2018 Canadian Mortgage Forecast

Introduction

With a new stress test and government-imposed mortgage rule changes (also known as the “Stress Test”), the Canadian mortgage industry is shifting for property seekers and existing homeowners. In 2018, mortgages will be processed quite differently with increased documentation, scrutinized downpayment sources, disappointment and dissatisfaction. Despite the current forecast, MonsterMortgage.ca is here to help. We’ll embrace these new changes and make every effort to effectively communicate the proper expectations to each and every homeowner over the coming year and be as transparent as possible as we navigate through the new mortgage landscape in Canada.

Canadians will need to come to the realization that arranging a mortgage through a bank branch or mortgage professional will now be more cumbersome due to regulatory oversight driven by government. Due to many factors such as anti-money laundering legislation, government concern over excessive consumer debt load, unaffordable housing in urban centres and increase in fraudulent activity, consumers seeking mortgage financing will need to be ready to alter expectations when trying to access funds from mortgage financing institutions.

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Increased Documentation for Income

To qualify for a mortgage today, a borrower's true income level or amount of down payment when purchasing a home requires more supporting documentation than even before. Understandably, consumers have been feeling confused and frustrated. The Office of the Superintendent of Financial Institutions (OSFI) has suggested heightened due diligence be implemented by all regulated lenders. Now more than ever, organizing your finances with a good filing system will save you valuable time and money.

Be ready to dig deep into your files to collect:

- T1 General Tax Returns
- Multiple year Notice of Assessments from CRA
- T4 slips
- Employment letters confirming status, tenure and compensation
- Recent paystubs within 30 days of the mortgage advance date

If you're self-employed, call your accountant in advance to help you collect:

- Articles of Incorporation or business licenses
- Financial Statements of business activities
- 6 – 12 months complete bank statements
- Invoices to match deposits to your bank account (minimum 3 three) to confirm the legitimacy of the business
- Explanation of large deposits to comply with anti-money laundering legislation

Increased Scrutiny on Downpayment Source

When purchasing a home, the source of downpayment will be under considerable scrutiny with a 90-day history of funds required to satisfy lenders prior to the purchase date of your home. All bank statements and investment portfolio holdings must validate ownership of funds to the borrowers. Large deposits in excess of $5,000 need to be validated and explained in all cases if unrelated to paystubs. In situations where immediate family gifts make up all or a portion of the funds used to purchase a home, a trail of possession will need to be confirmed and documentation from the individual making the gift is required that meets the 90-day history of funds. If you're unable to provide documentation to satisfy the prime A lender, expect to be moved to an alternative or private lender where you will pay higher interest rates and fees.

Disappointment in Consumer Expectation

Existing homeowners that have borrowed in the past will experience a heightened degree of required documentation. Unfortunately, satisfactory mortgage repayment history and full repayment of previous debt levels will have no bearing on a homeowner's ability to qualify under the new stress test. The stress test's focus is a borrower's ability to pay 2% higher than their contract rate on their new mortgage, and its simple goal is to ensure that a borrower can afford a significant jump in interest rates and payments. Any past history of debt levels repaid will not be taken into consideration in the new credit environment. This will leave long-time past borrowers with good repayment history feeling disappointed and frustrated.

Since the announcement of the rule changes, media analysts have focused on the purchase market impact of these new mortgage rules. Primarily the valuation of homes and activity level of the real estate market. Fact is, there are considerably more existing homeowners than those who are involved in a real estate transaction during any given year period. What does this mean to existing homeowners? They'll be surprised to learn that these new mortgage rules impact them as well despite being a homeowner with a mortgage.

Statistically, the first five-year term of a mortgage only **pays down the mortgage balance by 9-11%.** For example, a $500,000 mortgage would be paid down to approximately $445,000 during the five-year term.

The new government imposed stress test has **reduced the borrowing power** of homeowners by

18%- 20%

You qualified for a mortgage of $500,000 5 years ago

You would only qualify for a mortgage of $400,000 today

Therefore, someone who qualified for the maximum mortgage of $500,000 five years ago will now only qualify for a mortgage of $400,000. This means that if income levels have not gone up significantly, there could be homeowners that no longer qualify for the very mortgage they have been paying down for the past five years.

Most in this situation will realize they don't have to "re-qualify" at renewal time with their existing mortgage lender, but they will lose their "free agent" negotiating power and the ability to shop their mortgage for a competitive interest rate at the end of their term. So don't be surprised if your existing lender doesn't offer you the best renewal rate. These lenders will know you can't go anywhere. It will feel like the Hotel California song lyrics, "You can check out any time you like, but you can never leave!" If you need to access funds to refinance, renovate or pay for post-secondary tuition for your children, etc., expect to be moved to an alternative or private lender. Qualifying criteria is not as severe, but you will pay higher interest rates and fees.

Borrower Dissatisfaction

Increased paperwork to meet new documentation requirements coupled with new qualification rules results in more time to process each mortgage financing request. This prompts delays in meeting closing and funding deadlines. Additional reviews and assessment of documentation slow down the process for all service providers involved in the transaction. And since solicitors are not instructed until all required documentation is reviewed and approved, instructions to solicitors are delayed causing a tight timeline. This is problematic with purchase transactions where a downpayment is being collected at the last moment. Appraisers also have less time to complete their valuations and reports. Pressure to meet these tight timelines prompts increased legal fees for rush services from solicitors.

Current lender concerns about the value of real estate in the current climate results in only preferred appraisal companies performing the majority of appraisals. This places more pressure on select appraisal firms and capacity issues result in higher fees.

Unfortunately, the expected delays from the newly imposed mortgage rules and potential increased fees from mortgage service providers in the process will equal dissatisfaction for the borrower.

Conclusion

The new government imposed mortgage rules will have significant negative impacts on new and existing homeowners. Apart from the reduced borrowing power that many critics have dissected, the real issue that will impact consumers is the overbearing documentation and process. It will be frustrating, onerous and costly for most, but as Canada's mortgage experts, MonsterMortgage.ca will make it easier, less painful and efficient for our borrowers in any home-owning stage.

Contact Information

www.MonsterMortgage.ca
20 Holly Street, Suite 302, Toronto, Ontario M4S 3B1
Phone: 416.480.0234
Fax: 416.480.0939
Toll Free: 1.877.819.3619