15 Things You Need to Know About Mortgage Default Insurance

- There are three providers of mortgage default insurance in Canada: CMHC (Canada Mortgage and Housing Corporation), Genworth, and Canada Guarantee.

- Residential lenders generally lend to a maximum of 80% of the property value (property value = lesser of purchase price or appraised value).

- If a borrower wants to borrow more than 80% of the property value (ie. if they have a down payment of less than 20% of the property value), then they can apply for "mortgage default insurance". The mortgage default insurer charges a "premium", which is fee that is payable by the borrower, which is added to mortgage.

- In theory, mortgage default insurance protects the lenders against loss. For example, in the event that a borrower does not pay the loan back as agreed, and if the property is sold, and if the sale results in a loss for the lender, then the lender can apply to the mortgage default insurance provider to pay them back for the loss.

- High-ratio lenders (this means lenders that use "mortgage default insurance") generally demand credit scores of (at least) 680+ for both applicants.

- If your credit doesn't fit in the box, then there may still be lenders that will look at your application, but the rates and down payment required are higher (these types of lenders also often have lender and mortgage broker fees) – if you can save up the needed 25%+, then they may be something to consider (you need at least 20% to avoid mortgage default insurance but you will also need some funds to pay for fees and closing costs, which is why I suggest having at least 25% if you are to go this route).

- In exchange for insuring your loan, the mortgage default insurers charge a premium (paid by the borrower, and added to the mortgage). Click here to go to CMHC's website to see their premiums.

- Although many borrowers prefer the minimum down payment for an owner-occupied property (which, as of this writing is 5%), sometimes lenders/insurers will approve your loan, conditional upon a higher down payment. This is because the higher down payment adds equity, which protects the lender/insurer in the event that the property needs to be sold to regain the lender's investment.

- Minimum down payment for a rental property is 20%

- You cannot borrow money for down payments.

- CMHC-insured financing is available for one property per borrower/co-borrower at any given time, and the maximum amortization period is 25 years.

- If you use a mortgage insurer, you often get lower rates (and lower closing costs ie. the insurer almost always conducts their own valuation (or pays for the appraisal).

- Our Mortgage Default Insurers will only finance purchases. This means that you cannot purchase a home, fix it up, then go back to the lender/insurer and ask for a higher mortgage so that you can pay yourself back for the renovation costs – BUT – you can apply up front for "purchase + improvements". So, if you find a home that you want to buy and renovate (ie. basement development, new kitchen etc.) – make sure to tell your broker (me) that you want to apply for this program.

- The minimum down payment that a borrower needs to have is 5% (up to a purchase price of $500k). The minimum down payment from $500k to $999,999 is 10% for any amount over that (until you hit $1M purchase price, at which point the minimum down payment is 20%+). (see link to CMHC site here)

- You also need to show that you have an additional 1.5% of the purchase price available in order to meet the down payment condition (ie. to pay for lawyer fees (generally $1,500), and title insurance (usually less than $500) etc. + any other things you may need after you move in ie. a new couch etc.

Example 1: Minimum down payment on $400,000 purchase price =

$400k x 5% =	$20k (down payment)
$400k x 1.5% =	$6k (closing costs/buffer)
	$26k ← amount you need to prove you have

Example 2: Minimum down payment on $600,000 purchase price =

$500k x 5% =	$25k
$100k (diff. between $500k and $600k) x 10% =	$10k
$600k x 1.5% =	$9k
	$44k

Link to CMHC (one of the mortgage default insurance providers): https://www.cmhc-schl.gc.ca/en/buying/mortgage-loan-insurance-for-consumers/what-are-the-general-requirements-to-qualify-for-homeowner-mortgage-loan-insurance

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