New mortgage rules for rent to limit first-time homebuyers

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Derek Scott

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VANCOUVER-Buying a house in the hot housing markets of Vancouver, Toronto and other major cities in recent years has been a possible dream for some first-time homebuyers only because many of those houses had suites they could rent out.

But new rules coming into effect April 19 will all but wipe out that advantage in the eyes of banks handing out mortgages.

"It makes it much more difficult for people with rental properties to qualify for their own mortgage on their personal residence," said Vancouver mortgage specialist Patrick Mulhern.

The new regulations are designed to prevent speculation in the market, said Jack Aubrey, of the Canada Mortgage and Housing Corporation.

But Vancouver mortgage agent Mike Averbach said the new rules will do little to prevent investors from gambling in the housing market.

"They haven't decreased risk," he said. "They're just not allowing you to use the income."

Currently, landlords can use 80 per cent of their rental income to offset monthly mortgage payments. That means, if they receive $1,000 per month in rental income, they can use $800 to offset a $1,200 mortgage payment, leaving only $400 to be debt financed.

But under the new rule, only 50 per cent of a landlord's rental income will be used. Even then, that money will not be used to offset their monthly mortgage payment. It will be added to their total income, forcing them to qualify for the entire monthly mortgage.

For instance, a person earning $100,000 per year in regular income plus $12,000 per year in rental income will have a total income of $106,000 with which to qualify for a mortgage on their own home.

Rental income is essential for many of his clients, Averbach said.

In cities like Vancouver, where the average home price in February was more than $662,000, rental offset is the only way many people can qualify for a mortgage and the new rules will keep many of his clients in condos rather than houses, he said.

"Putting a renter in your basement is not speculative, it's reality," he said. "It helps you pay your mortgage."

The rule changes also make it more difficult for people to buy a property separate property to use as a revenue generator.

CMHC will no longer offer high-ratio financing on rental property not lived in by the owner. That means someone looking to buy a house as a rental investment will have to come up with a 20-per-cent down payment on the property, as opposed to five per cent before the rules changed.

The changes haven’t worried groups advocating for tenants.

Jeordie Dent, of the Federation of Metro Tenants’ Association in Toronto, where vacancy and availability rates have dropped over the last year, said he doesn’t see a negative impact on renters.

Instead, he said his group welcomes the changes.

Dent said too many people become landlords without the financial or intellectual wherewithal to properly manage their properties.

“Anything that strengthens mortgage rules, from our perspective, is a good thing.”