



# Kam's Mortgage Monthly

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## The end of the self-employed home owner?

Last month, CMHC drastically changed the parameters of who qualifies for a mortgage. Rental offsets decreased, making it more challenging to own a rental property or claim 80% of the rental revenue towards paying the mortgage, and the self-employed received a huge reality check. No pun intended.

Despite Finance Minister Jim Flaherty's claim that the measures 'will not affect the ability of a Canadian family to buy a house,' he seems to forget that a growing number of Canadian families are having to rely on self-employment as a main source of income. The number of self-employed in Canada grew by more than 100,000-115,000, or 4.3% between October 2008 and October 2009. At the same time, paid employment tumbled by 480,000 or 3.3%. Not every one who started a business was a laid-off worker: other factors included the desire for more flexible working hours, potential increased earnings and the layoff of a spouse.

As of April 9, 2010, self-employed borrowers with more than 3 years in the same business are required to provide third party validation of income to qualify for CMHC's Self-Employed Product. Stated income is no longer acceptable where the loan to value exceeds 80% and the mortgage has to be insured. Below 80% I'm finding that it's really on a case by case basis and every lender seems to be doing it their own way, but in general they are lending tighter in these scenarios. Income has to be proven by financial statements, contracts, T4s and above all NOA's. Now income has to be declared in order to qualify; this will of course result in more income tax to the government.

The CMHC Self-Employed Product Without Traditional Third-Party Validation is now intended for self employed borrowers who have difficulty providing documentation for their current income, because they have just recently become self employed. As mentioned this grace period runs for 3 years, basically what CMHC is saying is, we know that when you first start out in business you have extraordinary expenses which result in lower income but after 3 years we felt this should no longer be the case. CMHC requires that the borrower have a minimum of two years of experience in the same field. This can include time spent working as a non self employed worker in the same field.

About 2.7 million Canadians are currently self employed. Although levels increased during recessionary periods, most of the increases were retained in subsequent recoveries. [Continued Page 2](#)



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Something  
to  
Ponder

**There is no such  
thing as a good tax.**

-- Winston Churchill

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With the economy being somewhat unpredictable and the shift towards higher percentages of self employed individuals more willing to strike out on their own rather than ride the unemployment line, the harsh reality will be that it will take longer to qualify for a mortgage and to get into the real estate market than before.

And as mentioned, not every one who goes the self employed route does so because they were laid off. A percentage do so because of the appeal of more flexible hours and the potential for a greater reward besides the fact that they feel more in charge of their own work options. Or, they are entrepreneurs who branch out, become successful and contribute to society in a positive way that benefits many. Take for example Alex A. Campbell, co-founder of Thrifty Foods, who is about to be honoured by the University of Victoria as this year's Distinguished Entrepreneur of the Year. Campbell is one of Vancouver Island's most generous philanthropists, donating millions of dollars to youth and arts causes, hospitals, food banks and other charitable programs. Campbell started off in the grocery business as a teenager bagging groceries and stocking shelves at Super Value. He worked his way up, becoming district manager for a grocery chain in Vancouver and went on to open his own store in 1973. In 1977, he later opened the first Thrifty Foods in 1977 with fellow bagger Ernie Skinner.

Now I don't want you to despair after reading this because I still have lenders who will lend to the self employed! The deals just require more work to put them together!

## Looking 'forward' to HST

Opposition to the HST grows as July 1 2010 approaches. The dread of possibly paying more tax weighs on every consumer in BC, but according to British Columbia's website, the HST is going to benefit taxpayers in so many ways. Here are a few of the benefits of HST according to our friends in Victoria

### Benefits for Taxpayers:

- ☀ The adoption of the HST will eliminate \$1.9 billion in embedded PST from products and services resulting in savings that can be passed on to consumers. Studies of the implementation of HST in eastern Canada have confirmed that its introduction resulted in lower prices for consumers.
- ☀ To support the transition to the HST the federal government will provide BC with \$1.6 billion. Those funds will reduce the burden on taxpayers as we continue to fund vital services like health care and education during these difficult economic times.
- ☀ The HST is estimated to save BC taxpayers \$30 million annually as British Columbia will no longer have to pay administrative costs associated with the PST.
- ☀ Small, medium and large businesses are expected to save a further \$150 million annually in compliance costs under the new streamlined HST tax system.

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## Looking 'forward' to HST cont'd...

### Benefits for Families and Consumers-

- ☀ A rebate will ensure that, on average, purchasers of new homes up to \$525,000 do not pay more tax due to harmonization than is currently embedded as PST in the price of a new home. Purchasers of new homes above \$525,000 will be eligible for a rebate of \$26,250 (ie., a rebate on the first \$525,000 of value).
- ☀ Buyers of used homes will NOT pay any HST.
- ☀ The Province is also proposing an enhanced rebate for new rental housing, similar to the enhanced rebate for new homes, to support the construction of substantial renovation of affordable rental housing in BC.
- ☀ The new rental housing rebate would ensure that, on average, new rental housing up to \$525,000 would not be subject to any more tax due to harmonization than is currently embedded as PST in the price of new rental housing.
- ☀ Low income families and individuals will receive an annual BC HST Credit of \$230 for individuals with income up to \$20,000 and \$230 per family member for families with incomes up to \$25,000, paid quarterly with the GST credit. This will benefit over 1.1 million British Columbians.
- ☀ A provincially-administrated point-of-sale rebate for residential energy will ensure the HST will not increase consumers' costs for oil, electricity, natural gas or propane used to heat or power homes.

Well there you have it my friends, you can find all of this on the province's web site, bottom line is they believe the HST will make BC 'one of the most competitive jurisdictions not only in Canada, but in the industrialized world.'!! It should come as no surprise to the government that there are some folks out there who don't quite believe all of this. But what I think the government has found surprising is the fact that these individuals are out there exercising their democratic rights and are letting the government know loud and clear their level of displeasure by way of the "Stop HST petition" No matter what the outcome, it's refreshing to see people getting involved!

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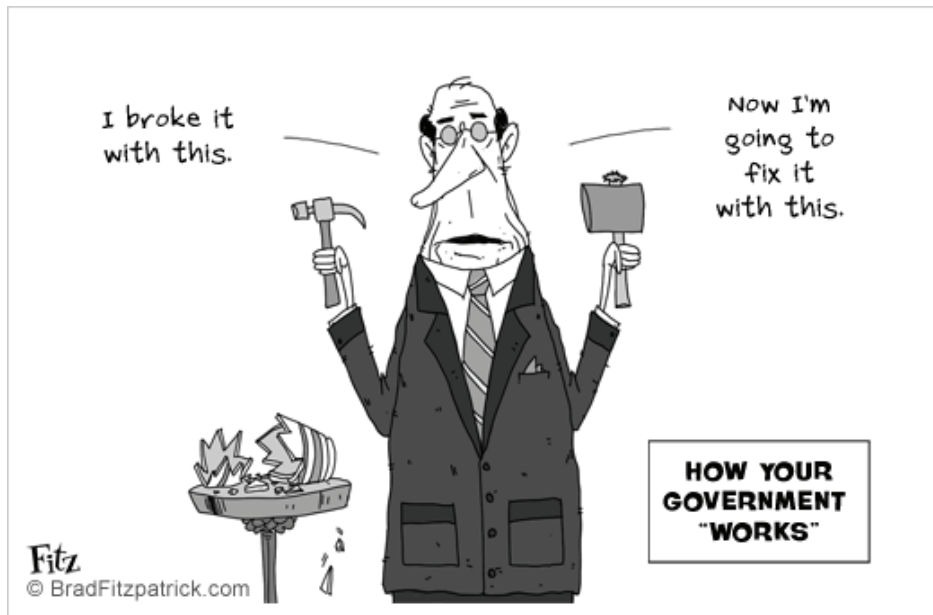
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### Referrals

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](mailto: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!

### On the lighter side



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)