

# Do you understand the new down payment rules?

The increase to the minimum down payment for home purchases over \$500,000 is now in place. Atrina Kouroshnia explains the changes

By Atrina Kouroshnia

**B**ack in December 2015, the new Liberal finance minister Bill Morneau made changes to the minimum down payment required for borrowers who are purchasing with the minimum down payment, which is currently a minimum of five per cent down on any home below \$1 million. The change was made to create stability for the overall real estate market and reduce risk. This new rule came into effect February 15, 2016.

## Who the changes will affect

This change will not affect the majority of Canadians, or anyone purchasing under the \$500,000 mark, as the minimum down payment remains five per cent for those properties. But it will affect a number of home buyers in pricey cities like Vancouver and Toronto, where real estate prices are steep and the overall cost of living is high.

The most common hurdle for homebuyers living in a pricey city is saving up for a down payment. Although the new rules will not affect everyone, as many buyers will have support from family in terms of a gifted down payment, or purchase below \$500,000, it will certainly mean more savings will be required for those who perhaps waited a bit longer to get into a mid-entry condo or townhouse.

First-time home buyers in British Columbia who are looking at taking full advantage of the Property Transfer Tax (PTT) would not be affected by the new down payment changes, as the maximum purchase price for full exemption is \$475,000. From \$475,000-\$500,000 a partial exemption applies.



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This new minimum down payment also does not discriminate between first-time or repeat buyers, but given that the down payment is less than 20 per cent, the property must be owner-occupied or a second home and cannot be a rental property.

## How the new minimum works

The new down payment rule indicates that the minimum down payment required for purchases over \$500,000 will have to be adjusted from the current five per cent. Assuming that they can qualify for, and can afford to service, the required mortgage, homebuyers will need a

minimum of five per cent on the first \$500,000 of the home price and 10 per cent on the remaining purchase price above \$500,000.

So, for a buyer who is hoping to purchase a two-bedroom condo in Vancouver and is looking at spending \$600,000, assuming that they qualify

for the mortgage, their minimum down payment will rise from the current \$30,000 (five per cent of \$600,000) to \$35,000. That is calculated as five per cent of \$500,000 = \$25,000, plus 10 per cent of the remaining \$100,000 = \$10,000.

This is most likely not a deal-breaker for most, but considering that this buyer will also be paying \$10,000 for PTT (calculated as one per cent of the first \$200,000 and two per cent of the remaining purchase price), the extra \$5,000 would definitely be something to budget for.



## Atrina Kouroshnia

is an independently licensed mortgage broker in Vancouver, BC. She specializes in helping residents invest in their future through the purchase of their first home. She has a degree in Human Relations and Commerce, as well as past work experience in HR and real estate development. Atrina brings a holistic approach to the table when finding her clients the best mortgage available. She believes in complete transparency and ensures that her clients understand every detail of the process and all of their options. Go to [mortgagebyatrina.com](http://mortgagebyatrina.com).