Changing regulations in Canada's mortgage market

Since 2008, the federal government has made several changes to the rules for mortgages insured through the Canada Mortgage and Housing Corporation (CMHC) and other private sector mortgage insurance providers. These rules affect home buyers with less than a 20 per cent down payment, which include many first-time home buyers in Canada.

The changes include the following:

- The maximum amortization period has been reduced to 25 years from 40 years.
- Home buyers must have a down payment of at least five per cent of the home purchase price and starting February 15, 2016, home buyers must add a further 10 per cent to their down payment for the portion of the house price between $500,000 and $999,999. For non-owner occupied properties, a minimum down payment of at least 20 per cent is mandatory.
- Canadians can now borrow to a maximum of 80 per cent of the value of their homes when refinancing, a drop from 95 per cent.
- Limiting the maximum gross debt service (GDS) ratio to 39 per cent and the maximum total debt service (TDS) ratio to 44 per cent.

  These two important ratios are used when calculating a person's ability to pay down debt. GDS is the share of a borrower's gross household income needed to pay for home-related expenses, such as mortgage payments, property taxes and heating expenses. TDS is the share of a borrower's gross income needed to pay for all debts, including those relating to home ownership.
- Government-backed mortgage insurance is available only for homes with a purchase price of less than $1 million. Borrowers buying homes at or above this amount will need a down payment of at least 20 per cent if their financing is from a federally-regulated financial institution.

The banks' prudential regulator, the Office of the Superintendent of Financial Institutions (OSFI) has introduced two new guidelines for banks and other federally regulated lenders as well as for federally regulated mortgage insurers. OSFI's B-20 Guideline on Residential Mortgage Underwriting Policies and Procedures, which came into effect in June 2012, outlines key principles for prudent mortgage underwriting that banks are required to follow. It also places limits on home equity lines of credit (HELOC). A homeowner can borrow no more than 65 per cent of the value of their property through a non-amortizing HELOC. Any additional mortgage credit beyond the 65 per cent of the property value on HELOCs should be amortized.

OSFI's B-21 Guideline on Residential Mortgage Insurance Underwriting Policies and Procedures, which came into effect in June 2015, focusses on the mortgage insurer's interaction with lenders as part of the insurance underwriting process and includes on-going due diligence into a lender's operations and its risk management processes.

What do these changes mean for consumers?

Because larger down payments and shorter amortization periods are now required, some people who would have qualified for a mortgage before may not qualify now. As a result, borrowers may respond by either deciding to postpone their purchase of a home or by buying a less expensive home.

Canadians are prudent borrowers

Historically, Canadians have been very prudent borrowers, and the best evidence of this is the mortgage-in-arrears statistics in Canada, which track the number of households that have not made mortgage payments in three or more months.

Less than half of one per cent of all mortgage holders with the country's largest banks are ninety days in arrears. This number has been stable for more than two decades, in times of high and low unemployment, high and low interest rates, and a strong or weak Canadian dollar.

Banks are prudent mortgage lenders

Canada's banks have a strong track record of careful, prudent lending and, according to the World Economic Forum, for being the soundest banks in the world for eight years running.[1]

Canada's banks adhere to prudent lending standards and ensure that consumers take on debt loads that are manageable. Because of this, Canada avoided the problems seen in the US housing market in recent years.

Banks, the government, regulators, and consumers all play an important role in ensuring that the Canadian mortgage and housing market remains stable and sound, which it has been for many years.