

How much you have to earn under new mortgage rules (or how much less home you can buy)



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Stressed

If you're wondering how much more you have to earn under Canada's new mortgage rules, buy a cheaper house.

If you live in British Columbia or Ontario, buy a lottery ticket.

Maybe there's a reason they call it a stress test.

As The Globe and Mail's Janet McFarland and James Bradshaw report, the commercial bank regulator is bringing in new rules under which home buyers have to pass said stress test before they can get a mortgage.

This comes as interest rates are rising, and hence the added concern, as both federal and provincial policy makers also adopt measures to cool certain inflated housing markets and make sure we can handle our ever-swelling debts..

"Arguably the biggest change from the new rules, set to begin Jan. 1, is that every prospective buyer, even those with down payments of more than 20 per cent, must undergo and pass a stress test before the bank can issue the loan," Moody's Analytics economist Paul Matsiras said of the recent change from the Office of the Superintendent of Financial Institutions (OSFI).

"The new measure will help cool the housing market, as potential home buyers are forced to go with more affordable options," he added in a report on OSFI's decision.

Under the new rules, you have to demonstrate that you could still afford your payments by qualifying at the greater of: The Bank of Canada's posted five-year benchmark rate or a rate that's two percentage points above what you've negotiated.

That's for new mortgages, uninsured mortgages – those with a down payment of at least 20 per cent – and anyone who chooses to switch lenders. (A stress test for insured mortgages with lesser down payments already exists).

Using numbers from Brookfield RPS, Mr. Matsiras gave this example:

A woman whose home is valued at the median of \$565,960 makes a 20-per-cent down payment, and thus has a mortgage of \$452,768. So she's paying \$2,085 a month at 2.75 per cent. But at two percentage points higher, 4.75 per cent, that payment would be \$2,579 a month.

"So assuming that all other monthly payments stay the same, and assuming that she pays to the hilt so that her debt service-to-income ratio hits [Canada Mortgage and Housing Corp.'s] max of 32 per cent, we can see that her income would need to rise by \$18,150 to afford the new monthly payment," Mr. Matsiras said.

"Of course, the amount her income would have to rise depends on where she lives: In British Columbia, her income would need to increase by more than \$32,000, while in New Brunswick it would have to rise by around a much more modest \$6,500."

Here's a cross-country look by Brookfield and Moody's Analytics:

Homebuyers need more income

| Region | Median home value | Loan amount | Monthly payment at 2.75% | Monthly payment at 4.75% | Increase in income needed |
|--------|-------------------|-------------|--------------------------|--------------------------|---------------------------|
| Canada | \$565,960 | \$452,768 | \$2,085 | \$2,569 | \$18,150 |
| B.C. | 1,003,165 | 802,532 | 3,696 | 4,554 | 32,175 |
| Alta. | 467,307 | 373,846 | 1,722 | 2,121 | 14,963 |
| Sask. | 334,090 | 267,272 | 1,231 | 1,517 | 10,725 |
| Man. | 307,669 | 246,135 | 1,133 | 1,397 | 9,900 |
| Ont. | 657,130 | 525,704 | 2,421 | 2,983 | 21,075 |
| Que. | 315,832 | 252,665 | 1,164 | 1,434 | 10,125 |
| N.B. | 200,840 | 160,672 | 740 | 912 | 6,450 |
| N.S. | 250,761 | 200,609 | 924 | 1,138 | 8,025 |
| PEI | 226,579 | 181,264 | 835 | 1,029 | 7,275 |
| Nfld. | 315,556 | 252,445 | 1,163 | 1,433 | 10,125 |

Source: Brookfield RPS, Moody's Analytics

The other way to look at this is to determine what she can afford. Here's another cross-Canada look:

...Or a less expensive home

| Region | Median home value | Monthly payment at 2.75% | Loan necessary to make old payment at 4.75% | New home value | Difference in home values |
|--------|-------------------|--------------------------|---|----------------|---------------------------|
| Canada | \$565,960 | \$2,085 | \$367,500 | \$459,375 | \$106,585 |
| B.C. | 1,003,165 | 3,696 | 651,250 | 814,063 | 189,103 |
| Alta. | 467,307 | 1,722 | 303,500 | 379,375 | 87,932 |
| Sask. | 334,090 | 1,231 | 217,000 | 271,250 | 62,840 |
| Man. | 307,669 | 1,133 | 199,750 | 249,688 | 57,981 |
| Ont. | 657,130 | 2,421 | 426,600 | 533,250 | 123,880 |
| Que. | 315,832 | 1,164 | 205,100 | 256,375 | 59,457 |
| N.B. | 200,840 | 740 | 130,350 | 162,938 | 37,902 |
| N.S. | 250,761 | 924 | 162,750 | 203,438 | 47,324 |
| PEI | 226,579 | 835 | 147,100 | 183,875 | 42,704 |
| Nfld. | 315,556 | 1,163 | 205,000 | 256,250 | 59,306 |

Source: Brookfield RPS, Moody's Analytics

"Of course, these two tables make the big assumption that the individual is mortgaged to the hilt," Mr. Matsiras said.

"However, this example shows that as interest rates begin to rise, consumers must prepare for higher mortgage expenses over the next decade. The new rules will ensure that future owners are better prepared."

The new rules are expected to dampen the housing market, particularly as they come alongside other measures.

"We suspect that the rule change will pull forward some demand ahead of the Jan. 1, 2018, effective date, and slow housing market activity thereafter," said Toronto-Dominion Bank economist Dina Ignjatovic.

"Indeed, we estimate that housing demand could fall by 5 to 10 per cent, while prices could slide by 2 to 4 per cent in 2018 relative to baseline, as a result of the change."

The Bank of Canada also sees the housing market cooling, as The Globe and Mail's Barrie McKenna reports.

It has raised its benchmark overnight rate twice this year, to 1 per cent, but signaled Wednesday that the pace of increases will be slow.

"Taken together, recent interest rate increases and macroprudential policy changes are likely to have a moderating influence on residential investment as some prospective home buyers respond by taking on smaller mortgages while others delay purchases," the central bank said.