



# Kam's Mortgage Monthly

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## Double-Whammy: New Federal Rules to Hit High Loan to Value Refinances the Hardest

There is only 5 weeks remaining until the new mortgage rules take effect. For those unfamiliar with the imminent changes, Finance Minister Jim Flaherty announced last month that new federal rules will take effect March 18<sup>th</sup>. The changes are as follows:

The maximum amortization period will be reduced to 30 years from 35 years for government backed insured mortgages with loan to value ratios of more than 80%.

The maximum amount Canadians can borrow in refinancing their mortgages is 85%, down from 90%.

Government insurance backing on lines of credit secured by homes will be withdrawn.

Mortgagors that have high loan to values and have 35 year or 40 year amortizations will be in for a shock when they refinance in a couple of years. Let's take a look at the following scenario:

Mr. & Mrs. Jones bought a house for \$500,000 in Victoria BC in February 2007. They were 1<sup>st</sup> time buyers and purchased it with 5% down. They were living with Mr.'s parents to save up for the down payment. At the time they had a LOC and a joint Visa that they paid off completely. Mr. Jones has a yearly income of \$50,000 and Mrs. Jones makes \$27,000 a year.

Purchase Price: \$500,000  
Down Payment: \$25,000  
Mortgage Amount: \$475,000  
Mortgage Insurance Premium: \$14,962.50  
Total Mortgage Amount: \$489,962.50  
L/V: 95%  
Rate: 4%  
Term: 5 year  
Property Taxes: \$175 monthly  
Amortization: 35 years  
Payments: \$2,159.76

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Highlights

*Double Whammy!*

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*New Assistant &  
Referral Program*

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Something  
to  
Ponder

*Crime does not  
pay as well as  
politics!*

*Alfred E Newman*

## Double Whammy, cont'd...

A important factor that lenders look at is Debt Servicing Ratios. In order to qualify for mortgages, borrowers have to fit within these ratios. For our clients, the ratios are as follows:

$$\text{GDS} = \frac{\text{P\&I} + \text{Property Taxes} + \text{Heat}}{\text{Income}} = \frac{\$2,159.76 + \$175 + \$100}{\$6,416.00} = 37.95\%$$

Typically lender don't want to see the GDS exceed 35% but since the clients had credit scores in excess of 680 the lender waives this and looks solely at the TDS.

$$\text{TDS} = \frac{\text{P\&I} + \text{Property Taxes} + \text{Heat} + \text{Installment Debts}}{\text{Income}} = \frac{\$2,159.76 + \$175 + \$100}{\$6,416.00} = 37.95\%$$

Typically lenders don't want to see the TDS exceed 42%-44%. Normally the TDS would be larger than the GDS but since our clients don't have any other debts the numbers are the same.

Now let's flash forward to today with Mr. & Mrs. Jones needing to consolidate debt to improve their cash flow. After they bought their house they decorated, replaced the carpets and put up a fence in the back yard. In addition they have taken a couple of trips and encountered some unforeseen expenses. All in all they have racked up \$63,000.00. They made all these improvements on credit. They have only been making minimum payments and would like to pay off these debts.

Their home has increased in value to \$595,000 and as of February 2011, after 4 years of making payments they owe \$461,922.72 which leaves us at a loan to value of 77.63%. Now, if we add to that the \$63,000.00 of debt that they would like to pay out, we hit \$524,922.72, bringing our new loan to value to 88.22% based on the current market value of \$595,000.00.

The good news for them is that with the present rules the loan to value fits, however after the March deadline it will not, as refinances will go to a maximum of 85%.

Now let's take a look at the ratios:

New mortgage of \$525,000.00...

Market value: \$595,000

4% rate

**35 year amortization**

L/V 88.2%

Payments: \$2,314.21

$$\text{GDS} = \frac{\text{P\&I} + \text{Property Taxes} + \text{Heat}}{\text{Income}} = \frac{\$2,314.21 + \$200 + \$150}{\$6,416.00} = 41.52\%$$

$$\text{TDS} = \frac{\text{P\&I} + \text{Property Taxes} + \text{Heat} + \text{installment Debt}}{\text{Income}} = \frac{\$2,314.21 + \$200 + \$150}{\$6,416.00} = 41.52\%$$

## Double Whammy contd...

Same scenario with 30 year amortization:

$$\text{GDS} = \frac{\text{P\&I} + \text{Property Taxes} + \text{Heat}}{\text{Income}} = \frac{\$2,496.47 + \$200 + \$150}{\$6,416} = 44.36\%$$

$$\text{TDS} = \frac{\text{P\&I} + \text{Property Taxes} + \text{Heat} + \text{Installment Debt}}{\text{Income}} = \frac{\$2,496.47 + \$200 + \$150}{\$6,416} = 44.36\%$$

Unfortunately now both the GDS and TDS are over limit. Even though the credit may still be stellar with a beacon score above 680 it's now up to the insurer to make an exception in order to get an approval. But this is not even a conversation you will get to however as the loan to value already exceeds 85%.

**So what does all this mean? Simply put, if you're at all thinking about refinancing your current mortgage, sooner rather than later is the key word!**

## New Assistant

My name is Deborah Bellows, and I am pleased to introduce myself as Kam's new assistant. Like Kam, I am a licensed sub-mortgage broker. I graduated last fall from the University of British Columbia with a Diploma in Urban Land Economics. I am excited to be back at work after a wonderful maternity leave spent with my son. I have over 10 year experience in the mortgage broker/ real estate industry. I have worn many hats during this time... I have worked as an administrator at a mortgage brokering office, as a loans clerk, as a mortgage underwriter and as a resource for a local real estate/property management company. My true passion and interest lies with helping clients with their mortgage needs. I am looking forward to working with Kam and assisting him in providing the BEST service for you.

## New Referral Program

Your referrals are always welcome, so if you can think of someone who may benefit from my services, please send me an e-mail, [kam.brar@vericoselect.com](mailto:kam.brar@vericoselect.com) or call me at 250-686-4246. *If it all works and the folks you have referred take a mortgage then I will send you a cheque for \$250.00.* 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](mailto:kam.brar@vericoselect.com) or visit [www.kamthemortgageman.com](http://www.kamthemortgageman.com)