Alert: CMHC Tightens Rules: How it Affects New Home Buyers

Description

Canada Mortgage and Housing Corporation (CMHC), Canada's biggest default mortgage insurer, is tightening mortgage rules. What does it mean for new home buyers?

The new CMHC mortgage rules

As of July 1, these new rules will be in effect for homeowners applying for CMHC mortgage insurance:

- Maximum gross debt service ratio of 35 (from 39 previously)
- Maximum total debt service ratio of 42 (from 44 previously)
- At least one borrower must have a minimum credit score of 680 (from 600 previously)
- Sources for your down payment are more stringent (From the CMHC: "Borrowers must pay the down payment from their own resources. These eligible traditional sources of down payment may include savings, the sale of a property, non-repayable financial gift from a relative, funds borrowed against their liquid financial assets, funds borrowed against their real property, or a government grant.")

The new debt ratio criteria essentially increase the stress test rate and reduce home buyers' purchasing power on a new home.

How CMHC rule changes affect new home buyers

From the rule changes, you get the sense that CMHC is making it more difficult for people with higher debt levels and lower credit scores to get a mortgage.

One reason behind the rule changes is the gloomy economy we're in. COVID-19-triggered business closures, mass layoffs, and a lower level of immigration will be a headwind for the Canadian housing market.

Currently, CMHC predicts housing prices will decline 9-18% over the next 12 months. It's already seeing deferred payments from approximately 12% of mortgage holders. And that percentage could climb to as high as 20% by September!

CMHC does not want to see first-time home buyers easily getting into the housing market only to experience a large price decline in their homes while the economy is shaky.

According to RateSpy, "**RBC** Capital Markets, **Genworth** and Canada Guaranty reportedly indicated that the choice to adopt any/all of CMHC's changes is theirs. CMHC's policies were not an industry-wide mandate by the Department of Finance."

So, for now, there doesn't seem to be any real impacts on potential home buyers, as other companies can take up the mortgage businesses that CMHC will lose from the rule changes.

As long as you manage your finances well, get your down payment ready, and continue to generate stable income, there's no need to worry about not being able to get a mortgage that suits your needs.

A surefire way to increase your income

I know it's not a small feat to save for a sizable down payment. However, if you're able to spare any excess cash into investing, you can increase your income, which can help pay back your mortgage down the road!

You can consider investing in dividend stocks for passive income. The COVID-19 market crash provides some extraordinary opportunities to lock in high dividend yields.

One particular dividend stock I still like today is **Brookfield Property Partners**. The stock just rallied with a roar from its March low, because the stock was too cheap!

At US$12.84 per unit, it still only trades at 45% its end-of-Q1 book value. So, it's a great value buy now and especially on meaningful dips. This year, it'll experience high volatility due to its large exposure to retail and office real estate.

At writing, BPY yields 10.36%.

With that high a yield, you can earn a nice passive income no matter how much you invest, as long as you believe there's still demand for quality retail and office properties.

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