the Mortgage Group Inc.

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Dear Clients,

Finance Minister Bill Morneau unveiled sweeping changes on Monday that will affect all pockets of the housing market, including rules aimed at slowing the flood of foreign money and strengthening a mortgage rate stress test.

Ottawa targets foreign real-estate investment with new housing measure.

The new measures come at a time of heightened anxiety about overheated housing markets in Vancouver and Toronto but also as prices soften in much of the rest of the country. As well, banks are already facing stricter regulatory requirements for their mortgage business.

“Overall, I believe the housing market is sound but as Minister of Finance I want to make sure we are proactive in assessing and addressing the factors that could lead to excess risk,” Mr. Morneau told reporters in Toronto.

The changes include:
- closure of loopholes relating to the capital gains tax exemption on sales of principal residences.

- standardized eligibility criteria for high- and low-ratio insured mortgages, including a “more robust” mortgage rate stress test.

- a consultation aimed at better protecting taxpayers “by ensuring that the distribution of risk in the housing finance system is balanced.”

The government’s most anticipated measure involves cracking down on foreign buyers who used loopholes to avoid paying taxes on real estate speculation.

Under the new rules, taxpayers will be required to report on their income tax returns the sale of a property for which they claim the so-called principal residence exemption. Under Canadian tax rules, homeowners do not pay taxes on the increased value – or capital gains – of the sale of their principal residences. In order to make that designation, a homeowner, their current or former spouse or any of their children must have lived in the home at some time during the year for which the designation is claimed.

The federal government said the change will ensure that the principal residence exemption is used only by Canadian residents and that families designate just one property as their principal residence in a given year.

Previously, homeowners did not have to report the sale of properties they designated as their principal residences. There had been widespread abuse of the principal

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residence exemption by foreign buyers who claimed residency either for themselves or their spouses or children simply in order to avoid paying taxes on real estate sales.

In addition, Mr. Morneau announced a new round of sweeping changes to mortgage insurance. Starting Oct. 17, borrowers who take out insured mortgages that are fixed-rate loans of five years or longer will be subjected to a more stringent “stress test,” ending the current two-tier system. Existing rules require home buyers who take out short-term or variable-rate mortgages with down payments of 20 per cent or less to prove they can afford payments at a much higher interest rate than they will actually pay. Borrowers who take out fixed-rate insured mortgages of five years or longer have their income tested against the interest rate that they will actually be paying. The end result is that borrowers can now typically qualify for much larger mortgages if they opt for a longer-term, fixed rate mortgage.

Under the new rules, all borrowers who have insured mortgages will have to qualify at the Bank of Canada posted rate, which is now significantly higher than the discounted mortgage rates offered by most lenders. The rules apply only to new mortgages, but they are significant given that a majority of homeowners are thought to take out the types of fixed-rate mortgages that will be affected by the stricter qualification requirements. Today the qualifying rate is 4.74%.

Ottawa also unveiled new measures aimed at portfolio insurance, a type of bulk insurance that banks use for mortgages with down payments above 20 per cent. Starting Nov. 30, the federal government will now require portfolio-insured mortgages to qualify under the same criteria used for traditional mortgage insurance used by homeowners with small down payments. Portfolio-insured mortgages will now be limited to a maximum amortization period of 25 years and a maximum purchase price of less than $1-million and excludes all properties that will not be owner-occupied, such as rental homes and investment properties.

Mr. Morneau also said he planned to release a consultation paper on “risk-sharing” for lenders who use mortgage insurance, thought to be in the form of a deductible payable by the banks on mortgage insurance provided by Canada Mortgage and Housing Corp. and other private sector insurers.

Soaring housing prices, especially in the red-hot markets of Vancouver and Toronto, have triggered a debate about the role of foreign money in Canadian real estate markets.

Ottawa has been preoccupied with the issue, with Mr. Morneau creating a working group to conduct a “deep dive” into the state of the housing market and make recommendations on policy. Mr. Morneau’s announcement follows a Globe and Mail investigation that revealed a network of speculators flipping homes for profit and avoiding taxes by classifying them as principal residences.

In a bid to cool its hot housing market, British Columbia introduced a 15-per-cent foreign-buyers tax this summer which applies to the sale of all residential properties within 22 communities of metro Vancouver. The levy applies to buyers who are not

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Canadian citizens or permanent residents, and corporations that are either not registered in Canada or are controlled by foreigners, and adds $300,000 to the purchase of a $2-million home.

In the seven weeks leading up to the levy, foreign buyers accounted for 13.2 per cent of sales in Metro Vancouver. By contrast, just 0.9 per cent of all transactions that closed in the region involved foreign buyers in August, the first month in which the tax has been in effect. However, experts caution that the decline is skewed because many deals were rushed through in July to avoid the tax.

The Canada Revenue Agency says it completed nearly 2,500 audits related to real estate in B.C. and Ontario between April, 2015, and June, 2016, and that the agency plans to do as many or more next year.

If you currently have a pre approval with me, we may need to reconfigure your deal as your purchase power may decrease from when we last spoke.

If you have an accepted offer before Oct 17, 2016 these rules will not apply to you.