

Many clients have asked about the changes that the federal government introduced to the Mortgage Insurance industry last month and wonder what impact they will have.

Mortgage Insurance (sometimes called Mortgage Default Insurance) is used by clients wishing to purchase a home who have less than 20% of the property value saved for a down-payment. In Canada, this insurance is offered by a crown corporation (CMHC) and two private companies (Genworth Financial Canada and AIG United Guaranty).

Individuals wishing to purchase a home with less than a 20% down-payment pay an insurance premium to one of these insurers, protecting the lender in case the mortgage payments aren't made by the consumer, and the mortgage goes into default.

Highlights of the changes are as follows:

- The maximum amortization period allowed (the time over which a mortgage has to be repaid in full) is being reduced from 40 years to 35 years.
- All mortgages will have a maximum loan-to-value ratio of 95%, down from 100% - meaning the consumer will need to have 5% of the purchase cost of their home saved, gifted to them from a family member, or borrowed from another source.
- Mortgage Insurance will only be offered to clients with a minimum credit score of 620, as determined by one of the three credit reporting agencies in Canada (Equifax, TransUnion, and Northern Credit Bureaus)
- The maximum Total Debt Service Ratio allowed for Mortgage Insurance (the ratio of your gross monthly income compared to your total monthly debt and mortgage principal, interest, and property tax payments) will be set at 45%.
- More stringent documentation requirements are being placed on lenders and Mortgage Brokers to ensure the value of the property will be retained over the life of the mortgage – in other words, more properties will require more thorough appraisals in order to be approved under the new guidelines.
- There will be some exceptions to this rule under specific circumstances that mitigate risk to the lender.

These changes are scheduled to be implemented on October 15th, 2008 – allowing for any current home purchase transactions that are in progress. In addition, any home purchase transactions agreed to before but closing after October 15th, 2008 will be exempt from the new rules.



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