New mortgage rules for 2018: Here is a bit more insight into the changes that are happening as of January 1, 2018 for uninsured mortgages/customers with 20% or more down payment.

New Rules:

1) As of January 1, 2018, the customer will have to qualify at the greater of either two; the contract rate + 2%, OR the Bank of Canada Benchmark Rate (currently 4.99%)
2) High ratio mortgages, greater than 80% loan-to-value will still be qualified at the greater of the contract rate OR the Bank of Canada Benchmark Rate. (the 2% is not added)
3) Legally binding (firm) Purchase and Sale contracts dated prior to January 1, 2018 will qualify under the current rules (regardless of the close date)
4) Legally binding (firm) Purchase and Sale contracts dated after January 1, 2018 the borrower must qualify under the new rules. (rule 1 & 2 above)
5) Refinances approved prior to January 1, 2018 must close within 120 days of application date to qualify under current rules.
6) Pre-approvals that have not been converted to live deals before January 1, 2018 will be subject to the new rules (Some exceptions can be made call me for details).

How does this new rule effect you?

Here is an example:

Under the current rules, prior to January 1, 2018, client can qualify at their contract rate (for this example I will use 3.39% as the contract rate) with 20% or more down payment:

$700,000 - purchase price
$140,000 – 20% down payment
$560,000 mortgage – 80% loan-to-value
3.39%, 5 year term, 25 year amortization
$110,000 annual income to qualify
GDS (gross debt service ratio) = 36.88%

The same income and purchase price under the new rules as of January 1, 2018:

Now must qualify at the greater of the benchmark 4.99% or contract+2%
If contract rate is 3.39% then (3.39% + 2% = 5.39%) so 5.39% is the rate they must qualify at because it is greater than the benchmark rate.

Example above redone using contract rate+2% = 5.39%:

700,000 - purchase price
$250,000 – down payment – client requires more down to qualify for this purchase
$450,000 – mortgage – 64% loan-to-value – the client now qualifies for $110,000 less
3.39%, 5 year term, 25 year amortization, qualified at 5.39%
$110,000 – annual income to qualify
GDS (gross debt service ratio) = 36.39%

If you are originally qualified for $560,000 mortgage under the current rules, under the new rules, you will qualify for a $450,000 mortgage, that is $110,000 less.

Based on the above scenarios under the current rules you can qualify at 80% loan-to-value, new rules you will qualify at 64% loan-to-value, that is a difference of 16%. As a buyer, you can now qualify for 16% less than you can under the current rules.

Please call your mortgage broker or myself, Sua Truong at 604-726-7878 or email info@SuaTruong.com for further clarity and different scenarios that you are facing. Perhaps, we can still help you or give you more options.

Credit goes to my colleague Cynthia Dreger for taking the time to summarize the new changes.