

## STRESS TEST EXPLAINED

What it is, why it exists, how it affects what you can borrow, and what you can do about it — in plain English.

PREPARED  
BY

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# 1. What Is the Stress Test?

Since 2018, every mortgage borrower in Canada — regardless of down payment size — must prove they can afford payments at a rate **higher** than their actual mortgage rate. This is called the mortgage stress test (officially the "minimum qualifying rate").

**The lender qualifies you at the higher of:**

- The Bank of Canada's benchmark rate: currently **5.25%**
- Your actual contract rate + **2.0%**

For example, if you're offered a rate of 4.49%, you must qualify at 6.49% (4.49% + 2.0%). Since 6.49% is higher than 5.25%, you'd be tested at 6.49%.

***Shawn's Tip:** You never actually pay the stress test rate. It's only used to determine how much you can borrow. Your actual monthly payments are based on your contract rate.*

# 2. Why Does It Exist?

The stress test was introduced to protect Canadians from taking on mortgages they couldn't afford if rates went up. It ensures you have a financial cushion.

**It protects against:**

- **Rising interest rates** — Your payment could increase significantly at renewal
- **Income disruption** — Job loss, illness, or reduced hours
- **Unexpected costs** — Major repairs, life changes, economic downturns

- **Over-leveraging** — Borrowing the maximum and being house-poor

### 3. How It Affects Your Buying Power

The stress test typically reduces your maximum purchase price by **15–25%** compared to what you'd qualify for at the actual rate. Here's a real-world comparison:

Household Income	Without Stress Test	With Stress Test	Reduction
\$80,000	<b>\$430,000</b>	<b>\$340,000</b>	<b>-\$90,000</b>
\$100,000	<b>\$540,000</b>	<b>\$430,000</b>	<b>-\$110,000</b>
\$130,000	<b>\$700,000</b>	<b>\$560,000</b>	<b>-\$140,000</b>

*Estimates based on 5% down, 25-year amortisation, no other debts. Your actual numbers depend on debts, credit score, and property taxes.*

## 4. Who Must Pass the Stress Test?

Everyone. There are no exceptions:

- First-time buyers
- Move-up buyers
- Refinancers
- Switchers (changing lenders at renewal)
- Buyers with 20%+ down payment
- Buyers with less than 20% down
- Investment property buyers

The only situation where the stress test doesn't apply is when you **renew with your existing lender** and don't change anything. But even then, you should shop around — accepting your bank's renewal offer without comparing could cost you thousands.

## 5. Strategies to Maximise Your Buying Power

The stress test is non-negotiable, but there are ways to work within it:

- **Pay down debts first** — Reducing your car payment or credit card balance directly increases your qualifying amount. Every \$300/month in debt costs you roughly \$60,000 in buying power.
- **Increase your down payment** — A larger down payment means a smaller mortgage, which is easier to qualify for. FHSA + HBP can provide up to \$200,000 for a couple.
- **Choose a longer amortisation** — First-time buyers now qualify for 30-year amortisation, which lowers the qualifying payment and increases your maximum purchase price.
- **Consider a co-signer** — Adding a co-borrower's income can help you qualify for more. But both parties are equally responsible for the debt.
- **Improve your credit score** — A higher score (680+) gives you access to better rates and more lender options. Check yours free through Borrowell.
- **Work with a broker** — I have access to 20+ lenders with different qualifying criteria. Some are more flexible on ratios, self-employment income, or non-traditional situations.

***Shawn's Tip:** The stress test isn't your enemy. It's the reason Canadian banks didn't collapse in 2008 like American ones did. It keeps you from becoming house-poor. I'll find the best rate from 20+ lenders and show you exactly what you qualify for.*

## 6. Common Myths

**Myth:** "The stress test will be removed soon"

**Reality:** No indication of this. It's been in place since 2018 and is considered a permanent part of Canadian

mortgage regulation.

**Myth:** *"I can avoid it with 20% down"*

**Reality:** Wrong. The stress test applies to **all** buyers regardless of down payment. A 20% down payment only eliminates CMHC insurance — not the stress test.

**Myth:** *"Variable rates avoid the stress test"*

**Reality:** Wrong. Both fixed and variable rates are subject to the stress test.

**Myth:** *"My bank will waive it at renewal"*

**Reality:** They can't. Regulated lenders must apply the stress test when you switch lenders. Only renewing with your current lender avoids it.

**Myth:** *"The stress test rate never changes"*

**Reality:** It does change. The Bank of Canada reviews and adjusts the qualifying rate periodically.

## Want to Know Exactly Where You Stand?

I'll run the stress test with your real numbers in about 15 minutes. No cost. No obligation.

**Call or Text: 403-703-6847**

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