



March 5, 2010

To: Mortgage Brokers

Re: Clarification on Qualifying Interest Rate and Policy Changes to CMHC Self-Employed Product

On February 16, 2010, the Government of Canada announced new parameters regarding the application of the government guarantee supporting the Canadian mortgage insurance industry. The purpose of this note is to provide clarification on the qualifying interest rate to be used for borrower qualification purposes on a CMHC-insured loan as well as advise on policy changes relating to the CMHC Self-Employed Product.

Clarification on Qualifying Interest Rate

Effective April 19, 2010, the qualifying interest rate used to assess borrower eligibility will change only for loans with a loan to value ratio (LTV) greater than 80% as follows:

Fixed Rate Mortgages and Variable Rate Mortgages: For loans with a fixed rate term of less than 5 years and for all variable rate mortgages, regardless of the term, the qualifying interest rate is the greater of the benchmark rate¹, and the contract interest rate. For loans with a fixed rate term of 5 years or more, the qualifying interest rate is the contract interest rate.

Mortgages with Multiple Interest Rates (e.g. Multi-Component Mortgages): Each component must be qualified using the applicable criteria defined above.

¹CMHC defines the benchmark rate as the Chartered Bank - Conventional Mortgage 5-year rate that is the most recent interest rate published by the Bank of Canada in the series V121764 as of 12:01 AM (Toronto time) each Monday, and which can be found at: <http://www.bankofcanada.ca/en/rates/interest-look.html>.

Policy Changes to CMHC Self-Employed

CMHC is also announcing policy changes to the CMHC Self-Employed Product Without Traditional Third Party Validation of Income. Effective April 9, 2010, self-employed borrowers with more than 3 years in the same business and commissioned-income borrowers will be required to confirm their income and will not be eligible for the Self-Employed Product Without Traditional Third Party Validation of Income. This product is intended for a small portion of borrowers who find it very difficult to document income – in particular, recently self-employed borrowers. For the majority of self-employed borrowers, income validation is readily available through financial statements, contracts, T4s and other third party income validations. The changes will ensure that self-employed borrowers with third party income validation will benefit from a lower premium. Furthermore, the maximum

loan-to-value ratio available under the CMHC Self-Employed Product Without Traditional Third Party Validation of Income will be reduced from 95% to 90% for purchase transactions and from 90% to 85% for refinance.

Inquiries should be directed to CMHC's Client Service Centre at 1-888-GO-emili (1 888 463 6454).

Sincerely,



Pierre Serré
Vice-President,
Insurance Product and Business Development