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## Should you stress about the stress test?

### What you should know about new mortgage rules.

On October 3rd, Finance Minister Bill Morneau announced that new mortgage rules will include more stringent “stress testing” for borrowers. The new rules are designed to lower debt levels, enforce some belt-tightening, and protect the housing market over the long term. Here’s how these new rules will affect Canadians.

#### THE HIGH-RATIO RULE

There has been a long-time rule that you must have “high-ratio mortgage insurance” if you have less than 20% downpayment. This insurance is there to protect the lender, and the premium is almost always added to your mortgage amount.

**What’s changed?** If you require an insured mortgage, you must qualify for your mortgage using the Bank of Canada qualifying rate (currently 4.64%) *regardless of what your actual mortgage rate will be.*

That means that – although I can find you a much better mortgage rate – you’d still need to show you can handle the mortgage using the qualifying rate. This financial “stress test” was already applicable for fixed and variable mortgages with terms of 1 to 4 years. Now, it also applies to fixed-rate mortgages of 5 years or longer.

**Why the new rule?** The government wants to be sure that borrowers can withstand any increases in mortgage rates when their mortgages come up for renewal.

**Will my payments be higher?** No. Your payments will still be based on your much lower actual mortgage contract rate. Keep in mind that mortgage rates are expected to stay at record lows into 2020. So this new rule isn’t costing you more. The potential change will be in how much mortgage you will qualify for: up to 20% less. You may need to plan on purchasing a less expensive home, or save up a larger downpayment, or ensure you

eliminate all or most of your other debts.

**Are any loans grandfathered?** The new mortgage stress test does not apply when:

- A mortgage loan insurance application was received before October 17, 2016;
- The lender made a legally binding commitment to make the loan before October 17, 2016; or
- The borrower entered into a legally binding agreement of purchase and sale for the property against which the loan was secured before October 17, 2016.

## THE CONVENTIONAL MORTGAGE RULE

Maybe you have more than 20% down or equity in your home and you are planning to purchase, renew or refinance. Since you have strong equity, you aren't considered a "high-ratio" borrower.

**What's changed?** Effective November 30th, any mortgage loans that lenders insure using portfolio insurance must now meet eligibility criteria applicable to "high ratio" mortgages, including the new qualifying stress test. This means that rental properties, properties over \$1 million, and mortgages with an amortization greater than 25 years will no longer be eligible for portfolio insurance.

**Does this mean I will have trouble getting a mortgage?** Certainly not. The change will only affect certain lenders that insure or securitize these types of mortgages. I have access to a wide range of lenders, which means I can help you find the best mortgage for your situation. But if you are thinking of refinancing, get in touch now just to be sure you lock in a low rate.

## THE CAPITAL GAINS REPORTING RULE

Canadians love the capital gains exemption they get on their primary residence: if your home grows in value, you aren't taxed on that growth when you sell.

**What's changed?** Starting this tax year, the sale of a primary residence must be reported at tax time to the Canada Revenue Agency, even though all capital gains are still tax exempt.

**Why?** This new rule was designed to prevent foreign property purchasers from claiming a primary residence tax exemption to which they are not entitled.

Although there are definite regional variations, the Canadian housing market is strong. A good part of the reason for that strength is that we have had stringent mortgage requirements. Mortgage defaults in Canada continue to be very low: in spite of the ups and downs of the economy.



**The new rules are aimed at ensuring home ownership continues to be a solid, long-term investment. Give me a call: I'll help ensure you make the most of it!**