

## Mortgage Stress Test – What is it?

Canada's top banking regulator has announced the final version of its new mortgage rules, and that includes a requirement that is known as the "stress test".

The "Stress Test" is placed on borrowers with uninsured loans to make sure they can handle the possibility of paying higher interest rates in the future.

New guidelines were released in October 2017 by the Office of the Superintendent of Financial Institutions (OSFI) kick into effect as of January 1, 2018.

Included in these guidelines ([as quoted from OSFI website](#)) changes apply to the following:

➤ ***OSFI is setting a new minimum qualifying rate, or "stress test," for uninsured mortgages***

- Guideline B-20 now requires the minimum qualifying rate for uninsured mortgages to be the greater of the five-year benchmark rate published by the Bank of Canada or the contractual mortgage rate +2%.

➤ ***OSFI is requiring lenders to enhance their loan-to-value (LTV) measurement and limits so they will be dynamic and responsive to risk.***

- Under the final Guideline, federally regulated financial institutions must establish and adhere to appropriate LTV ratio limits that are reflective of risk and are updated as housing markets and the economic environment evolve.

➤ ***OSFI is placing restrictions on certain lending arrangements that are designed, or appear designed to circumvent LTV limits.***

- A federally regulated financial institution is prohibited from arranging with another lender a mortgage, or a combination of a mortgage and other lending products, in any form that circumvents the institution's maximum LTV ratio or other limits in its residential mortgage underwriting policy, or any requirements established by law.



## So... Where does that leave everyone?

### Who Does the Stress Test Affect:

Well... to start ... most of first-time home buyers and borrowers must purchase mortgage insurance and are obligated to undertake a “stress test”. By law borrowers with a down payment of less than 20% for a home must purchase mortgage insurance as well.

The area of questions falls into place where more than 20% of the value of a home is paid up-front and then the buyer doesn't have to pay insurance, this is where one falls into the category of an “uninsured” borrower. This is where the new stress test affects home buyers; as now, you will have to pass the “Stress Test”.

### How Does the Stress Test Work?

This test is designed to simulate a borrower's financial situation by assuming they would have to pay back the loan at the posted average interest rate of the current market, not whatever deal was originally negotiated; *i.e. a fixed lower than market rate for a term of 5 or 10 years.*

According to the Bank of Canada, the current average five-year posted mortgage rate is 4.98% - ([if you don't believe it – learn more here](#)).

### Is the Stress Test Good or Bad?

Overall, the new rule is good to combat the debt Canadian households accumulate ... But, it is bad for sellers as there will not be as many buyers out there in the real estate market because if at one time they qualified for \$500,000.... well after January 2018... they may only be qualified for \$400,000 due to the new stress test.

### What Should I Do Before the Stress Test is In Effect?

An honest recommendation is, if your planning a move in the very near future you have time to get your pre-approval and lock it in now, so it will still be in affect after January 2018.

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