

# AN UPDATE ON THE B-20 "STRESS TEST"

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**Categories:** [Insights](#), [Publications](#)

The Office of the Superintendent of Financial Institutions (OSFI) has indicated that Guideline B-20 is working, and that the associated "stress test" has improved the resilience of the Canadian financial system.<sup>[1]</sup> On June 10th, 2019, OSFI published information about B-20's impact on the top 19 federally regulated lenders who represent 95 percent of all uninsured mortgages. The bulletin, which includes a history of B-20 and OSFI's broader regulatory role, comes amidst growing public debate over the benefits of the federal government's current minimum qualifying rate, also known as the "stress test".<sup>[2]</sup>

OSFI's mandate is to protect Canada's financial system by ensuring the stability of its institutions. It strives to accomplish this goal by creating standards that protect the economy in both normal conditions and in the event of financial downturns.<sup>[3]</sup> In 2017, for example, OSFI issued revisions to Guideline B-20 in response to dramatically increasing real estate prices and the resulting personal debt incurred by Canadians. The updated guideline aims to increase the rigor that lenders apply to underwriting mortgages. Most significantly, the revisions changed the minimum qualifying rate. Borrowers must now be able to demonstrate that they can afford loans at two additional percentage points above their mortgage rate. These guidelines, which came into effect in early 2018, have led to a more challenging mortgage approval process.<sup>[4]</sup>

Data released by OSFI illustrates that the new mortgage underwriting practices have reduced the number of loans for highly indebted and over-leveraged borrowers while maintaining stable rates upon renewal. Further, it does not appear that borrowers are extending amortization periods on uninsured mortgages to pass the stress test requirement. Before the stress test came into effect, the proportion of new uninsured mortgages that exceeded 450 percent of a borrower's income was over 18%. Now, the proportion is approximately 14%, a rate not seen since 2015.<sup>[5]</sup>

OSFI's revised guidelines do not appear to have affected renewal rates or amortization periods for uninsured mortgages. The difference between renewal and new mortgage rates for uninsured five-year fixed and variable rate mortgages are not significantly different from the rates offered between 2014 and the implementation of the stress test. Before and after the B-20 revisions, renewal rate differences have been within an average range of -0.25% to 0.25%.<sup>[6]</sup> Similarly, the proportion of mortgages with amortization periods of greater than 25 years has remained stable. It therefore does not appear that borrowers are attempting to circumvent the minimum

qualifying rate with amortization periods of greater than 25 years.<sup>[7]</sup>

In 2017, Canada had among the highest levels of debt in the world, at 181% of household disposable income.<sup>[8]</sup> OSFI has been keen to address this issue as the financial burden on Canadians increases. A third of Canadians say that they do not earn enough money to meet their bill payments, and nearly half of Canadians report that they are \$200 away from insolvency at month-end.<sup>[9]</sup> This economic reality is borne out in the numbers. Canada's household debt service ratio – the amount of income required to service household debt – has reached an alarming 14.9%.<sup>[10]</sup> OSFI's B-20 revisions attempt to mitigate this issue by making it more difficult for over-leveraged Canadians to incur unsustainable levels of debt. Thus far, it appears that the "stress test" has had its intended effect, without creating many of the presumed consequences.

by Darcy Ammerman, Carol Lyons and Jeremiah Kopp, Summer Law Student

[1] [\*Residential Mortgage Underwriting Practices and Procedures Guideline \(B-20\)\*](#), Office of the Superintendent of Financial Institutions (June 2019).[ps2id id='1' target='']

[2] [\*Canada's housing crisis and mortgage stress test are officially election issues\*](#), National Post (January 2019)[ps2id id='2' target='']

[3] [\*Residential Mortgage Underwriting Practices and Procedures Guideline \(B-20\)\*](#), Office of the Superintendent of Financial Institutions (June 2019).[ps2id id='3' target='']

[4] [\*Residential Mortgage Underwriting Practices and Procedures Guideline \(B-20\)\*](#), Office of the Superintendent of Financial Institutions (June 2019).[ps2id id='4' target='']

[5] [\*Chart 1, Residential Mortgage Underwriting Practices and Procedures Guideline \(B-20\)\*](#), Office of the Superintendent of Financial Institutions (June 2019).[ps2id id='5' target='']

[6] [\*Chart 2, Residential Mortgage Underwriting Practices and Procedures Guideline \(B-20\)\*](#), Office of the Superintendent of Financial Institutions (June 2019).[ps2id id='6' target='']

[7] [\*Chart 3, Residential Mortgage Underwriting Practices and Procedures Guideline \(B-20\)\*](#), Office of the Superintendent of Financial Institutions (June 2019).[ps2id id='7' target='']

[8] [\*Data on Household Debt - Organization for Economic Co-operation and Development \(OECD\)\*](#).[ps2id id='8' target='']

[9] [\*46% of Canadians \\$200 or less from financial insolvency\*](#), CBC News (January 2019).[ps2id id='9' target='']

[10] [\*National balance sheet and financial flow accounts, fourth quarter 2018\*](#), Statistics Canada (2019).[ps2id id='10' target='']

### **A Cautionary Note**

The foregoing provides only an overview and does not constitute legal advice. Readers are cautioned against making any decisions based on this material alone. Rather, specific legal advice should be obtained.

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