



Insurance

## *CMHC Insurance*

### What is Mortgage Loan Insurance?

**When you need a mortgage loan that is more than 75% of the purchase price of your home, you must buy mortgage loan insurance. It protects the lender and, by law, most Canadian lending institutions 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.

That means your down payment can be as little as 5% of the house price. So, if the selling price is \$350,000, you would need a down payment of just \$17,500 if you are purchasing a single family home that will be used as your principal residence.

### What does Mortgage Loan Insurance cost?

First, you pay a small application fee. Your financial institution will fill out the required forms and take the fee from you. They will then submit them to CMHC for you usually via "emili" which is an electronic system used between Lenders and CMHC.

Mortgage loan insurance premiums range from 0.50% - 2.90% of the amount of your loan (additional charges may apply), depending on the size of the loan and the value of your home.

**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.**

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## 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 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%	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, Insurance fee payable is:**

$$\$237,500. \times 2.75\% = \underline{\$6,531.25}$$

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

**Therefore, Insurance fee payable is:**

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

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## Additional Points to Remember

- There are two insurance companies:  
CMHC or Canada Mortgage & Housing Corporation ([www.cmhc-schl.gc.ca](http://www.cmhc-schl.gc.ca))  
GE Mortgage Insurance Canada ([www.gemortgage.ca](http://www.gemortgage.ca)). This is the largest **private** sector mortgage insurance company.  
  
Both can insure Lenders against a buyer's default.
- Up to 80% of the gross rental income of a secondary suite can be used for income qualification purposes.

**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.

In the past, Lenders have required that the 5% down payment come from the buyer's own savings or from a relative. Not any more.

As an added incentive, home buyers may also borrow the funds to cover the closing costs.

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.

