STRICTER MORTGAGE RULES

COVER DEBT, INCOME RATIOS

Canada Mortgage and Housing Corporation, the largest insurer of mortgages, has tightened the guidelines for calculating debt ratios and confirming income for mortgage applications.

The announcement was made June 27, about a year after the "guidelines" for lenders came into effect. These voluntary guidelines, which most major lenders already operate under, have now been clarified and become effective on CMHC-insured mortgages on December 31, 2013.

The new standards will apply to all single-family and strata residential mortgages, regardless of the loan-to-value ratio. Conventional mortgages (uninsured) are allowed different policies, but will likely be treated the same by major lenders when deciding approvals, mortgage brokers say,

Here are some of CMHC's newly minted "clarifications" on insured mortgages:

• Unsecured credit lines & credit cards: For these debts, "No less than 3 per cent of the outstanding balance" must be included in monthly debt payments. For example, if a first-time buyer had $20,000 in student debt, 1 per cent of the outstanding balance was normally used to figure a minimum monthly payment of $200. At 3 per cent, the monthly payment would be $600 per month, which could impact how much of a mortgage the buyer could qualify for, explained Kyle Green, a broker with Mortgage Alliance in Vancouver.

Also, interest-only payments are no longer considered on credit lines. Furthermore, lenders must assess the borrower's credit history and borrowing history when determining the amount of revolving credit that should be accounted for in debt ratios.

"It is always wise for potential buyers to get their other debts paid down before they apply for a mortgage," Green said.

• For variable income: Lenders must use "an amount not exceeding the average income of the past two years." Variable refers to things like bonuses, tips, seasonal employment and investment income. This guideline is already enforced with most major lenders.

• For rental income: If a borrower owns other non-owner occupied rental properties, the principal, interest, property taxes and heat (P.I.T.H.) on those properties must either be: deducted from gross rent revenue to establish net rental income; or included in 'other debt obligations' when the Total Debt Service (TDS) ratio is being calculated.

• For guarantor income: The income of the guarantor must not be used in debt-service ratios "unless the guarantor... occupies the home and is the spouse or common-law partner of the borrower."

• Heating costs: Lenders must now obtain the "actual heating cost records" of a property. Compared to past methods (which entailed flat heating costs, like $150 per month), the new guidelines can double or triple the heating cost that must be factored into debt ratios on larger properties, and reduce it on smaller ones.

> **Stricter mortgage guidelines will be cemented into lending practices by the end of this year.**

"For buyers who are close to the edge, it may be wise to purchase before the new guidelines come fully into effect," Green noted.