals as new data arises. This way you can be kept up to date with all of the latest information. The content in this document is current as of the date at the top of page 1.

For our most up-to-date blog posts, and industry updates please visit [www.mortgagearchitects.ca](http://www.mortgagearchitects.ca)

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