



## OSFI proposes a more stringent mortgage stress test

The Office of the Superintendent of Financial Institutions (OSFI) announced this week on the restart of the consultations related to the minimum qualifying rate for uninsured mortgages. This process was underway prior to the pandemic before being suspended.

OSFI has proposed a more stringent stress test, which likely comes as a surprise given calls for a loosening of restrictions given the gap between contract rates and posted rates published by the Bank of Canada.

As per [OSFI](#),

*The new proposal for the qualifying rate for uninsured mortgages is the higher of the mortgage contract rate plus 2% or 5.25% as a minimum floor. Additionally, OSFI announced a proposal to revisit the calibration of the qualifying rate at least once a year to ensure it remains appropriate for the risks in the environment.*

The current stress test is already stringent as the higher of the contract rate plus 2 per cent, or the prevailing benchmark rate (4.79 per cent). The proposed 5.25 per cent rate was the prevailing average benchmark in the 12 months prior to the pandemic.

Currently, 5-year rates can be had for below two per cent, meaning a gap between of more than three per cent for qualification. The proposed qualification rates are excessive in the current rate environment and expectations for future rates, and likely a response to current housing boom and surging home prices observed across the country. It may also be a signal to lenders to tighten up their lending processes and a first move in advance of other measures that could target amortization limits and debt service ratios.

The more stringent stress test will modestly temper some demand pressures if enacted, particularly for down payment constrained buyers including first time owners. That said, given a supply constrained environment, this is unlikely to derail the housing market by itself.

OSFI is holding consultations through May 7, with results and summary on May 24. The decision will come into force on June 1, 2021.

---

### Bryan Yu

Chief Economist

byu@central1.com / P 604.742.5346

Mobile: 604.649.7209