

Mark Herman's Mortgage Rule Update Jan, 2011



Today, Federal Finance Minister Jim Flaherty announced 3 changes:

1. The maximum number of years the government will back a mortgage was lowered from 35 years to 30 years. The maximum used to be 40 and was lowered to 35 a year ago. Previously the long time standard was 25.
 - o Change will take effect March 18th.
2. The maximum that Canadians can refinance their home is lowered from 90% to 85%.
 - o Change will take effect March 18th.
3. Government insurance backing on home equity lines of credit, or HELOCs, has been removed.
 - o Change for Heloc's no longer being insured will take effect April 18th.

The government said exceptions would be allowed after the new measures come into force when needed to satisfy a home purchase or sale and financing agreement struck before the March and April in-force dates.

There was a proposal that would have required 100% of condo fees to be included in GDS & TDS ratio calculations however the current rule remains at 50%.

The 5% down payment still exists as does the 0% down – surprisingly – but for how long?

Detailed Numbers

In regards to rule #1:

- On a standard \$250,000 mortgage, at today's discounted mortgage broker rates of 3.99% for a 5 year fixed mortgage payments increase from \$1100 a month for the 35 year amortization to \$1187 a month for the 30 year amortization. An increase of \$87 a month or \$1,044 a year.
- An employee on a \$50,000 salary (at today's broker rate of 3.99% for a 5 year fixed mortgage, using \$1200 a year property tax and \$100 a month for heat) now only qualifies for a maximum mortgage of \$238,620 on the 30 year amortization. On the 35 year they used to qualify for \$257,451. A reduction of their maximum mortgage qualification of \$18,831 or almost 8%.

In regards to rule #2 & #3: We do not recommend customers refinance above 80% anyway because they would have to re-incur the CMHC fees. This change will mainly affect those that were in need of the equity funds – usually to pay down debts or for emergency cash.

The Herman Advantage

Please feel free to call for mortgage advice, a rate hold or a free 5-minute mortgage check-up. Remember the banks pay us, your rate is usually always lower than at the bank, and we can even take you to your own bank.

Why not take advantage of the skills, years of experience, and non-biased advice of a dedicated, top-broker with access to all of the banks for the largest purchase you can make?