Gibbard Group Financial
Mortgage Update
SEPTEMBER 2017

NOW is the time to refinance your mortgage. Seriously.

"The times they are a changing" – new proposed mortgage rules are expected to come to consumers in the next few months, which if implemented, could have a serious impact on anyone wanting to refinance their existing mortgage. Seriously.

The Office of the Superintendent of Financial Institutions (OSFI) released various proposals to further tighten mortgage underwriting standards at federally regulated lenders.

The biggest change is the implementation of a stress test for **all uninsured mortgages** (those with a down payment of more than 20%, refinances, rental properties, etc.). Under current banking rules, only insured mortgages, variable rates and fixed mortgages less than five years must be qualified at a higher rate. That rate, of course, is the Bank of Canada's posted rate (currently 4.84%, a few points higher than typical contract rates). Going forward, it will be replaced by a 200-basis-point buffer above the borrower's contract rate. For instance, if your real rate on the mortgage refinance is 3.09%, you would have to qualify at a rate of 5.09% (a 25% decrease in your borrowing power just like that).

Another proposed change that could affect your ability to refinance your mortgage is a new rule requiring that loan-to-value measurements remain dynamic and adjust for local conditions when used to qualify borrowers – *what does this mean for high-valued areas like Vancouver and Toronto?*

The proposals are just the latest in a long line of changes to how mortgages are written in Canada. The government began its regulatory tightening campaign nearly nine years ago to "reduce the risk of a U.S.-style housing bubble developing in Canada." (Those were the words of the Department of Finance in 2008.)

Here's a brief history of some of those key mortgage rule changes:

- **January 1, 2017:** OSFI imposed onerous capital requirements on default insurers, thus disadvantaging many bank competitors (and consumers) by jacking up rates substantially on low-ratio insured mortgages.
- **November 30, 2016:** New stress test regulations were extended to include insured mortgages with 20% equity or more. It also banned certain mortgage types from being insured, including refinances, extended amortizations and single-unit rentals.
- **October 17, 2016:** The federal government introduced a stress test to be used in approving all high-ratio insured mortgages with terms of five years or more. It required such borrowers to prove they can handle payments at the Bank of Canada's posted 5-year rate (currently 4.64%).
- **February, 2016:** The Department of Finance announced it was increasing the minimum down payment from 5% to 10% on the portion of a home's price that's above $500,000.
- **November, 2014:** OSFI releases its B-21 guidelines, which set out insurer restrictions on everything from debt-ratio calculations and self-employment evaluation to borrowed down payments and cash-back mortgages.
- **July 9, 2012:** The government reduced the maximum amortization period to 25 years for high-ratio insured mortgages, limited the gross debt service and total debt service ratios permitted to 39% and 44%, respectively, banned mortgage insurance on properties over $1 million and implemented a maximum 80% LTV for refinances.
- **March 18, 2011:** Regulators introduced a 30-year maximum amortization on insured mortgages over 80% LTV, an 85% loan-to-value limit on insured refinances and eliminated government insurance on secured lines of credit (e.g., HELOCs).

More Than a Third Think Interest Rate Increase to Have Negative Impact on Their Personal Finances

In a random sampling of public opinion taken by The Forum Poll amongst 1150 Canadian voters, almost a third (BTM2: 34%) say the increase in the Bank of Canada's prime interest rate will have a negative impact on their finances with (22%) saying it will have at least a somewhat negative effect, and (12%) saying it will have an extremely negative effect.

More than seven in ten (71%) said that, over the last the last three years, Canada has become more expensive for their family. Fewer than one in ten (5%) said that Canada has become less expensive for their family, while two in ten (20%) said that it's neither more nor less expensive than 3 years ago. A small proportion (4%) said that they do not know.

The Forum Poll was conducted by Forum Research with the results based on an interactive voice response telephone survey of 1150 randomly selected Canadian Voters. The poll was conducted Aug 16-17, 2017.

Is the Best Mortgage Rate Really that Important?

Mortgage clients constantly tell us "I need the best mortgage rate. What rate do you offer?"

While the client is always right, and we provide the best rate and terms, we do convey the need to look at the "extras" when selecting the best mortgage.

Extras include:

- Generous pre-payment privileges
- Cash back
- Portability
- Missed payment flexibility

When you do the math, the relative importance of the "extras" become clear. 0.1% savings on the typical 5 year $250,000 mortgage equates to:

- A difference in monthly payment of only $14
- A savings of just $346 over five years on your mortgage balance

Just one of the extras above could offset this 10 times over. Think about that the next time you are mortgage shopping.

We make mortgages simple

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- **April 19, 2010:** The government [introduced]() stress testing for insured mortgages using the Bank of Canada's 5-year posted rate. Other key changes included a 90% LTV max. on refinances (down from 95%), and an 80% LTV maximum for rental financing.
- **October 15, 2008:** The [first mortgage rule changes]() announced by the government eliminated 40-year amortizations (dropping them to 35), raised the minimum insured credit score, added a new maximum total debt service ratio of 45% and additional loan documentation standards.

Bottom line is that the banks/lenders are famous for giving you funds when you don't need it – and when you do need it, the new tighter lending rules may simply make it almost impossible to get the mortgage. If you're thinking about taking advantage of your built-up equity to pay down higher interest debt or make a significant purchase (now or in the future) please contact our office asap. We want to get your financing in order BEFORE the new lending rules come into effect.

We're here to help you with the process. Feel free to contact our office at 604-313-3199 / e: karen@gibbardgroup.com for your no-obligation review of your mortgage and options.

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- Calculate Payments
- Pre-Qualification calculator

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Best Mortgage Rates

Term (Fixed)	Purchase and Refinance	Rental Properties
1 year	2.99%	3.14%
2 year	2.79%	2.94%
3 year	3.04%	3.19%
4 year	3.14%	3.29%
5 year	3.24% - 3.49%	3.39%
5 year (HR purchase)	3.09%	N/A
7 year	3.54%	3.69%
10 year	3.94%	4.09%
Term (VRM)		
5 year	P – 0.35% - P – 0.75%	Prime – 0.05%
3 year	P – 0.35%	NA

Rates subject to change without notice. OAC
**Special conditions apply