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Canada's top banking regulator has published the final version of its new mortgage rules, which include a requirement to "stress test" borrowers with uninsured loans to ensure they could withstand higher interest rates.

The Office of the Superintendent of Financial Institutions (OSFI) released new guidelines for the mortgage industry on Today (Oct 17, 2017). The regulator floated a similar version of these rules earlier this summer in draft form, but Tuesday's release makes them official as of Jan. 1.

Among the major new rules is a requirement to stress test uninsured borrowers. Previously, only insured borrowers had to undergo such a test.

By law, borrowers with a down payment of under 20 per cent for a home must purchase mortgage insurance. Borrowers pay an insurance premium, but the beneficiary is actually the lender, because the insurance protects the loan giver in the event the borrower defaults on the loan.

The insurance premiums can easily be into the thousands of dollars, on top of the cost of a home, ranging from 0.6 to 4.5 per cent of the mortgage, depending on the size of the down payment and the price of the property.

On a $500,000 home with a $50,000 down payment, the CMHC says a borrower would be charged an extra $13,950 to insure the $450,000 mortgage.

The vast majority of first-time borrowers have to purchase mortgage insurance, and they have been obligated to undergo a stress test of their finances since last year.

Anyone who puts down more than 20 per cent of the value of a home doesn't have to pay such insurance, and is known as an "uninsured" borrower — the people affected by the new rules revealed Tuesday.

The stress test itself consists of ensuring the borrower would be able to pay the loan if interest rates become higher than they are today.

The stress test is designed to simulate a borrower's financial situation by assuming they would have to pay back the loan at the posted average — not whatever deal they were able to negotiate. So under OSFI's new rules, borrowers would be stress tested

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at either the five-year average posted rate, or two per cent higher than their actual mortgage rate — whichever one is higher.

Notably, the new stress test rules won't apply to mortgage renewals. They will only be in force when people are buying a particular property for the first time, and need to borrow to do so.

The regulator published a draft of its new rules over the summer, before consulting with stakeholders about any changes that need to be made. The regulator said it received more than 200 submissions from people in the industry and members of the public about the rules as they were proposed in July.

The idea's critics, including many in the real estate industry, said imposing a stress test on all buyers would put a chill on the housing market at a time that it can ill afford it.

But OSFI is pressing ahead anyway with changes it describes as "vigilant."

These revisions reinforce a strong and prudent regulatory regime for residential mortgage underwriting in Canada.

New rules won't apply to those renewing their mortgage. But everyone else will be stress tested.

In practical terms, the stress test would mean that a potential buyer of a $1 million home with 20 per cent down would see their purchasing power knocked down by about 15 per cent.

These changes in mortgage rules represent a further tightening of the screws for the housing market.

This will not apply to you if you take possession before January 1, 2018.

Please let me know if you have any questions. If you are thinking of purchasing a property soon, we should sit down and work the numbers for you.

Sincerely,

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