Changes to Mortgage Rules

published 06/29/2012

Under current rules, potential home buyers are required to purchase insurance against their mortgage loan if their down payment is less than 20 percent of the value of the home. Such insurance is intended to protect borrowers in case they end up defaulting on the mortgage. Conversely, any borrower who can pay over the 20 percent threshold can obtain an uninsured mortgage.

Finance Minister Jim Flaherty recently outlined a series of changes to the rules that govern the Canada Mortgage and Housing Corporation, the crown corporation that insures mortgages (CMHC).

The most significant change is that the maximum amortization period will be lowered to 25 years from 30 years, which will increase monthly mortgage payments for home owners. However, it will decrease the amount of interest paid throughout the term of the mortgage as the number of payments will be reduced.

Another change has been to limit CMHC insurance to homes priced under $1 million. This means that those individuals in the market for a home priced at or over $1 million will not only have to come up with the 20 percent down payment but will also have an uninsured mortgage. In other words, they will need at least $200,000 cash at minimum. Although this change will affect a small percentage of home-buyers, it is likely to have a significant effect.

Finally, the total individuals will be allowed to withdraw when refinancing their homes will be limited to 80 percent of the home’s value. This is a reduction of 5 percent from the current system. This is intended to promote responsible borrowings against homes.

These changes come into effect as of July 9, 2012. Any mortgage approved after June 22 and before July 9 must fund by December 31, 2012.

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