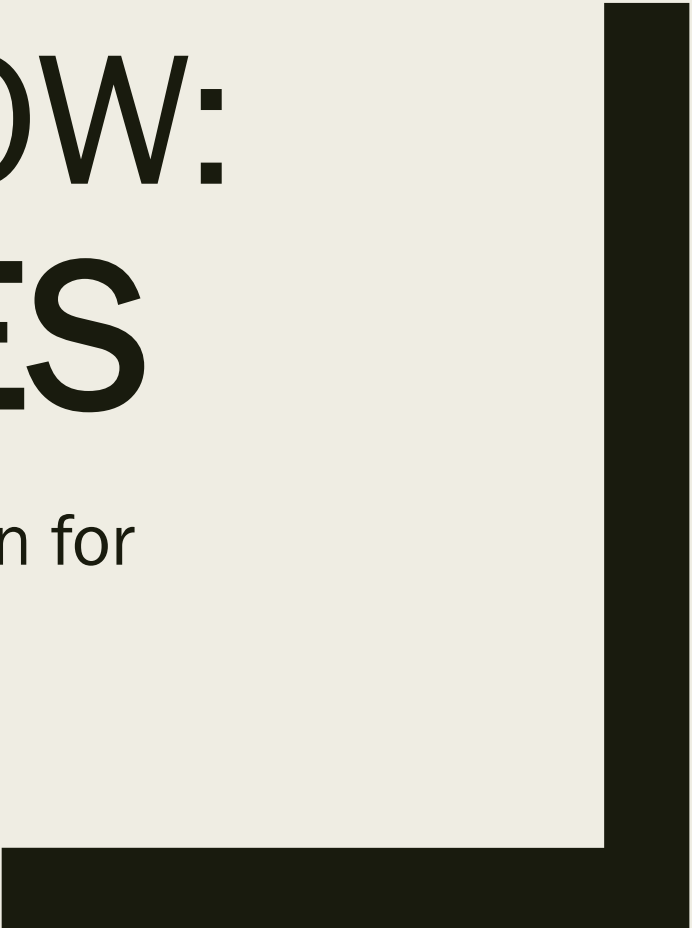




NEED TO KNOW: MORTGAGES

An Oriana Financial Presentation for
Chestnut Park



New Rule Changes – January 1st, 2018

- On January 1st, 2018, OSFI implemented new conventional (uninsured) mortgage rules, attempting to protect homebuyers from mortgage default in a rising interest rate environment.
- The government introduced a rate cushion which will affect all uninsured mortgages (those with a down payment of 20% and all refinances). They must now qualify at the greater of:
 - *The Bank of Canada posted rate (4.99%)*
 - OR
 - *Their contract rate + 2%*
- *This means, if your rate is 3.39%, you would be qualifying at 5.39%*

Some Other Important Notes

- If a legally binding Purchase and Sale Agreement is dated/signed prior to January 1, 2018, the customer can qualify under the old rules.
- If the legally binding Purchase and Sale Agreement is dated/signed on or after January 1, 2018, the customer must qualify under the new rules.
- Some examples are included on the next page to give you an idea of how this implementation will affect buyers.

Conventional (Uninsured) Mortgage Scenarios - Purchase Price

Using Interest Rate of 3.39% (stress test qualifying at 5.39%) and amortization of 30 years

- \$900,000 purchase with 20% down (\$180,000) with \$5,000 taxes
- Mortgage of \$720,000

Income needed to qualify

- Before the stress test: \$105,000
- After the stress test: \$125,000
- **Difference of: \$20,000**

- \$1.5 Million purchase with 20% down (\$300,000)
- Mortgage of \$1,200,000 with \$8,000 taxes

Income needed to qualify

- Before the stress test: \$170,000
- After the stress test: \$205,000
- **Difference of: \$35,000**

- \$2.5 Million purchase with 20% down (\$500,000)*
- Mortgage of \$2,000,000 with \$10,000 taxes

Income needed to qualify

- Before the stress test: \$270,000
- After the stress test: \$335,000
- **Difference of: \$65,000**

*Sliding scale exception needed

Conventional (Uninsured) Mortgage Scenarios - Income

- Using 30-year amortization, rate of 3.39% (qualifying at 5.39%) and taxes set at \$7,000 and 20% down.
- A couple who has a combined income of \$90,000

Purchase Price of

- *Before the Stress Test: \$720,000*
- *After the Stress Test: \$575,000*
- ***Difference of: \$145,000***

- A couple who has a combined income of \$150,000

Purchase Price of

- *Before the Stress Test: \$1,050,000*
- *After the Stress Test: \$840,000*
- ***Difference of: \$210,000***

- A couple who has a combined income of \$250,000

Purchase Price of

- *Before the Stress Test: \$2,350,000*
- *After the Stress Test: \$1,880,000*
- ***Difference of: \$470,000***

- ***Approximately a 20% reduction in purchase price***

Bank of Canada Rate Increase

- On January 17th, 2018, the Bank of Canada increased its overnight lending rate to 1.25% from 1%.
- The major 6 banks have followed their lead, and increased their prime rate. Each lender decides what their prime rate will be.
 - For example: Scotiabank's Prime Rate is now 3.45%, RBC as well, up from 3.20%. TD has a prime rate of 3.60%, up from 3.45%.
- Changes in Prime influence variable interest rates.
 - For example: If you have a variable rate of Prime – 0.50% with Scotiabank:
 - *Before the stress test: 2.70%*
 - *After the stress test: 2.95%*
 - ***Increase of .25%***

Insured Mortgages

- Insured mortgages are only available for properties under 1 Million
- They are insured by one of the three insurers in Canada, and are for purchases with a down payment of less than 20%
 - The minimum down payment is 5% on the first \$500,000 and 10% on the difference up to \$999,999.
 - For example: If you are purchasing for \$800,000, the minimum down payment would be \$55,000 (\$25,000 on \$500,000 and \$30,000 on the other \$300,000)
- Those looking for an insured mortgage will be qualified at the Bank of Canada posted rate of 4.99% or their contract rate, whichever is higher.
 - Example: This means, even if your contract rate is 3.14%, you still have to be able to qualify for a mortgage with a rate of 4.99%.
- This may price many first time buyers out of the market, whose only hope of homeownership in Toronto is/was through insured mortgages.

Thank you! Questions?



MORTGAGES. IT'S WHAT WE DO.

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