Kam's Mortgage Monthly

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Change is in the Air

Last month, the Government of Canada changed the parameters as to the application of the government guarantee supporting the Canadian mortgage insurance industry. CMHC has responded by making its own adjustments. As of April 19, 2010, the qualifying interest rate used to assess borrower eligibility will change for loans with a loan to value ratio greater than 80%.

For loans with a fixed rate term of less than 5 years and for all variable rate mortgages, regardless of the term, the qualifying interest rate is the greater of:

* The benchmark rate, and
* The contract interest rate

The benchmark rate at this time is 5.39% and subject to change.

For loans with a fixed rate term of 5 years or more, the qualifying interest rate is:

* The contract interest rate.

CMHC Self-Employed Policy Changes and Clarification-

The following changes apply to mortgage loan insurance applications submitted to CMHC on or after April 9, 2010-

Reduction to Maximum LTV- CMHC is reducing the maximum LTV for the Self-Employed Product Without Third Party Validation of Income, as follows-

* For purchase and portability transactions, the maximum LTV is being reduced from 95% to 90%; and
* For refinance transactions, the maximum LTV is being reduced from 90% to 85%.

Borrower Eligibility and the Self-Employed

The *CMHC Self-Employed Product Without Traditional Third Party Validation of Income* is intended for self-employed borrowers who have difficulty providing documentation for their current income level. Typically, these are borrowers who recently became self-employed.

Continued Page 2

Newsletter Highlights

Something to Ponder

"Government's view of the economy could be summed up in a few short phrases: If it moves, tax it. If it keeps moving, regulate it. And if it stops moving, subsidize it."
Ronald Regan

Supplementary Third Party Income- If the self-employed borrower has other income not related to their business, that income is eligible for inclusion in the TDS calculation as long as the lender has documentation to substantiate the supplementary income.

Self-employed borrowers who have been self-employed in the same business for more than 3 years will not be eligible under *CMHC's Self-Employed Product Without Traditional Third Party Validation of Income*. CMHC continues to require that the borrower have a minimum of 2 years experience in the same field. This can include time spent working as a non self-employed worker in the same field. To confirm the length of time the borrower has been operating their business, Approved Lenders are expected to obtain a copy of the borrower's business or GST license or Articles of Incorporation. Where the documents indicate the business has been licensed more than 3 years and the borrower indicates the business has not been active for more than 3 years, the Approved Lender is expected to obtain proof of third party employment including the borrower's Notices of Assessment and T'4's for the past 3 years, demonstrating that the primary source of income was not the borrower's business.

Commissioned income can be relatively easily substantiated. Borrowers who earn income through commission will no longer be eligible for the *CMHC Self-Employed Product Without Traditional Third Party Validation of Income*. Approved Lenders will be required to obtain substantiating documentation for any income earned through commission.

Every effort should be given to obtaining income documentation to qualify the borrower for traditional products and premiums before submitting an application under CMHC's *Self-Employed Product Without Traditional Third Party Validation of Income.* Although the product does not require self-employed borrowers to provide supporting income documentation, Approved Lenders should ensure the borrower understands the income provided is their total personal income and not the gross business revenue. This also applies to applications under CMHC's confirmed income products.

Rental Offsets/Rule Changes

Under current CMHC guidelines, when you buy a rental property, you can use a 80% rental offset which means that they used to take 80% of the gross rental income that the income property generated and subtracted that from the borrowers total debt to establish the total debt service (TDS) ratio. What that means is that you don't have to have the household income to cover 100% of the value of the rental property, because the bank will let you offset the debt using 80% of the revenue the rental produces. In our marketplace this was of tremendous assistance in helping folks qualify for mortgage financing due to our average house price. For example let's say that you had a suite that was generating $1000/month and your mortgage payment was $2000/mo currently you could take 80% of that income ($800) and deduct it directly from the mortgage payment, now allowing you to only have to qualify on a mortgage payment of $1200/mo.

Cont'd on Page 3

After April 19, that 80% will be reduced to 50% add back to income. What that now means is you have $500 of rental income that must be added to your income, and you can only use up to 42% to 44% of your total income depending on the lender to service all of you debts. So that 50% add back becomes effectively a 22% offset, that's a reduction of 58%. Making it much more difficult for people to qualify for homes with rental suites. In addition the government and CMHC has mandated that there will be no more high-ratio financing for the purchase of rental properties. Basically if you want to purchase a rental property you will be required to have 20% down, in the form of cash or other security. And just when you thought that was all, there's more… CMHC is also changing how they evaluate the current debt and income on your existing rental portfolio—they are treating the rental income the same as other non-salaried income too, meaning your current portfolio might hinder the growth of your portfolio going forward, even while it generates cash flow every month.
It is also very probable that most lenders are going to adopt these standards, even for non high ratio loans that are not CMHC insured, just to be cautious.

Why now?

The Bank of Canada has been warning for months that homeowners should ensure they can absorb an increase in their floating rate mortgages once rates start rising, possibly this July depending on the decision made on June 1. By the central bank's stress test calculation, almost one in 10 households would have a debt-service ratio that makes them vulnerable to economic shocks by the middle of 2012 if current trend continues. Economists have advised the minister the best way to protect Canadians is to institute a debt affordability test in order to qualify for a CMHC insured mortgage. Flaherty is making such an income test a condition for acquiring a CMHC insured mortgage.

A windfall for CRA?

Something to ponder in all of this is that anyone who has been self employed for more than three years and is looking to purchase a home is going to have to declare more income in order to qualify for a mortgage (because of changes to stated income for self-employed and because of changes in rental offsets). This will bring more of the underground economy above ground. Resulting in higher taxes being collected by CRA resulting in a big pay day for Canada Revenue Agency. An interesting way for the government to be able to fatten it's coffers going forward. Basically it's an unpublished tax increase for the self-employed. Plus if after qualifying for a mortgage the declared income that someone is filing drops significantly, how likely do you think an audit & reassessment will be. I'm not a conspiracy theorist I just find it an interesting coincidence!

Cont'd on Page 4

The new HST and what it means

After July 1, 2010, the new HST will be applicable at 12% on the sales price of a newly constructed home. When purchasing a new construction home up to a threshold of $525,000 there will only be an increase of 2% on the final purchase price under the new HST. There is a maximum rebate of $26,250 that peaks at a purchase price of $525,000. When purchasing a new construction home worth $1,000,000 you will pay $43,750 more on the purchase price than you would have under the GST. HST will also apply to building lots. Full HST must be paid on completion of the house, the same time an application for the 5% provincial rebate and federal rebate can be submitted. HST may also be charged on existing homes that have been substantially renovated, but this would be determined on a case by case basis. HST will also be applicable to the Buyer's and Seller's closing costs as well as all services related to the transaction. The Sellers will now be responsible for paying HST on the real estate commissions.

Some examples outlining all major applicable taxes:

Price	HST 12%	Prov. HST Rebate 5%	Property Purchase Tax	Property Purchase Exemption Tax if First Time Buyer	GST Rebate (Assumes Owner Occupied)	Total Tax if First Time buyer	Total Tax if Not First Time buyer
$250,000	$30,000	($12,500)	$3,000	($3,000)	($4,500)	$13,000	$16,000
$350,000	$42,000	($17,500)	$5,000	($5,000)	($6,300)	$18,000	$23,200
$525,000	$63,000	($26,250)	$8,500	N/A	N/A	$45,250	$45,250
$750,000	$90,000	($26,250)	$13,000	N/A	N/A	$76,750	$76,750
1,000,000	$120,000	($26,250)	$18,000	N/A	N/A	$111,750	$111,750
Notes		5% up to $525,000 fixed at $26,250 over $525,000	1% on first $200,000. 2% on amount over $200,000	First time buyer exemption to $425,000 phases to zero at $450,000	36% of the 5% portion of HST up to $350,000 declines to zero after $450,000		

Cont'd on Page 5

Kam the Mortgage Man—Nominated for Alternative Lending Mortgage Broker of the Year

The exciting part about being nominated for the Canadian Mortgage Awards 2010 Alternative Lending Mortgage Broker of the Year is that my name was put forward by colleagues of mine! The award ceremony will take place on April 23 in Toronto. But of course, it's an honour just to be nominated..

Facebook & Twitter

Since joining the social networking this past fall, we now have over 1300 Twitter followers! The best way to stay up to date on changing times in our mortgage industry is to receive our Tweets, updated throughout the day.

Referrals

Your referrals are always welcome, so if you can think of someone who may benefit from my services, please send me an e-mail to kam.brar@vericoselect.com or call me at **250-686-4246.**
Never dealt with me, not sure what kind of service you're going to get? click here to see what some of my clients have to say!

If you have any questions or comments please contact Kam at kam.brar@vericoselect.com or visit www.kamthemortgageman.com