

New Mortgage Rules



On January 17th, Finance Minister Jim Flaherty announced adjustments to the rules for government-backed insured mortgages that will come into force March 18th, 2011.

The following is a brief summary of these new rules:

1. **Maximum Amortization Period to 30 years:** The maximum amortization period allowed will be reduced from 35 to 30 years. What does this mean? A lower amortization period results in an increase in the monthly payment, hence making it harder to qualify.

Example: A \$300,000 mortgage amortized over 35 years, at 3.65% comes with a mortgage payment @ \$1,261.27 per month and an income requirement of \$56,676 annually to qualify. Using the same scenario but with a 30 year amortization, the mortgage payment is now \$1,367.74 per month and \$60,638 annual income is required.

2. **Maximum Loan to Value for refinances will be reduced from 90% to 85%:** What does this mean? Canadians will be able to access less of their equity to consolidate debt.

Example: Current home value: \$500,000. Under the current rules one could access up to \$450,000. Under the new rules one will only be able to access up to \$425,000.

3. **The government will no longer offer insurance for Home Equity Lines of Credit (HELOC):** Because a line of credit doesn't have a principle reduction built into the payment, you could go on forever simply making interest only payments, never reducing your balance. In view of this, the government figures it's too risky to insure. Not much of a change here as most lender will still offer HELOC's to 80% loan to value.

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Check out my blog @ MGRFinancial.ca

PS In the next few weeks you will talk to friends, neighbours, or coworkers who are looking to buy a home or refinance their mortgage. Please tell them about your experience working with me and contact me with their phone numbers so that I can help them, too. Your referrals are appreciated!

Rule Change Q & A



When must one apply in order to secure a 35-year amortization on a high-ratio mortgage or a 90% loan-to-value refinance? To be safe, ensure that you are approved by Thursday March 17. Borrowers must be careful about making changes to their application after March 17 if those changes would require that the application be reapproved. Otherwise the mortgage could be underwritten under the new rules and may not close.

How are pre-approvals affected? The act of getting a pre-approval before March 17 does not guarantee you'll be approved for a 35-year amortization. That's because insured pre-approvals that turn live after March 17 will be subject to the new amortization limit of 30 years.

How will the elimination of 35-year amortizations on high-ratio insured mortgages affect monthly payments? The payment on a 30-year amortization is \$34.72 higher for every \$100,000 of mortgage, compared to a 35-year amortization. (This assumes a 4% sample interest rate and standard underwriting criteria.)

How many people will be affected by the reduction to 85% loan-to-value on refinances? Lowering the refinance loan-to-value threshold to 85% likely impacts less than a tenth of all refinances.

For those affected, they'll now be able to refinance an average of \$17,228 less debt based on the typical Canadian home value. Interesting to note that the average Canadian has \$25,163 in non-mortgage debt (Src:TransUnion). In addition, we're waiting to confirm how this change affects mortgagors with collateral charges over 85% LTV. In those cases, switching lenders at renewal requires a refinance. Thus far, the Finance Department hasn't stated that it will allow exceptions to the 85% LTV refinance limit. This is a key point so we're awaiting official confirmation from the Finance Department. The 85% refinance limit also handicaps peoples' ability to refinance in the event of higher rates or falling home prices. If home prices tumble, some people won't be able to refinance to lower their payments.

Can I still get 40-year amortizations? Lenders not bound by insurance restrictions can theoretically offer any amortization they want, regardless of a borrower's equity. That said, not many actually go to 40 years.

What can people do if they want to refinance up to 90% after March 17? A small number of niche lenders offer uninsured refinances to 90% LTV. As time goes on, expect additional specialty lenders to hit the market with second mortgages up to 90%. (There is good opportunity here for selective lenders who can manage default risk.) In all cases, the rates will be notably higher than insured mortgage rates (often 3-6 percentage points higher, or more).

I have a HELOC now. Will it be affected by the new HELOC rules? Lines of credit put in place before April 18 will generally be unaffected by the HELOC rule changes. Insured HELOCs will stay insured until they are discharged.

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Is 100% financing still available? Essentially yes. The government's rule changes did not eliminate one's ability to borrow a down payment. That means borrowers can still get their 5% down payment from lenders who offer cash-back down payment programs. It is "interesting" that the government saw more risk in HELOCs (which have rigid qualifications and are backed by 20%+ equity) than in cash-back down payment products, which are effectively 100% LTV on closing day.

Exceptions to the above may exist. Feel free to contact me should you have any questions.

Regards,

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