

CMHC Insurance



What is Mortgage Loan Insurance?

When you need a mortgage loan that is more than 80% of the purchase price of your home, you must buy mortgage loan insurance. It protects the lender and Canadian federally regulated lending institutions will require it. CMHC stands for Canada Mortgage & Housing Corporation.

Having mortgage loan insurance means that if you, the borrower, default on your mortgage, the Lender is paid back by the insurer - CMHC or a private company. With the risk of losing their money removed, Lenders have the confidence to make mortgage loans to new and repeat homebuyers of up to 95% of the purchase price of the home.

All borrowers must have a consistent minimum credit score.

The Process

Your financial institution will fill out the required forms and will submit them to CMHC for you usually via "emili" which is an electronic system used between Lenders and CMHC.

What does Mortgage Loan Insurance cost?

Application fees on all high-ratio homeowner mortgage loan insurance products have been eliminated.

Mortgage loan insurance standard premiums range from 0.50% to 2.90% of the amount of your loan and is based on the size of your down payment.

The premium can be added to your mortgage loan and paid off as part of your regular mortgage payments or paid off in a lump sum at the time of purchase to save interest charges on the premium itself.

CMHC Insurance Continued

CMHC Premium Rates and Calculations

C.M.H.C.'s insurance fees are based on a sliding scale dependant upon your loan to value ratio. The higher the loan to value ratio, the higher the insurance premium will be. Below are the standard rates based on an amortization period of no greater than 25 years. These rates are not applicable to self-employed individuals.

Below are the various rates charged:

Loan To Value	Fee
Up to & incl. 65%	.50%
Up to & incl. 75%	.65%
Up to & incl. 80%	1.00%
Up to & incl. 85%	1.75%
Up to & incl. 90%	2.00%
Up to & incl. 95%	
▪ Traditional Down Payment	2.75%
▪ Flex Down	2.90%

Examples:

a)	Purchase price	=	\$250,000.
	Less 5% down payment		<u>\$ 12,500.</u>
	Amount borrowed		\$237,500.

Therefore, the Insurance fee payable is:

$$\$237,500. \times 2.75\% \text{ (Traditional Down)} = \underline{\$6,531.25}$$

b)	Purchase price	=	\$310,000.
	10% down payment		<u>\$ 31,000.</u>
	Amount borrowed		\$279,000.

Therefore, the Insurance fee payable is:

$$\$279,000. \times 2.00\% = \underline{\$5,580.00}$$

CMHC Insurance Continued

At the moment there are three insurance companies. The three are:

- 1) CMHC or Canada Mortgage & Housing Corporation (www.cmhc-schl.gc.ca);
- 2) Genworth Financial Canada (www.genworth.ca);
- 3) AIG United Guaranty (www.aigug.ca).

All can insure Lenders against a buyer's default.

Flex Down: Eligible borrowers can access the minimum 5% down payment from a variety of sources, including borrowed funds or lender incentives, provided the funds are at arm's length from (and not tied to) the purchase or sale of the property. The following are examples:

- 1) Bank/Credit Union or other lender's cash back incentives;
- 2) Borrowed money i.e. personal loans, lines of credit, credit cards;
- 3) Grants and gifts from any party (not just relatives);
- 4) Sweat equity. This is value added to a property due to improvements as a result of work performed personally by the owner.

Flex Down is available for 1 to 2 unit residential properties and extended amortization periods are available.

Some of the major points of the Flex Down program involve a larger premium (2.90% of the borrowed amount instead of the normal 2.75%) and the borrower must live in the property, have good credit and qualify for the amount borrowed.

- On extended amortizations i.e. greater than 25 years, a surcharge will be added on to the normal standard premium.

