

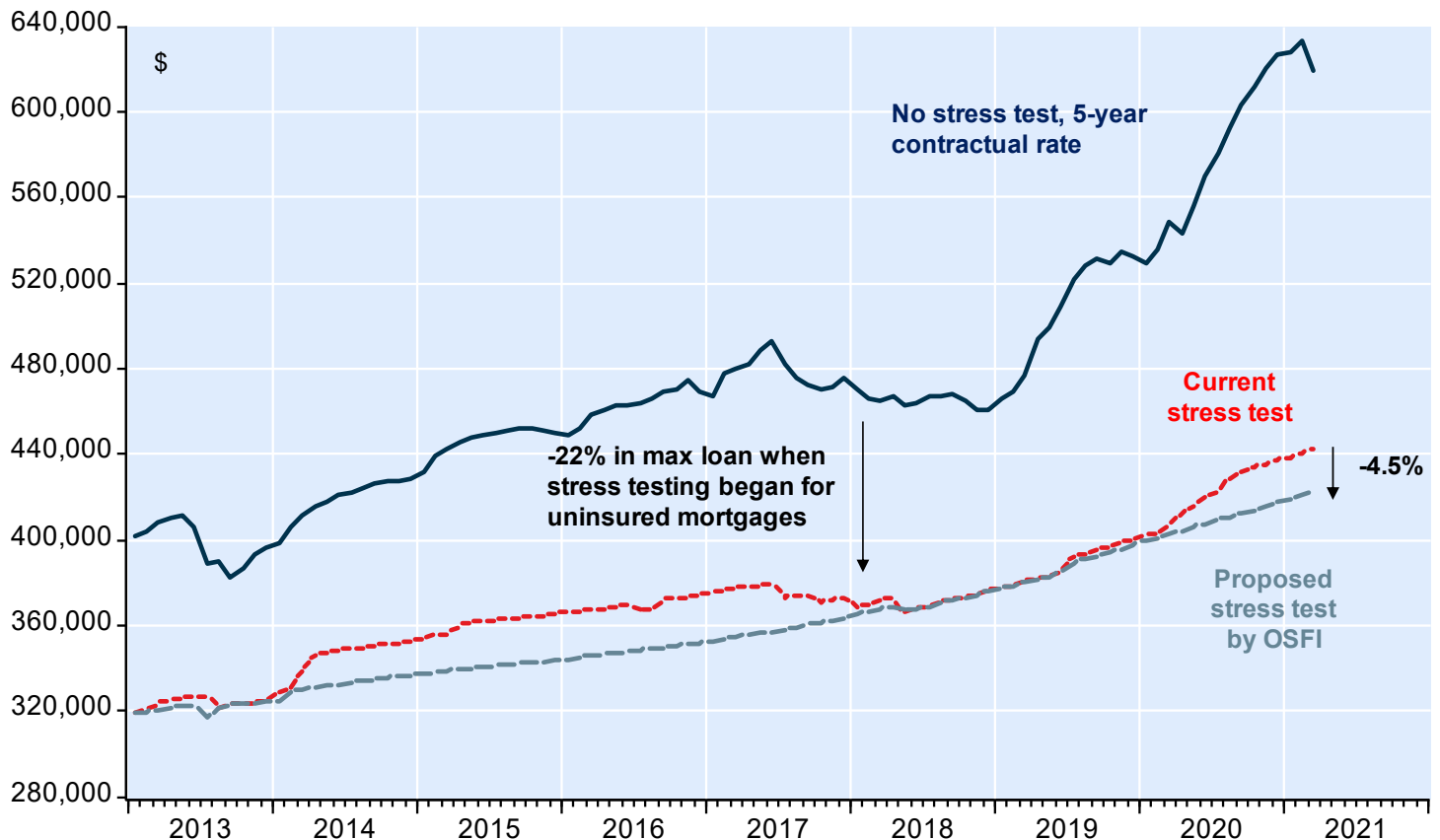
Canada Watch

By Matthieu Arseneau/ Kyle Dahms

The Office of the Superintendent of Financial Institutions (OSFI), announced today a proposal with the objective of promoting a resilient financial system. Back in February, we suggested that macroprudential measures would be contemplated given a record high number of markets with prices rising at a double-digit pace and an unprecedented level of vulnerable borrowers with high-debt uninsured mortgages ([see report](#)). OSFI has proposed to change the qualifying rate for uninsured (conventional) mortgages in Canada (buyers with a downpayment of more than 20%). Today's announcement recommends the new benchmark rate for homebuyers be a minimum of 5.25% or the contractual rate plus 200 basis points, whichever of the two is highest. Given that the current qualifying rate is the 5-year posted rate by banks standing at 4.79%, it would roughly represent a 50 basis points increase. Is that enough to calm the market? As today's Hot chart shows, the maximum amount that can be borrowed under the new rule would decrease by 4.5% (from \$442K to \$422K for a median income household). This is quite modest in comparison to the 22% drop caused by the B-20 stress test which was implemented in January 2018 and required homebuyers to qualify at the higher of either the 5-year posted rate or the contractual rate plus 200 basis points. Though the new measure is a step in the right direction for financial stability, we doubt this alone will significantly cool the housing market. In the short term, it could have the opposite effect, creating a rush to close deals before the force date of June 1, 2021.

Canada: An attempt by OSFI to cool the housing market

Maximum loan assuming 39% of median household income* for Gross Debt Service and 25-year amortization



*Estimated at \$78K in March 2021

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