

# Personal Finance



The borrowing guidelines for insured Stated Income Programs underwent some major changes last month along with other measures designed to ensure a higher level of mortgage creditworthiness in Canada.

The changes were announced by CMHC (also known as Canada Mortgage and Housing Corporation). The CMHC changes, as well as those announced by Finance Minister Jim Flaherty which also became effective last month, are all attempts to help cool off the heated housing market which is now being driven by record-low interest rates. More importantly, these new measures were judged to be required in order to protect borrowers from taking on more debt than they can afford, especially as a series of interest rate hikes are imminent. While Canada still allows Stated Income programs, they are becoming very rare in the U.S. The massive number of defaults and foreclosures reported by the U.S. after the 2008 credit crisis were attributed mostly to Stated Income programs that were used to place under-qualified borrowers into mortgage loans that they simply could not afford.

While Canadian lenders can continue to use the Stated Income programs, which are customized for commissioned and self-employed borrowers, CMHC will now be scrutinizing these applications using much tighter underwriting criteria.

What exactly does Stated Income mean?

Stated Income means exactly that. When a mortgage application is created, for a self-employed or commissioned applicant, and the entire income amount is not verifiable in traditional documents (for example a Notice of Assessment), the applicant may apply under the Stated Income program in order to allow an income adjustment to help qualify them for a home purchase or re-finance.

Here is an outline of the changes that, as of April 9th 2010, were implemented on Stated Income applications which pass through CMHC as an "insured mortgage":

- 1. Down payment:** Those who are purchasing a home, and who have applications classified as a Stated Income application, are now required to put down 10% rather than the 5% minimum required previously.
- 2. Tenure:** Those who have been working in the same business for greater than three years, are not eligible for the Stated Income program and therefore those in this category would have to provide proof of their income, for example, a Notice of Assessment.
- 3. Documents:** Documents are being requested and viewed by the lender to help determine the length of self-employment which was not always requested previously. The documents a lender may ask for include a business license, proof of GST registration, articles of incorporation (if incorporated).
- 4. Commission:** Those who are collecting commission are no longer be eligible for the Stated Income program.
- 5. Limits:** A re-finance will be limited to 85% loan-to-value instead of the current limit of 90% used today.

It is important to mention that these program changes only affect those mortgages that are insured by CMHC. Therefore, those mortgages that are not CMHC insured, could be reviewed differently from lender to lender and each lender would specify their underwriting criteria on a case-by-case basis.

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