REAL ESTATE BOARD OF GREATER VANCOUVER

FACT SHEET

Mortgage Loan Insurance

Updated: February, 2018

Mortgage Loan Insurance

Under the Canadian Bank Act (sec. 551(1)), the federal government requires federally regulated financial institutions to insure high-ratio mortgages – less than a 20 per cent down payment – against default.

The Office of the Superintendent of Financial Institutions Canada (OSFI), is the independent federal agency that oversees these financial institutions – banks, trust companies, and loan companies – and has a mandate to ensure they are financial sound.

While home buyers with a downpayment of more than 20 per cent are not required to buy mortgage insurance, all home buyers must pass a "stress test" by qualifying for their mortgage at a higher rate.

The minimum qualifying rate for a mortgage is:

- the greater of the Bank of Canada's five-year benchmark rate; or
- the contractual mortgage rate plus two per cent.

Credit unions and alternative private lenders, also known as B lenders, are not regulated by OSFI.

BC credit unions are supervised by the BC Financial Institutions Commission (FICOM), which requires credit unions to perform stress tests to ensure borrowers aren't overextended.

How does mortgage insurance work?

Mortgage loan insurance protects lenders from a loss when a home buyer defaults on a mortgage.

A home buyer with less than a 20 per cent down payment buys mortgage insurance and pays monthly premiums that are typically rolled into bi-weekly or monthly mortgage payments and include the principal, interest, mortgage loan insurance premium, home insurance and property taxes.

When a borrower defaults on a mortgage and the lender forecloses and sells the home, if the funds generated from the sale are less than the mortgage, the mortgage insurance enables the lender to recover losses.

Mortgage loan insurance is not mortgage life insurance or mortgage disability insurance.

- **Mortgage life insurance:** if a home owner with a mortgage dies, mortgage life insurance pays off the remaining mortgage.
- **Mortgage disability insurance**: will pay some or all of a home owner's mortgage if the home owner becomes disabled.

Where to buy mortgage loan insurance

To qualify for mortgage insurance, the borrower must have a minimum credit score of 600, a gross debt service (GDS) ratio maximum of 39 per cent, and a total debt service (TDS) ratio maximum of 44 per cent.

If the loan is at a variable rate, payments must be recalculated at least once every five years.

There are three mortgage insurance suppliers in Canada:

- Canada Mortgage and Housing Corporation (CMHC), a federal Crown corporation, is the largest provider of mortgage insurance. As of 2016 CMHC insured 452,321 homes or $84.3 billion worth of mortgages. At one time, CMHC insured 90 per cent of all mortgages in Canada. The corporation now insures about 50 per cent of all Canadian mortgages.
- Canada Guaranty Mortgage Insurance Company, a private company.
- Genworth MI Canada, also a private company.

The federal government backs all three insurers 100 per cent against default. This is to:

- encourage stability in the housing market; and
- protect taxpayers from potential mortgage loan losses.

Mortgage loan insurance is transferable to another lender along with the mortgage. If a borrower wants to increase the mortgage loan amount, the mortgage loan insurance premium may rise because of the additional amount borrowed.

Types of mortgage loan insurance offered

Mortgage loan insurance is backed by CMHC for:

- borrowers who are self-employed;
- newcomers to Canada;
- refinancing, making home improvements immediately after buying, porting a mortgage to a new home from their existing home; and
- buying an energy-efficient home or refinancing for energy-efficient improvements. CMHC even refunds 10 per cent of the premium for going green.

Who qualifies for mortgage insurance?

Borrowers typically must have a minimum down payment of 10 per cent of the home price.

The down payment must be from sources including savings, a RRSP withdrawal, proceeds from the sale of another property, or a non-repayable gift from a relative. For eligible borrowers, additional sources of down payment are permitted, including lender incentives and borrowed funds.

Total monthly housing costs, including principal, interest, property taxes, heating, the annual site lease (if applicable), and 50 per cent of applicable condominium fees, should not exceed more than 32 per cent of the gross household income. A home buyer's total debt which includes housing costs, credit card debt, student loans, and other debt can't exceed 40 per cent of gross household income.

$$\frac{\text{PITH + other debt}}{\text{Borrower's gross annual income}}$$

The amortization can't exceed 25 years if the mortgage loan-to-value ratio is more than 80 per cent – where the buyer's down payment is less than 20 per cent.

Mortgage loan insurance for investors

CMHC provides mortgage loan insurance to borrowers who are buying or refinancing multi-unit residential rental properties of 1-4 units (non-owner-occupied), and have a downpayment of 20 per cent. CMHC also provides premium refunds to buyers of energy-efficient properties or owners making energy-efficient renovations.

CMHC provides mortgage loan insurance to borrowers constructing, buying, or refinancing multi-unit residential rental properties of 5 or more units, including rental buildings, retirement and long-term care facilities, student housing, and condominium construction.

For information, visit: www.cmhc.ca and in the search box enter Mortgage Loan Insurance for Multi-Unit Residential Properties.

What does mortgage loan insurance cost?

Canadian home buyers requiring CMHC insured financing will pay the following premiums:

Loan-to-Value Ratio	Standard Premium Effective March 17, 2017
Up to and including 65%	0.60%
Up to and including 75%	1.70%
Up to and including 80%	2.40%
Up to and including 85%	2.80%
Up to and including 90%	3.10%
Up to and including 95%	4.00%
90.01% to 95%	4.50%

Mortgage insurance for second home buyers

CMHC has discontinued its mortgage loan insurance program for buyers of second homes.

Private insurers Genworth and Canada Guaranty offer mortgage insurance to buyers of second homes.

Important mortgage policy changes since 2008

Since 2008, the federal government has made mortgage policy changes seven times.

October 2017

OSFI announced as of January 1, 2018 there would be standardized rules for high and low-ratio mortgages. Home buyers who don't require mortgage insurance (down payment of 20 per cent or more) must qualify for a mortgage at a higher rate. The minimum qualifying rate is the greater of the Bank of Canada's five-year benchmark rate or the contractual mortgage rate plus two per cent. Lenders must enhance their loan-to-value limits (LTV) and restrict lending arrangements designed to circumvent LTV limits.

July 2016

OSFI announced smaller banks must perform a stress test requiring low-equity borrowers (less than 20 per cent down payment) to qualify for the Bank of Canada's posted five-year rate. Borrowers with a down payment of more than 20 per cent (low ratio) must meet the same eligibility requirements. Lenders can no longer insure refinances, non-owner-occupied properties, amortizations over 25 years, or mortgages over $1 million. If the loan is at a variable rate, payments must be recalculated at least once every five years. The borrower must have a minimum credit score of 600, a GDS ratio maximum of 39 per cent, and a TDS ratio maximum of 44 per cent.

December 2015

The federal government increased the minimum down payment for insured high-ratio mortgages for anyone buying a home valued between $500,000 and $1 million to 10 per cent down from five per cent down.

June 2012

The maximum amortization period was reduced to 25 years from 35 years for high-ratio insured mortgages. A new stress test was implemented. To qualify for a high-ratio mortgage, a home buyer's debt costs could be no more than 44 per cent of their income. Home owners refinancing could borrow a maximum of 80 per cent of a property's value, down from 85 per cent. Government-backed insured high-ratio mortgages were available only on homes valued at less than $1 million.

January 2011

The government reduced the maximum length of an insured high-ratio mortgage to 30 years from 35 years. The maximum amount home owners refinancing could borrow was reduced to 85 per cent from 90 per cent.

February 2010

The government lowered the maximum amount home owners could borrow when refinancing a mortgage to 90 per cent of a home's value, from 95 per cent. A new rule required owners not living on a property to have a minimum 20 per cent down payment if they needed government-backed mortgage insurance.

July 2008

Then Finance Minister Jim Flaherty reduced the maximum length of an insured high-ratio mortgage to 35 years from 40 years.

If you have questions, please contact Harriet Permut, manager, government relations at hpermut@rebgv.org.