

# Bob Bracken



**RE/MAX** Real Estate Services  
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## NEWSLETTER



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## Real Estate Investment Think Bob Bracken



### New Mortgage Lending Rules

By Bob Bracken

**As of January 1, 2018, uninsured mortgage consumers (i.e. those with 20% or more downpayment) must now qualify for property financing using a new minimum qualifying rate.** The rate will be the greater of the five-year benchmark rate published by the Bank of Canada OR the lender contractual mortgage rate +2.0%. Previously, the home buyer/owner qualified at the contract rate offered by the lender, **so this new rule significantly impacts & reduces the amount of mortgage for which the home buyer/owner will be able to qualify.** While the actual mortgage payment will still be paid at the contract (lower) rate, a higher calculation will be used for qualification purposes. This rule is applied not only to new purchases, but also to borrowers applying for refinancing on properties they already own. All mortgage lenders, except for Credit Unions and Private Lenders, are bound under this legislation.

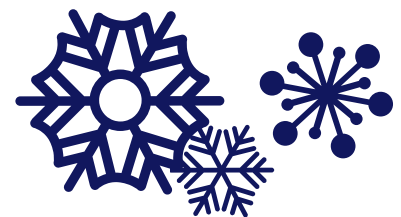
**This policy has attracted a fair amount of criticism** from the Real Estate and mortgage lending industry who point out that imposing a stress test on all buyers will put a chill on the housing market at a time that it can ill afford it. The restrictions would affect about \$15 Billion a year in new borrowing, and the tighter rules could

disqualify as many as 12 per cent of borrowers. Many economists and real estate industry officials anticipated the rule change could curb home sales through the coming year. The Canadian Home Builders' Association has forecast the rule changes combined with other recent housing-sector policy reforms could reduce total house transactions by 10 per cent to 15% - a potential decline in resale-home transactions of 50,000 to 75,000 units a year, while housing starts could drop by 20,000 to 30,000 units. **The cumulative amount of government intervention in the housing market means that many people will no longer be able to buy their first home or upsize when the kids come along.**

This new policy comes along at a time when there is no evidence of elevated mortgage default, or risk of that in the Canadian economy. The irony of the policy is that it is driving a sizable segment of the buyer population to private lenders who, while being exempt from the legislation, charge much higher rates of interest, thereby creating a much higher risk of financial stress & potential mortgage default and foreclosure in the future. The new rules seem to be part of a larger agenda by various levels of government to curtail home purchasing by Canadians, and to drive down real estate values

nationwide. The effect is to make more difficult - & even prevent - young people and new buyers from acquiring their 1st home, while curtailing or diminishing the equity & wealth of those who already own their homes and other property. In the last few months of 2017, and into the 1st few weeks of 2018, it appears that the new rules have caused a cooling and uncertainty into our local Real Estate market. **As this is a real, continuing constraint on purchasing power, as opposed to the political perception of policies such as the 15% Non-Residents' Tax, it will likely be more difficult for the market to shake off this trend to continue the robust activity of the past decade or so.**

**Is there anything you want to know regarding real estate, please contact Bob Bracken at 604-220-2035 cell, 604-263-2823 office, bob@bobbracken.com email.**



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