

What the Changes to the New Qualification Process Might Mean to You

If You Plan on Purchasing a Home in the Future

If someone is interested in purchasing a freehold townhome in Whitby, they would likely be expecting to pay around \$485,000 for that property - based on current average prices.

If they were putting a \$40,000.00 down payment towards the purchase, it would leave them with a mortgage of \$464,736.10 (*inclusive of CMHC or Genworth mortgage insurance premiums and based on an interest rate of 2.44% for a 5 year term, amortized over 25 years*) and result in a monthly mortgage payment of \$2,068.01

Assuming there is an annual income of approximately \$95,000.00 and based on the current CMHC and Genworth lending policies, and assuming property taxes of \$300.00/month, heating costs of \$110.00/month and other debt not exceeding \$600/month in total, they would qualify for that mortgage.

With the NEW Qualification Process (which take effect on October 17th of this year), it will require ANY buyer who is purchasing a home with LESS THAN 20% for a down payment to be approved at the current Bank Of Canada Posted Rate of 4.64% (*the rate as of October 5th 2016*) as opposed to the current 5 year rate being offered by mortgage lenders.

This new policy is most likely designed to ensure that if rates rise significantly in the next 5 years that today's new homeowners would still be able to afford to make the same amount of mortgage payment they are currently making.

So what does this mean in terms of their ability to purchase that townhome in Whitby after October 17th? It means that they will NOT be able to afford to purchase it.

In order for them to qualify for the same property (*at the same price*) after October 17th, they will either have to come up with a considerably larger down payment - in the range of \$123,000.00 (*vs. \$40,000.00 today*) OR they will require an annual income of \$115,000.00 (*or \$20,000.00 more than they currently make*).

This is likely a very prudent stance to take by the Finance Minister. However, it will most definitely affect the real estate market in the foreseeable future. Likely it will result in a combination of discouraging a number of buyers from purchasing OR it will have those same buyers significantly adjusting their expectations on what they are going to be able to purchase.

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