

THE OPEN HOUSE

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Federal government brings in new mortgage financing rules

To help Canadians save more and spend less, the federal government has introduced new rules for government-backed insured mortgages.

New mortgage rules

1. The government is reducing the maximum mortgage amortization period to 30 years from 35 years.
2. The government is reducing the maximum amount of the value of a home that can be re-financed to 85 per cent from 90 per cent.
3. The government will no longer provide insurance backing to financial institutions insuring home equity lines of credit.

“These are prudent measures that promote responsible lending practices and further strengthen our internationally recognized mortgage finance system,” Jake Moldowan, REBGV Board president said.

Tougher rules are in response to recent warnings from the Bank of Canada Governor, Mark Carney, about rising household debt levels.

Key dates

Changes to the maximum amortization period and the maximum refinancing amount come into force on March 18, 2011. The withdrawal of government insurance backing on lines of credit secured by homes comes into force on April 18, 2011.

Exceptions to dates

When the rules come into force, exceptions will be allowed where they are needed to satisfy a binding purchase and sale, or a financing or refinancing agreement entered into before the corresponding enforcement dates.



How much will the new rules cost home buyers?

1. Reducing the amortization period to 30 years from 35 years.

Interest Rate	35-Year Amortization Monthly Payment	30-Year Amortization Monthly Payment	Increase in Monthly Payment 30-Year vs. 35-Year Amortization	Interest Savings 30-Year vs. 35-Year Amortization
4%	\$1,322	\$1,427	\$105	\$41,850
5%	\$1,504	\$1,601	\$97	\$55,404
6%	\$1,696	\$1,784	\$88	\$69,809

Source: Department of Finance Canada

2. Lowering the maximum refinancing amount to 85 per cent of the loan to value ratio.

- Home price: \$300,000.
- Refinancing at 85 per cent: a home owner can access up to \$255,000.
- Refinancing at 90 per cent: a home owner can access up to \$270,000.
- Total savings in home equity: \$15,000.

3. No government insurance backing to financial institutions insuring home equity loans. To mitigate risk to the Canadian Mortgage and Housing Corporation, lenders now offering multiple loans or a multi-segment loans secured against a borrower's home, will no longer be eligible for government-backed insurance. However, loans with established scheduled principal and interest payments will continue to be eligible for government-backed insurance.

Home buyers can still buy a home with a five per cent down payment.

For information, visit the Federal Department of Finance at www.fin.gc.ca. Go to News Releases (January 17, 2011).