

Policy Changes Required after Government Insured Mortgage Changes Announced

On January 17, 2011, Federal Finance Minister Jim Flaherty announced three additional changes to standards governing government-backed insured mortgages (CMHC).

Credit Unions are required to change their lending policies and guidelines for government insured mortgage loans by **March 18, 2011** and **April 18, 2011** respectfully.

Three *new* changes include:

1. The maximum amortization period for a government-insured mortgage has been lowered from 35 years to 30 years.

This measure is meant to reduce the total interest payments Canadian families make on their mortgages and will allow them to build equity more quickly and help pay off their mortgages before they retire.

2. The maximum amount that can be borrowed for the purpose of refinancing a mortgage is reduced to 85 per cent from 90 per cent of the appraised value of the home.

This step should promote savings through home ownership and limit the refinancing of debt into mortgages guaranteed by taxpayers.

This change requires lending policy changes by **April 18, 2011**.

3. The government (CMHC) will no longer back home equity lines of credit or HELOCs.

This change will stop financial institutions from allowing homeowners to roll too many consumer purchases into CMHC insured mortgages.

This is the second time in three years that the government has changed the mortgage rules. In 2008 the following was introduced:

- The amortization period was lowered from 40 years to 35 years
- A minimum downpayment of 5 per cent was required
- Established a requirement for a consistent minimum credit score
- Introduction of new loan-documentation standards