Letter

Title	Minimum Qualifying Rate - Letter (2021)
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In June 2021, the Office of the Superintendent of financial Institutions (OSFI) introduced a revised minimum qualifying rate (MQR) for uninsured mortgages under Guideline B-20 (*Residential Mortgage Underwriting Practices and Procedures*). In its announcement, OSFI committed to review the calibration of the MQR at least annually, every December.

Today, OSFI is confirming that the current MQR remains unchanged, and will continue to be the greater of the mortgage contractual rate plus 2 percent or 5.25 percent.

Purpose and Components of the MQR

The MQR is a mechanism to test borrowers' debt service capacityGross Debt Service Ratio (GDS) and Total Debt Service Ratio (TDS).. Federally regulated financial institutions (FRFIs) apply the MQR to assess whether borrowers could continue to make their mortgage payments if they faced adverse changes to their financial circumstances. As mortgages are one of the largest exposures that most FRFIs carry, examining whether borrowers can repay their loans strongly contributes to sound mortgage underwriting and the continued safety and soundness of Canada's financial system.

The MQR has two components, the “buffer” on the contract rate (currently 2%) and the “floor” (currently 5.25%). Specifically,

- The buffer builds in a margin of safety that demonstrates that borrowers can be resilient to a variety of changes to their financial circumstances, such as a reduction of income or a rise in mortgage interest rates. It has typically been set at 2%.
- The floor accounts for risks to the borrower that can result from fluctuations in the broader economy. In setting the floor, OSFI analyzes various financial vulnerabilities to borrowers and FRFIs, which can ultimately lead to an increase in mortgage loan defaults and threats to the financial system.

Assessment of the MQR

For the calibration of the MQR, OSFI considers data and information from its ongoing monitoring of FRFIs. It conducts this evaluation in consultation with the Department of Finance and the Bank of Canada.

Key vulnerabilities examined in setting the MQR included the macroeconomic environment, household indebtedness and house price imbalances. These vulnerabilities pose risks to borrowers’ financial resilience and ability to service their mortgage loan, as well as risks to the value of their mortgaged home, which banks hold as collateral against a mortgage default. OSFI also examined other pertinent financial information, including measures of FRFI exposures and mortgage characteristics.

In spring 2021, OSFI observed that these vulnerabilities, and corresponding risks, were elevated. There was macroeconomic uncertainty due to the COVID-19 pandemic, a near-record level of household indebtedness, and highly elevated house prices in various regions of Canada. OSFI, therefore, set the MQR floor to 5.25%, which was higher than the previous levelPreviously, the floor of the MQR was the five-year benchmark rate posted by the Bank of Canada, which was 4.79% in May 2021., effective June 1, 2021. Current vulnerabilities and risks, which remain elevated, support maintaining the MQR floor at 5.25%.

OSFI will continue to assess the vulnerabilities and risks posed to borrowers and FRFIs as it receives additional and updated information. While OSFI has committed to reviewing the MQR for uninsured mortgages at least annually, in December, it is prepared to make changes at any time if conditions warrant. Any changes to the MQR will be made

public, along with a supporting rationale.

OSFI Supervision of FRFIs

OSFI will continue to closely supervise FRFIs to ensure that they are assessing borrowers' debt service capacity prudently, consistent with Guideline B-20, in addition to other expectations on sound mortgage underwriting.