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Rules and more Rules

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Back in August of 2012, I wrote an article about a number of rule changes that Ottawa had put in place to help create a "soft landing" and control mortgage financing. At that time, I highlighted four changes and their implications. There have been a few more added with little to no fanfare which continue to make qualifying for a mortgage more difficult. Some armchair analysts continue to state that these new rules are just old rules resurrected. While that might be true with some, here are three that are not but they concern me enough to bring to your attention.

1) Benchmark rate qualification for terms other than Five year fixed.
   Ottawa is concerned that if you take a 2 year fixed rate mortgage, for example, and rates rocket upwards in 2 years, that you will not be able to afford the new monthly payment. To prevent this, you must qualify at a rate in effect called the Bank benchmark rate. At time of writing, this rate is 5.14%. If you decide on the 5 year fixed rate mortgage, the rate used to qualify is the contract rate which is currently 3.09%. The impact of this is that some clients will only now qualify for the five year term.

2) Existing Line of Credit max out.
   Here is a deal killer. Some lenders have always had this rule but it has recently been adopted by most lenders. If you have an existing line of credit that has a balance of zero, the lender figures that you could run the line of credit up to its maximum at any time and put yourself into financial difficulties. To prevent this, you must now qualify as if the line of credit is at its maximum. The latter part of this is even more restricting – in the past, if the line of credit just required interest only payments, you could qualify using just this payment. Now, you must qualify using a formula that approximates the full principal and interest payment.

3) Estimated rental income
   If you decide to keep your existing home as a rental and buy a new principal residence, typically you haven't yet rented your current home. In the past this was not a problem. To determine what the rents would be, we would have ordered a Market rents report from an appraiser. The appraiser would determine, using a number of sources, what a reasonable rent would be. This has now changed for a number of lenders. To recognize the rent on your existing home, you must have a signed tenancy agreement. Some lenders will allow you to use the Market rents

report but they will only now fund to 65% of the value of the property you are buying. So have that home rented before you move out!

While I am sure that all of these rules are well meaning, my concern for you is that Ottawa is paying too much attention to mortgage financing and not enough to mounting credit card debt. The last time I checked, mortgage rates were averaging around 3.09%. Credit card companies charge up to 18%. I don't see any restrictions on credit card companies when they decide to raise your spending limit. Much easier to get into trouble at 18% than 3%!

If you have any questions, please let me know!

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