



Department of Finance to follow OSFI's Lead on June 1st

*Stress Test Changes Will Impact Conventional **and** Insured Mortgages*

On May 20th, The Office of the Superintendent of Financial Institutions ([OSFI](#)) *confirmed* that the proposed changes to the Stress Test originally announced on April 8th will indeed come into effect on June 1st. These changes are aimed at conventional mortgages (i.e., purchasing a home with **20% or more down payment** and for those refinancing an existing mortgage).

In a surprise statement, the [Department of Finance](#) announced that they will follow OSFI's lead by implementing similar Stress Test changes for insured mortgages (i.e., purchasing a home with **less than 20% down payment**). This announcement comes without warning and provides insured buyers with a brief notification period given the June 1st effective date.

In Summary? With the recent Department of Finance announcement, the higher stress test rate (5.25% vs. 4.79%) will now be applicable to both conventional AND insured buyers effective June 1st.

What's Changing?

Currently, the Stress Test rate is set at the higher of the actual mortgage rate +2% or **4.79%**. The 4.79% is based on the average of the Big Six Bank's 5-year fixed posted rates. Effective June 1, the government will take control of setting the Stress Test rate and will be amending it to the higher of the actual mortgage rate + 2% or **5.25%**. The 5.25% will be reviewed and communicated at a minimum annually in December.

The projected impact of this change is that it will reduce maximum purchasing power by approximately 4%. For example, a person who would qualify for up to a \$950K purchase today, will only qualify for a \$910K purchase as of June 1st.

Impact on Approvals / Pre-Approvals

- Approvals** - Firm purchases in place prior to June 1st, or refinances with mortgage commitments prior to June 1st, will be honored under old rules even if they fund after the effective date. Subject to specific lender's terms and conditions.
- Pre-approvals** - OSFI has provided lenders with discretion to continue underwriting pre-approvals under the old rules until June 1st (and honor those pre-approvals on a future purchase); however, we have yet to hear from individual lenders how they will proceed. Our advice would be to get your pre-approvals in place ASAP (before June 1st).

For further information about this change, please contact any member of the Outline team as we are on stand-by to help run the numbers and/ or provide guidance on any specific scenario.