MINIMUM QUALIFYING RATE EXCEPTION FOR LOW-RATIO PORTFOLIO INSURED SWITCHES

On December 16th, 2024, the federal government announced there will no longer be a requirement to apply the minimum qualifying rate ("MQR") to low-ratio portfolio insured mortgage switches from federally regulated lenders. This change was effective immediately.

Sagen is pleased to support these changes, and we want to use this opportunity to provide you with an overview of the changes:

- The requirement for applying the MQR on low-ratio straight switches is not applicable if the following criteria are met:
  - The lender of the loan being discharged must be a federally regulated financial institution,
  - A collateral charge that has any non-amortizing component cannot be switched without the MQR,
  - The amortization period at time of the straight switch must be the lesser of the remaining amortization on the loan or 25 years; and,
  - The unpaid principal balance may be increased up to a maximum of $3,000 to cover transaction costs.

Other Parameters

- **Effective date:** these measures are available for low-ratio mortgage insurance applications (LRU+) that are submitted, including previously submitted applications that are resubmitted, on or after December 16, 2024. For non-LRU+ portfolio insurance transactions, eligible loans must be originated on or after December 16, 2024.

- All other eligibility criteria for government-guaranteed mortgage insurance will continue to apply.

For further guidance, please see the accompanying Frequently Asked Questions and a link to the government announcement.

If you have any questions or concerns related to this update, please feel free to contact your appropriate Sagen representative below.

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FREQUENTLY ASKED QUESTIONS

1. **If an application was submitted by a lender for a switch prior to the rule changes, are they eligible to resubmit and be qualified without the minimum qualifying rate?**

Yes, for LRU+ transactions, loans may be resubmitted on or after December 16, 2024, when applying the exception to the MQR.

2. **Is there any expectation for lenders to apply a stress-test to in lieu of the minimum qualifying rate criteria?**

Lenders are expected to follow its own guidelines related to qualifying interest rates, subject to reasonableness and prudency.

3. **Is there a list available of federally regulated financial institutions?**

OSFI offers a publicly available list of financial institutions that are considered federally regulated. The list can be accessed here: Who we regulate - Office of the Superintendent of Financial Institutions.

4. **Are straight switches that are renewed prior to the end of the term eligible to qualify without the minimum qualifying rate?**

Yes, early renewals are permitted. At time of the renewal the unpaid principal balance may be increased up to a maximum of $3,000 to cover transaction costs, such as, lender penalties or fees.

5. **If the borrower has an existing collateral charge with multiple components, including revolving (non-amortizing) components, can the new lender transfer over the total outstanding balance of all the components within the collateral charge without applying the MQR?**

No, given the lender is transferring over the total outstanding balance (including the balance of the non-amortizing components), the lender must apply the MQR to be eligible for mortgage insurance.

6. **If the borrower has multiple amortizing mortgage components, can the new lender transfer all components and apply the MQR exception?**

Yes, given all components are amortizing, the lender may apply the MQR exception. If collapsing into one component at time of the straight switch, the lender may blend the amortization of the amortizing components. Note – if combining into one component, the amortization at time of switch must be the lesser of the blended amortization or 25 years.