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Home buyers befuddled by new mortgage rules

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Real estate industry players in Toronto area are starting 2018 grappling with snow squalls, stress tests and some very bewildered clients.

"There's so much confusion," Joe Sammut, a mortgage broker at Toronto-based Mortgage Architects, says. "Consumers are confused, stressed and wanting to see how the dust settles."

Despite the chaotic start to the year, many market watchers are looking forward to a spring market imbued with balance and calm.

New more stringent rules governing mortgage loans kicked in across Canada on Jan. 1. The expanded "stress test" will make it harder for some potential buyers to purchase a property.

Mr. Sammut saw a flurry of purchases in the last week of December as buyers rushed to purchase ahead of the rule change.

"I literally had people signing deals Dec. 28th, 29th and 30th, just to get their paper written."

The new regulations imposed by the federal banking regulator, the Office of the Superintendent of Financial Institutions (OSFI), require lenders to ensure that clients obtaining a mortgage now have enough financial strength to continue making payments if interest rates were to rise. Borrowers must be able to qualify at a rate two percentage points

Potential buyers who can't muster the financial muscle to pass the test will have to buy a less expensive property, save a larger down payment or seek a loan from an alternative lender that isn't governed by OSFI. Mr. Sammut says people are confounded by the changes and he expects a chill will settle over the market until buyers can see more clearly.

"I don't see borrowing or lending harder to come by," Mr. Sammut says. "It's more that this might take the wind out of their sails from an emotional standpoint."

Mr. Sammut says his phone started ringing on the first business day of the new year. He heard from many potential buyers who lined up a preapproved mortgage in 2017 and believe they can bring that preapproval forward into 2018.

"That's not necessarily the case," he says.

Mr. Sammut says the disarray partly stems from the fact that some lenders began applying the "stress test" soon after the changes were unveiled. In that case, a mortgage approval for 60 or 90 days, for example, might carry forward into 2018. Others gave preapprovals that were valid only under the 2017 rules. In those circumstances, the approval died as the clock turned over to Jan. 1.

Some potential buyers holding those preapprovals don't know which camp they fall into. In that case, Mr. Sammut recommends they contact the lender or take the paper work to a mortgage broker who can check the numbers.

Mr. Sammut says some consumers he's hearing from are befuddled by the messages they've been getting from lenders. Some are under the impression that their bank will "grandfather" their preapproval under the old rules. He doesn't know if the consumer misunderstood or if the representative was deliberately vague.

"How in the world were they going to circumvent the new rules?" he wonders. "I don't know how they could tell their clients that."

Mr. Sammut says his team began to run the numbers as if the new rules were in place as early as November. That way, the calculations either confirmed the strength of the client's approval

Mr. Sammut showed clients the amount they would have to spend if they were able to sign a deal before the end of 2017 and also what would happen after that date. He submitted the application to the lender with the "stress test" already applied.

Mr. Sammut has also been hearing from clients who want to renew a mortgage, refinance an existing mortgage or rearrange their debts.

"We're going to find a lot of people who figured out how much they spent over the holidays and they want to consolidate."

In fact, Mr. Sammut sees an unintended risk that could open up under the new rules. Real estate purchasers who had the amount of mortgage debt they could take on curtailed by the new rules may now be tempted by bigger unsecured loans, such as credit-card debt, he fears.

That's because credit-card companies and other purveyors of consumer debt aren't required to impose a stress test. They can look at the client's income and the size of their mortgage payment and decide that the extra breathing room created by the mortgage stress test makes the client a good candidate for a higher credit limit.

He fears that people may swap secured debt in the form of a mortgage for a bigger load of unsecured debt. Consumer debt is already at a record high in Canada, he points out.

"I just see it getting worse – I haven't seen it getting better."

Also adding to uncertainty in the market, more than two-thirds of economists are expecting the Bank of Canada to raise its key interest rate this month.

One lender raised its mortgage rate on a fixed five-year term this week, Mr. Sammut says, but he doesn't know if others will be quick to follow.

Mr. Sammut expects the market freeze to begin to thaw some time in February as buyers and sellers get a better grasp on the changes.

He predicts a "sane" spring market compared with the runaway price growth in the first

Mr. Rocca says that homeowners are reluctant to list their properties for sale in the midst of uncertainty.

"My sellers are very apprehensive about not going on the market immediately. I think that could backfire."

Mr. Rocca worries that, if too many potential sellers hold off, a flood of new listings will arrive all at once in the early part of the spring.

He plans to bring out a few listings soon to appeal to the buyers that are circulating. Even in a cautious landscape, he says, buyers and sellers who come to the market early will face less competition.

Mr. Rocca is warning his clients that March will not be a good month for selling. Families will be preoccupied, with the public schools March break one week and the private schools another. The Easter weekend also begins in March this year, with Good Friday falling on the 30th.

He doesn't expect a repeat of last year's overheated first quarter, when prices began climbing at a rate of more than 30 per cent year-over-year.

"All of a sudden it went nuts – it was ridiculous," he says.

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