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As you are probably already aware, today Finance Minister Jim Flaherty announced changes to the rules for government-backed insured mortgages for residential properties of 1-4 units.

In total, four new measures were announced for new government-backed insured mortgages.

- **The maximum amortization period was lowered from 30 years to 25 years.**
- **The maximum amount that Canadians can borrow when refinancing their homes was lowered to 80% from 85% of the value of their homes.**
- **Households are now being constrained to a maximum gross debt service ratio and maximum total debt service ratios of 39% and 44%, respectively.**
- **Government-backed insured mortgages will now be only available on homes with a purchase price of less than $1 million.**
- **These new rules will take effect on July 9, 2012.**

Additional information from the Department of Finance :

FREQUENTLY ASKED QUESTIONS

Concerns about borrowers

Q. I already have an insured mortgage. How will these changes affect me?

A. Mortgage insurance is good for the life of the mortgage. Borrowers renewing their insured mortgages will not be affected by these changes. For example, if a borrower had a 30-year amortization and there are 27 years remaining on the mortgage, the mortgage can be renewed with a 27-year amortization, as long as no new funds are being added to the mortgage.

Q. What is required to qualify for an exception to the new parameters?

A. The new measures will apply as of July 9, 2012. Exceptions will be made to satisfy a binding purchase and sale, financing or refinancing agreement where a mortgage insurance application has been made before July 9, 2012. While the changes come into force on July 9, 2012, any mortgage insurance applications received after June 21, 2012 and before July 9, 2012 that do not conform to the measures announced today must be funded by December 31, 2012.

Q. Will a purchase and sale agreement dated prior to July 9, 2012 be considered binding if there are outstanding conditions that have not been fulfilled prior to July 9, 2012?

A. Yes, if the date on the purchase and sale agreement is earlier than July 9, 2012, and a mortgage insurance application has been made prior to that date, the new parameters will not apply, even if the conditions of the agreement have not been waived.

Q. Will the new refinancing rules allow a borrower with a mortgage above 80 per cent loan-to-value (LTV) to refinance by extending the amortization period?

A. No. Effective July 9, 2012, borrowers will not be permitted to refinance a mortgage above an 80 per cent LTV, unless the borrower has a binding refinance agreement dated prior to July 9, 2012, and a mortgage insurance agreement has been made prior to that date.

Q. I have a written mortgage pre-approval from a lender, dated before July 9, 2012 with a 30-year amortization. Will I still be eligible for a 30-year amortization if I don't sign an agreement of purchase and sale until July 9, 2012 or later?

A. No, a mortgage pre-approval without an agreement of purchase and sale is not sufficient to qualify for a 30-year amortization. You may have a 30-year amortization only if your agreement of purchase and sale is dated before July 9, 2012 and you have made a mortgage

insurance application before July 9, 2012. You may wish to discuss with your lender to revise your mortgage pre-approval using the new parameters announced today.

Q. Will the new parameters apply to assignment ("switch" or transfer) of a previously insured loan from one approved lender to another?

A. No. As long as the loan amount and amortization period are not increased, the new parameters will not apply to a switch/transfer/assignment of the mortgage to a different lender.

Q. If I sell my current home and buy another, will the new parameters apply if I transfer the outstanding balance of my insured mortgage to the new home?

A. As long as the outstanding balance of the insured loan, the LTV ratio and the remainder of the amortization period are not increased, the new parameters will not apply when the mortgage insurance is transferred from one home to another.

Q. What if I need to increase the amount of my insured loan when I sell my current home and buy another?

A. In this situation, the new parameters will apply for any insured loan.

Q. If I bought a condo that is not expected to be built for another two years, will the new parameters apply?

A. If you bought a condo and have made a mortgage insurance application on or before June 21, then the new parameters would not apply.

If you buy a condo and make a mortgage insurance application after June 21, the new parameters will apply if the mortgage loan is not funded by December 31, 2012.

General

Q. Why is the Government making these changes at this time?

A. These measures will support the long-term stability of the Canadian housing and mortgage markets and promote savings through home ownership. They are intended to be timely, targeted and measured. The measures will reinforce the importance of borrowing responsibly and using home ownership as a savings vehicle. The Government actively monitors developments in the housing market and is committed to taking action when necessary.

Q. What will be the impacts of the adjustments to the rules for government-backed mortgage insurance on the Canadian economy?

A. The adjustments to the rules for government-backed mortgage insurance will provide significant benefits to the Canadian economy by supporting the stability of the housing market and promoting savings through home ownership. The short-term impact on the housing market is expected to be manageable, given that the majority of Canadian families are already taking a prudent approach in managing household debts. In the long term, these measures are expected to have a positive impact on the economy through higher savings and a lower number of financially vulnerable households.

Q. When do these measures take effect?

A. The new measures will take effect on July 9, 2012.

Q. Are further measures expected?

A. The Government actively monitors developments in the housing market, consumer debt and the economy, and is committed to taking action when necessary to support the long-term stability of the housing market and protect the investment of Canadian families.

Q. Do these measures apply to multi-unit buildings?

A. These standards apply to mortgages on residential property with four units or less.

Q. Why is the Government lowering the limit on refinancing again?

A. The new measure announced today will reduce the maximum amount on refinancing to 80 per cent from 85 per cent of the value of the home. Limiting the amount of refinancing will promote saving through home ownership and limit the shifting of consumer debt into mortgages guaranteed by taxpayers.

Q. Why is the Government lowering the maximum amortization period again?

A. The new measure announced today will reduce the maximum amortization period to 25 years from 30 years. Limiting the maximum amortization period will reduce the total interest payments Canadian families make on their mortgages, helping them build up equity in their homes more quickly and pay off their mortgages sooner.

For example, reducing the amortization period from 30 years to 25 years on a mortgage would result in a moderate increase in the monthly payment. However, over the life of the mortgage, this modest increase would result in a significant reduction in the total interest payments. For a $350,000 mortgage at 4 per cent interest rate, the interest savings could be over $45,000.

Q. Why is the Government limiting the maximum gross debt service (GDS) and total debt service (TDS) ratios?

A. The GDS ratio is the share of the borrower's gross household income that is needed to pay for home-related expenses, such as mortgage payments, property taxes and heating expenses. The TDS ratio is the share of the borrower's gross income that is needed to pay for home-related expenses and all other debt obligations, such as credit cards and car loans.

The new measure announced today will set the maximum GDS ratio at 39 per cent and reduce the maximum TDS ratio to 44 per cent. These debt service ratios measure the share of a household's income that is required to cover payments associated with servicing debt. Both measures are already used by lenders and mortgage insurers to assess a borrower's ability to pay. Setting a GDS limit and reducing the TDS limit will help prevent Canadian households from getting overextended and reduce the number of households vulnerable to economic shocks or an increase in interest rates.

Q. Why is the Government introducing a maximum allowable price for insured mortgages?

A. The new measure announced today will establish that government-backed mortgage insurance is only available for a new high loan-to-value mortgage if the home purchase price is less than $1 million. Because homes priced at or above $1 million would not be eligible for government-backed high ratio insurance, borrowers for these homes would require a down payment of at least 20 per cent.

Introducing a maximum allowable price will ensure that government-backed mortgage insurance operates the way it was originally intended: to help working families and first-time homebuyers. This measure is expected to have a negligible impact on working families and first-time homebuyers as the vast majority of these borrowers purchase properties priced below the threshold.