Tonin&Co.
CHARTERED PROFESSIONAL ACCOUNTANTS
WEALTH MANAGEMENT

Mortgage Qualification

When acquiring a mortgage, there are three key ratios to determine the amount you can qualify for.

Down Payment

To qualify for a conventional mortgage, you need to have a down payment of at least 20% of the value of the property, the remaining 80% would be your mortgage amount. This would give you a "loan to value" ratio of 80%. However, if you are unable to put 20% down, you could qualify for a high-ratio mortgage. In Canada to qualify for a high-ratio mortgage, the purchaser (you) must obtain Canadian Mortgage and Housing Corporation (CMHC) Loan Insurance. With CMHC Loan Insurance you can qualify for a high-ratio mortgage with as little as 5% down by providing lenders with mortgage default insurance on the property.

CMHC will only insure homes valued at less than $1 million and have the following minimum down payment requirements:

Home Value	Minimum Down Payment
First $500,000	5%
$500,001 to $1,000,000	10%
Above $1,000,000	20% *(Not eligible for CMHC)*

CMHC insurance is not a substitute for life or disability insurance, as it only protects the lender in insuring against the home owner defaulting on their mortgage. However, by offering default protection to lenders, lenders are more willing to fund high-ratio mortgages.

CMHC insurance premiums are paid by the borrower (you) and the cost is based on a percentage of the loan using the following table:

Down Payment	Premium on Total Loan
15% to 19.9%	2.8%
10% to 14.9%	3.1%
5% to 9.9%	4%

You have the choice between paying this premium amount as a lump sum or adding it to your mortgage. The premiums can be subject to provincial sales tax depending on the province of purchase and these taxes are not eligible to be added to your mortgage.

Down Payment Example

The following table shows the minimum down payment requirement and the associated CMHC Mortgage Loan Insurance premium on a $700,000 house purchase in Ontario.

Home Value	$700,000
Minimum Down Payment	$45,000 *=$500k X 5% + $200k X 10%*
Mortgage	$655,000 *=$700k-$45k*
Loan to Value	93.6% *=$655k/$700k*
Premium on Total Loan	$26,200 *=4% X $655k*
Taxes on CMHC Insurance	$2,096 *=$26,200 X 8%*

Gross Debt Service Ratio (GDSR)

Gross Debt Service Ratio helps lenders to determine if you are financially capable of handling the cost associated with home ownership and your new mortgage. The formula takes into consideration your projected mortgage payments, both the principal portion and the interest portion, as well as your new property taxes and heating costs. The sum of these expenses is then divided by your gross family income, which can include child and spousal support income.

$$\frac{\text{Principal + Interest + Property Tax + Heating + 50\% of Condo Fees + 100\% of Land Rent}}{\text{Gross Family Income}}$$

This ratio must be below 35% to qualify for a mortgage.

Total Debt Service Ratio (TDSR)

Total Debt Service Ratio is an extension of GSDR, but also includes your current debt payments. This is used to determine if adding a mortgage to your current debt obligations would result in you facing financial difficulties and limiting your ability to re pay your mortgage. Child and spousal support payments are considered debt obligations for this calculation.

$$\frac{\text{Principal + Interest + Property Tax + Heating + 50\% of Condo Fees + 100\% of Land Rent + Other Debt Obligations}}{\text{Gross Family Income}}$$

The maximum this ratio can reach, while still qualifying for a mortgage is 42%.

Questions? Contact a Tonin Wealth Management representative at 519-822-5307 or email general@tonin.ca.

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