JULY 11TH 2018

Dominion Lending Centres

CANADA'S LEADING MORTGAGE COMPANY

Dominion Lending Centres continues to update our customers as new information arises on the regulatory changes announced by the Office of Superintendent of Financial Institutions (OSFI) on October 17th 2017.

CHANGE OF SPACE: OSFI

THE FOLLOWING TERMS YOU'LL NEED TO KNOW

High-ratio mortgage is a mortgage in which a borrower places a down payment of less than 20% of the purchase price (or appraised value) of a property.

Conventional mortgage is a mortgage for no more than 80% of the purchase price (or appraised value) of a property.

Benchmark/Qualifying Rate = the average of Canada's top 6 Banks posted five year fixed rates (currently 5.34%) OR the Contract Rate +2%. Whichever is greater.

LTV (Loan to Value) The ratio of the principal amount of the loan to the lesser of the purchase price of the property or the property's appraised value. You may see this expressed as an 80% loan, or 80% LTV.

The GDS ratio is the percentage of your income needed to pay all of your annual housing costs, including your mortgage payment (principal and interest), taxes, and heating costs. If applicable, you will also need to include 50% of your condo fees.

The TDS ratio is the percentage of your income needed to cover all of your debts. The debt ratio formula calculation is the same as that of the GDS, except that all of your monthly payments of your debts (in addition to your mortgage payment, taxes, and heat) are included. This may include car payments, credit cards, alimony, support payments, and any other loans or credit lines.

Compliments of your Dominion Lending Centres Mortgage Professional:

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DOMINION LENDING CENTRES

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OSFI has implemented 3 new mortgage rule changes that started 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 Benchmark Rate (currently 5.34%) OR the rate from the lender plus 2%. This applies to all terms, fixed and variable rates.

The stress test for non-insured mortgages applies to both fix rate and variable rate mortgages. On variable rate mortgages, the rate at time of funding is based on Canada's prime rate (presently 3.70%) +/- a given margin. Today's average variable rate is prime - .45% (3.70% is prime – 0.45%) = 2.75%. So applying the stress test of the greater of the two qualifying rates; Benchmark Rate is 5.34% and the actual rate of 2.75% + 2% = 4.75% thus the Benchmark Rate would be the qualifying rate to use since its higher.

For example:

Mortgage Amount $400,000	**If Your Fixed Contract Rate is 3.69%**	**Benchmark Rate 5.69%** (3.69% + 2% > BOC)
Monthly Payment	$2037.40	$2,485.99
Minimum Income*	$72,000	$87,500

Mortgage Amount $400,000	**If Your Variable Contract Rate is 2.7%****	**Benchmark Rate 5.34%** (2.7% + 2% < BOC)
Monthly Payment	$1,832.00	$2,404.44
Minimum Income*	$65,000	$84,500

*The chart above is based on 35% GDS RATIO (Gross Debt Service Ratio) and a 25 year amortization.
**In order to qualify for any variable rate, as in the past, you must qualify at the Benchmark rate.

Stress test rules passed down from OSFI only pertain to residential mortgages (dwellings with 1 -4 dwellings under one legal description: houses, duplexes, tri-plex and four-plex). Any complex over four units is considered commercial and the stress test does NOT apply.

STRESS TEST SUMMARY

UNINSURED MORTGAGES

Homebuyers/owners qualify for a mortgage using the benchmark rate, (currently 5.34%) **OR** the lender rate +2%, whichever is greater.

INSURED MORTGAGES

You must qualify for a mortgage at the Benchmark Rate (currently 5.34%).

DOES THIS AFFECT AMORTIZATION?

This new policy from OSFI does NOT have an amortization component. The lender can still set the qualifying amortization to their own specific policy (eg, 25, 30 or 35 years).

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 Benchmark Rate (currently 5.34%) OR the rate from the lender plus 2%.

If my contract was written prior to Oct. 17, 2017 or prior to Jan. 1, 2018, will I qualify using the old or new benchmark rules?

This depends on the lender. Some lenders will use current rules up to Jan. 1, 2018. DLC will continue to update as more information arises.

When the stress test for HIGH RATIO (less than 20%, insured deals) was introduced in 2016, consumers were grandfathered under the old rules (no stress test) if the real estate contact date was written before the start of the stress test rule.

What if I don’t qualify at best rate lenders?

The qualifying stress test rule will also apply to alternative lenders (also know as B lenders) who are governed by OSFI. Any federally regulated lender will have to adhere to the stress test ruling. This will be all mortgage lenders in Canada excluding Provincially regulated lenders such as private lenders and credit unions.

To counter this much higher qualifying rate, these alternative lenders will have the discretion to revisit their own income-to-debt-ratio (TDS) calculation policies. For example, presently these alternative lenders have the ability to approve mortgages with a 50% TDS (banks are more like 42% on average). Under the new stress test rules, alternative lenders will most likely have to increase the TDS policy to a higher figure to offset the higher qualifying mortgage payment under the stress test rate calculation. DLC will communicate to our network as soon as lenders are able to communicate their decision.

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 DOMINION LENDING CENTRES HELP?

Now, more than ever, new homebuyers and existing homeowners are going torely 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.

Dominion Lending Centres 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.

YES, WE’VE GOT A MORTGAGE FOR THAT!™

For updates on new rules, industry updates, and blog posts visit **www.dominionlending.ca/newrules-osfi**