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Dear Clients,

I wanted to send the March update early as the federal government has announced its response to the rising chorus that has been calling for changes to the mortgage stress test. It is small but it is, generally, being well received.

Starting in April the qualifying rate for the stress test on insured mortgages (usually those with less than 20% down payment) will be based on the weekly median 5-year fixed insured mortgage rate, plus 2%. At the time of the announcement that would have been 4.89% (plus 2%). That is 30 basis points lower than the currently qualifying rate of 5.19% (plus 2%) which is based on the posted 5-year fixed mortgage rates at the Big Six banks.

The change will help address a key concern about the current stress test, which was implemented in 2016. Critics have complained that the big banks are artificially inflating their posted rates because those rates are used to set mortgage prepayment penalties.

Actual contract rates have been falling for some time so the stress test rate has been moving further and further out of sync with real mortgage costs. Using the new formula will allow the stress test to move as the market moves.

The federal banking regulator, the Office of the Superintendent of Financial Institutions (OSFI), says it is considering the same benchmark rate for its stress test on uninsured mortgages (that is, those with more than 20% down).

As of right now, the new formula will only make a small difference, lowering the income requirement on a $300,000 mortgage by about $1,500. Most market watchers see it as being most helpful to buyers who are right on the cusp of being able to pass the stress test.

As always, I will continue to keep the news coming as I hear.

Sincerely,

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