HOMEBUYER GUIDE · CANADA

THE MORTGAGE STRESS TEST

What it is, how it changes what you can qualify for, and practical ways to work within it.

THE BASICS

WHAT IS THE STRESS TEST?

When you apply for a mortgage at a federally regulated lender, you must prove you could handle payments at a rate higher than the one you'll actually pay: the greater of your contract rate plus 2%, or the minimum qualifying rate of 5.25%. It applies to purchases and refinances, whether your mortgage is insured or uninsured.

The goal is protection — making sure a rate rise at renewal, or a change in your circumstances, doesn't put your home at risk. In practice, it also means you qualify for less than the contract rate alone would suggest.

A QUICK EXAMPLE

A $650,000 mortgage over 25 years at a 4.29% contract rate:

Payment you actually make (4.29%):	$3,536/mo
Payment you must qualify at (6.29%):	$4,304/mo

The lender tests your income against the higher payment — even though you will never pay it at today's rate.

COVERAGE

WHO IT APPLIES TO

- Home purchases at banks and other federally regulated lenders — with any size of down payment.
- Refinances and most lender switches on uninsured mortgages.
- Credit unions and alternative lenders are provincially regulated — their qualifying rules can differ, which is one way a broker can widen your options.

BUYING POWER

HOW IT CHANGES WHAT YOU QUALIFY FOR

Because the test uses a rate roughly 2% above your contract rate, the income needed for the same mortgage rises — or, put the other way, the same income supports a smaller mortgage. Illustrative figures, 25-year amortization, before property taxes and other debts:

Household income	Approx. at 4.29% contract	Approx. under 6.29% test
$90,000	$505,000	$425,000
$130,000	$730,000	$610,000
$170,000	$955,000	$800,000

Estimates for illustration only — actual qualifying depends on debts, taxes, heating, credit, and lender policy. O.A.C.

STRATEGY

FIVE WAYS TO WORK WITHIN IT

01 **STRENGTHEN THE DOWN PAYMENT**
A larger down payment shrinks the mortgage being tested — and at 20%+ it can also remove insurance costs.

02 **CONSIDER A LONGER AMORTIZATION**
Where eligible, stretching to 30 years lowers the tested payment and lifts qualifying room.

03 **PAY DOWN DEBTS FIRST**
Car loans and credit cards count against your ratios. Clearing them before applying can add real buying power.

04 **LOOK BEYOND THE BIG BANKS**
Credit unions and alternative lenders follow different qualifying rules. Fees can apply — I disclose them upfront.

05 **GET THE STRUCTURE RIGHT**
Rate type, term, and lender choice all change the qualifying math. A strategy review costs nothing.

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