# The Mortgage Stress Test

## What the mortgage stress test is – and what it means to you

**If you're about to start looking for a mortgage to buy a new home, or want to refinance your current mortgage, you need to know about the mortgage stress test.**

**This test was introduced by the government to ensure that borrowers can afford to continue making their mortgage payments, even when income is reduced, or interest rates jump up.**

**So, how does the stress test work and will it have an impact on your mortgage application?**

## How the mortgage stress test works

When you apply for a mortgage, the lender uses calculations called debt service ratios to work out how much you can borrow. These ratios are called Gross Debt Service ratio (GDS) and Total Debt Service ratio (TDS).

GDS is calculated by dividing your monthly income by your monthly mortgage payments, property taxes, 50% of condo fees (if applicable) and heat. TDS uses the same calculation, but also includes other monthly loan obligations, such as credit card payments and car payments.

The typical limits for qualifying for a mortgage are 32% for GDS and 40% for TDS. If you go over these limits your mortgage will be refused.

Up until only a few years ago, this was a fairly simple process. The mortgage payment portion of the debt service ratios was based on the actual amount you would pay for your mortgage.

Then the government brought in the mortgage stress test. Rather than qualifying borrowers at their actual contract rate, lenders use the Bank of Canada qualifying rate or 2% above their contract rate, whichever is the highest. While the law applies only to federally-regulated lenders (such as the big six banks), many credit unions are also applying the stress test.

## Does this apply to you? And how will it affect how much you can borrow?

The only people who don't have to qualify with the stress test are those who already have a mortgage and are renewing it with the same lender.

Otherwise, for anyone taking out a mortgage under these circumstances, the stress test would apply:

- First-time homebuyers applying for a mortgage
- People moving to a new home and who need a new mortgage
- Anyone looking to refinance their mortgage (increase the amount)
- Homeowners looking to renew their mortgage with a new lender

The stress test applies to all mortgage applicants, even those with a down payment of 20% or more. For people looking to buy the most expensive home they can afford, the stress test will considerably reduce the choice of homes available to them.

For example, a couple earning $52,000 annually could have qualified for a home worth around $240,000* before the stress test was introduced. They would now have to settle for a home worth around $200,000.

## The options if you don't qualify for the mortgage you want

If the stress test means that you don't qualify for a large enough mortgage to buy the home you really want, there are a few options:

- Save up a larger down payment
- Find a home that matches what you can borrow
- Use some of your RRSP savings to provide a larger down payment through the Home Buyers' Plan)

## Find out the price of the home you can afford

Your Cornerstone mortgage advisor can help you calculate how much you qualify to borrow and the purchase price you can go up to. They can also help you to find the best mortgage to suit your particular needs.

** Example for illustrative purposes only. Based on a 20% down payment, 25-year amortization, contract interest rate of 2.99% and Bank of Canada qualifying rate of 5.19%.*

**Call 1.855.875.2255 today to book an appointment to help you get your new mortgage!**

Cornerstone Credit Union