



## Implementation of New Government Guarantee Parameters (Homeowner Properties)

### Operational Questions and Answers

**NOTE: Any questions regarding the rationale for the changes are to be referred to the Department of Finance.**

**1. In summary, to what type of loans does the new minimum equity requirement apply?**

The new minimum equity requirement applies to all purchase homeowner loans where the purchase price of the property is greater than \$500,000, but less than \$1,000,000.

**2. How was the minimum equity requirement changed with the December 11, 2015 announcement?**

The minimum equity requirement was increased from 5% to 10% for any portion of the purchase price of a property that is above \$500,000, but less than \$1,000,000.

**3. What is the impact of the new minimum equity requirement on the amount of down payment required?**

The table below provides examples to illustrate the impact of the new minimum equity requirement on the minimum down payment required:

#### Impact of New Minimum Equity Requirement

Purchase Price	Minimum Equity Requirement	Minimum Down Payment (Amount)	Minimum Down Payment (%)	Impact
Up to and including \$500,000	5%	Up to \$25,000	5%	None
\$600,000	5% of the first \$500,000 + 10% of the additional portion	\$25,000 + \$10,000* = \$35,000	5.8%	Additional 0.8%
\$800,000	5% of the first \$500,000 + 10% of the additional portion	\$25,000 + \$30,000* = \$55,000	6.9%	Additional 1.9%
\$999,999	5% of the first \$500,000 + 10% of the additional portion	\$25,000 + \$50,000* = \$75,000	7.5%	Additional 2.5%

\* Values have been rounded up for simplicity.

**4. Is CMHC's premium calculation method impacted by the change in minimum equity requirement?**

No. CMHC's mortgage loan insurance premium will continue to be calculated as a percentage of the total loan amount which takes into consideration the purchase price (or as-improved value for purchase with improvements loans) and the amount of the down payment.

**5. How will the new minimum equity requirement be applied?**

Insurance applications that fall under the new minimum equity requirement are:

- a. All new insurance applications received on or after February 15, 2016; and
- b. Insurance applications received between December 11, 2015 and February 14, 2016 (inclusively) with a closing date planned on or after July 1, 2016.

**6. What if an insurance application was not submitted before December 11, 2015 but the borrower entered into a bona fide purchase and sale agreement before December 11, 2015?**

The "old" requirement may continue to apply to insurance applications which relate to a bona fide purchase and sale agreement entered into and dated before December 11, 2015, regardless of the closing date, even if the loan insurance application is received by CMHC on or after December 11, 2015.

**7. What if the planned closing date is postponed on or after July 1, 2016?**

CMHC acknowledges industry realities and will accommodate delays that may occur that are beyond a lender's or borrower's control. This means that exceptions may be made to accommodate unforeseen circumstances which would delay the planned closing date on or after July 1, 2016.

**8. What if an insurance application which was submitted before December 11, 2015 is resubmitted with change(s) on or after December 11, 2015?**

So long as the property and the borrower(s) are the same, if the loan application is resubmitted with change(s) on or after December 11, 2015, the new requirement does not apply, regardless of the closing date of the mortgage.

**9. What if an insurance application which was submitted between December 11, 2015 and February 14, 2016 inclusively is resubmitted with change(s)?**

Regardless of the change, so long as the property and the borrower(s) are the same, the new requirement does not apply.

**10. Does the new minimum equity requirement apply to Port transactions?**

The new requirement does not apply to straight Port transactions (i.e. no increase in the loan amount, new loan amortized over the remainder of the amortization period of the original loan, and initial loan-to-value ratio for the new loan is less than or equal to the current loan-to-value ratio for the original loan).

If a Portability with increase transaction is submitted between December 11, 2015 and February 14, 2016 inclusively with a planned closing date before July 1, 2016, the “old” requirement applies. If, however, the planned closing date is on or after July 1, 2016, the new requirement applies. The same logic applies to Portability with decrease transactions with increase in loan-to-value ratio only.

**11. Does the new minimum equity requirement apply to loans funded by way of progress advances (i.e. construction loans or purchase plus improvement loans)?**

Yes. As is the case for any purchase transaction, if the application is received between December 11, 2015 and February 14, 2016 inclusively with funds fully advanced and a planned closing date before July 1, 2016, the new requirement does not apply. If, however, the funds are not planned to be fully advanced before July 1, 2016 and closing date is planned on or after July 1, 2016, the new parameter applies. As indicated in question 7 above, exceptions may be made to accommodate unforeseen circumstances which would delay the planned closing date and result in the funds not being fully advanced before July 1, 2016.

**12. For purchase plus improvement loans, does the new minimum equity requirement apply to the purchase price or the “as improved” value?**

The new equity requirement would apply to the “as improved” value.

**13. If Lender A has obtained a loan approval under the “old” requirement and the borrower decides to give their business to another lender (Lender B), will CMHC review the insurance application under the “old” requirement?**

- a) Provided that the property and the borrower(s) are the same, if the loan application from Lender A was submitted to CMHC before December 11, 2015 the new insurance application from Lender B would be reviewed in accordance with the “old” requirement, regardless of the date that Lender B submits the application.
- b) Provided that the property and the borrower(s) are the same, if the loan application from Lender A is submitted between December 11, 2015 and February 14, 2016 inclusively with a planned closing date before July 1, 2016, the new application from Lender B will be reviewed in accordance with the “old” requirement.

- c) If the insurance application from Lender A is submitted on or after February 15, 2016, the new requirement will apply to any subsequent application submitted by another lender.

**14. Does the new minimum equity requirement apply to 1-4 unit rental loans?**

No. This is because the minimum equity requirement currently applicable to 1-4 rental loans (i.e. 20%) is more conservative than the new minimum equity requirement announced on December 11, 2015.

**15. Does the new requirement apply to 3 and 4-unit owner occupied properties?**

No. This is because the minimum equity requirement currently applicable to 3 and 4-unit owner-occupied properties (i.e. 10%) is more conservative than the new minimum equity requirement announced on December 11, 2015.

**16. Does the new minimum equity requirement apply to refinance loans?**

No. The new minimum equity requirement only applies to purchase transactions.

**17. Would the new requirement apply in the context of CMHC's Affordable Housing Flexibilities?**

Yes.

**18. Does the new requirement apply to loans submitted for CMHC Portfolio Insurance?**

No. The new requirement only applies to transactional insurance.

**19. Considering that the new requirement applies immediately to homeowner loans with a planned closing date on or after July 1, 2016, will CMHC change its underwriting practices in any way?**

To effectively manage the new requirement and support lenders in its implementation, as of Monday December 14, **emili** will auto-refer owner-occupied applications with the following characteristics:

- purchase price greater than \$500,000;
- closing on or after July 1st, 2016; and
- new minimum down payment requirement not met (i.e. the equity amount is below the new down payment required)

As always, CMHC will work closely with you to ensure a smooth transition, including any required systems changes.