Government Restrictions on Mortgage Qualification

When – Jan 1st, 2018 – Lenders may adopt new policies sooner due to the date selected

Who is affected by these upcoming changes?

#1 Nobody renewing an existing mortgage.

#2 Nobody purchasing a home with LESS than a 20% down payment.

OK, so who then?

People with more than 20% to put down on a new purchase, or with more than 20% equity in their home.

Yep, the group that represents the absolute lowest risk to market stability. You may have amazing credit, a great income, and 20% or more down…but you will have your mortgage maximum cut by a solid 20% over where it has stood for the past twenty years or so.

Is this a big deal? Yes and No.

No, because the majority of Canadians rarely borrow 100% of their maximum. The group hitting their maximum tend to be the same group that has LESS than 20% to put down and that group was addressed by the government last October.

In other words the impact of these rules will be small overall…mostly.

Yes it is a big deal though, specifically for the small number that will be directly impacted, these changes will feel like the cold and devastating slap in the face they are.

In other words, the group impacted is not one that needed 'stabilizing' or restrictions. These are people already self-regulating to a great extent. After all, that is how they got the 20% equity and the excellent credit and income required for that maximum amount in the first place.

What does this mean for the market? Is a meltdown imminent?

No.

Again, this is a small number of people affected. Albeit a small group impacted in a massive way if you were to ask them.

In particular these changes are unlikely to have any impact of note on the already flattening and softening Vancouver or Toronto markets. This is due to higher than average homeowner household incomes in these cities.

However small town Canada, where the impact of last year's 'stress test' for buyers with less than 20% down has had a big negative impact. could well feel yet another wave of negative price pressure. Something that will displease many existing homeowners, and as the price softening is unlikely to be significant enough to please prospective buyers, basically nobody will be pleased.

To be clear, these changes were made by the Office of the Superintendent of Financial Institutions (OSFI) and OSFI's mandate is specifically 'to protect the stability of the CDN banking system'.

These changes are not about creating affordable housing, addressing consumer debt, stopping

This is being done in the face of a track record of statistics decades long that shows homeowners with greater than 20% equity represent just about as close to zero foreclosures as can be imagined.

Courtesy of Dominion Lending Centers.

bidding wars, slowing condition free offers, or runaway property prices, etc. If you are concerned about these changes affecting your own financing abilities please contact us immediately, we can still take action well before the Jan. 1, 2018 deadline.