

CHANGE OF SPACE: OSFI

Regulatory changes announced by the Office of Superintendent of Financial Institutions (OSFI) on October 17, 2017.

MORTGAGE TERMS YOU NEED TO KNOW:

Insured Mortgage/High-Ratio Mortgage = mortgage insurance is mandatory with less than 20% down payment

Uninsured Mortgage/Conventional Mortgage = 20% or greater down payment/equity

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

Benchmark Rate/Qualifying Rate = Stress Test: five-year benchmark rate published by the bank of Canada (currently 4.89%) 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 UNINSURED MORTGAGES

Uninsured mortgage consumers must now qualify using a new minimum qualifying rate. The 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/equity of 20% or more?

The biggest impact will be on the amount for which the home buyer/owner will be able to qualify. Previously, the home buyer/owner qualified at the contract rate offered by the lender. While the actual mortgage payment will still be paid at the contract rate, a higher calculation will be used for qualification purposes.

For example:

Mortgage Amount \$400,000	If Your Contract Rate is 3.44%	Qualifying 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.

*Qualifying Rate (contract rate +2%) is being used as it is higher than the current BoC benchmark rate (4.89%).

Do I still have the option to refinance my home?

Yes, home owners 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 BoC five-year benchmark rate (currently 4.89%) OR the contract rate from the lender plus 2%.

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 a mortgage with an 80% LTV 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 THE MORTGAGE CENTRE HELP?

Now, more than ever, new home buyers and existing home owners 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.

The Mortgage Centre 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 each page.