Canada Watch
By Kyle Dahms/Matthieu Arseneau

The Minister of Finance, Bill Morneau, announced today a change in the qualifying rate for insured mortgages in Canada (buyers with a downpayment less than 20%). Recall that since October 2016, the federal government requires homebuyers to qualify at the higher 5-year posted rate instead of the contractual rate, a measure put in place to curb household debt. In the current context, this represents a 22% reduction in purchasing power. Starting in April 2020, the new benchmark rate for homebuyers will be “the weekly median 5-year fixed insured mortgage rate from mortgage insurance applications, plus 2%”, which will be more representative of market conditions as opposed to the more static posted rate. What does this mean for homebuyers looking for an insured mortgage? Given that the new benchmark rate is lower than the posted rate, the maximum amount that can be borrowed increases by 4% according to the latest data available. This should add further fuel to a vigorous housing market which is already supported by the recent decline in mortgage rates and a vibrant labour market.

Canada: Adding fuel to the housing market
Maximum loan assuming 39% of median household income for Gross Debt Service and 25-year amortization
General

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