



December 9, 2024

CANADA GUARANTY

# LENDER UPDATE

## New Mortgage Insurance Rules for Refinancing to Add Secondary Suites

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On October 8, 2024, the federal government announced the further expansion of eligibility criteria for insured mortgages. This enhancement will enable mortgage insurers to offer an insured refinancing option for homeowners seeking to add secondary suites to their properties.

Canada Guaranty is pleased to support this change, which will make it easier for homeowners to convert underutilized space into secondary suites and contribute to more diverse housing options in our communities.

We would like to take this opportunity to provide you with an overview of the upcoming changes, effective January 15, 2025.

### Refinance to Add Secondary Suites

- The measure will apply to all borrowers seeking to access mortgage insurance to add more units (secondary suites). Borrowers must satisfy the following requirements:
  - Already own the property;
  - Intend to construct additional suites; and,
  - The additional suites must not be used as a short-term rental.
- The refinance to add secondary suites must satisfy the following eligibility requirements:
  - The new suites must be legal, fully self-contained, and meet municipal zoning requirements;
  - The “as-improved” value of the eligible residential property against which the loan is secured must be less than \$2 million;
  - The maximum loan-to-value is 90% of the “as-improved” value, including any existing secured debt;
  - Amortization up to a maximum of 30 years.



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## Other Parameters

- **Effective date:** These measures will be available for mortgage insurance applications that are submitted on or after January 15, 2025.
- **Occupancy:** These measures will only apply to properties where at least one of the existing units is occupied by the borrower or a close relative (i.e., related to the borrower by marriage, common-law partnership, or any legal parent-child relationship) on a rent-free basis.
- All other eligibility criteria for government-guaranteed mortgage insurance will continue to apply.

In addition to the overview, please see the accompanying frequently asked questions and a [link to the government announcement](#) for your convenience and further guidance.

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As always, we remain available to answer any questions or to discuss your borrowers' unique circumstances. Please do not hesitate to contact a member of our team with any questions.

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Thank you for your continued partnership and support,

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## **FREQUENTLY ASKED QUESTIONS** on Refinance to Add Secondary Suites

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- 1. What documentation will Lenders be required to have on file to confirm legality of the new self-contained suites?**
  - The Lender must have a copy of the building permit (or municipal equivalent) on file at the time of the initial closing (i.e., refinance of the secured debt); and,
  - The Lender must have a copy of the occupancy certificate (or municipal equivalent) on file prior to the final construction draw.
  
- 2. Is there a maximum cost to construct per suite?**

No, there is no maximum cost to construct per suite. The Lender should assess the cost to construct the additional suites as well as the overall marketability of the property when reviewing the application.
  
- 3. How many additional suites can be constructed?**

The maximum allowable number of suites in a property is four, including any existing suites.
  
- 4. Can improvements to the existing structure be included in the cost to construct?**

All costs to construct, including modifications to the existing structure, should be for the sole purpose of, and directly related to, the construction of the secondary suites.

Financing must not exceed the project costs.
  
- 5. Is there a requirement to account for cost overruns?**
  - The Lender should assess the borrower's ability to manage cost overruns (unexpected costs associated with the project based on the scale of construction) when reviewing the application.
  - If the contingency cost is included in the quotes / plans, Lenders will be permitted to include reasonable cost overruns in the cost to construct financing. Any subsequent documented changes to the cost to construct will need to be resubmitted for insurer review.
  
- 6. What existing debt can the Lender include in the refinance?**

Any existing debt, secured by way of a standard or collateral charge on the property, may be consolidated into the insured first mortgage loan. Any liens or other instruments on title will be reviewed by Canada Guaranty on a case-by-case basis.
  
- 7. Does the borrower have to occupy the property?**

At least one of the existing units must be occupied by the borrower or by a person related to the borrower by marriage, common-law partnership, or any legal parent-child relationship on a rent-free basis.

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**8. What due diligence is required by the Lender to confirm the property is not being used as a “short-term rental”?**

The Lender may determine the appropriate verification required to satisfy this requirement. For clarity, where verbal confirmation is obtained by the Lender, it must be documented in the Lender’s underwriting file.

**9. Can mortgage insurance applications for a refinance to add secondary suites be submitted prior to January 15, 2025?**

No, only applications received on or after January 15, 2025, will be permitted.

**10. Will a full appraisal be required at loan origination?**

Canada Guaranty will follow appropriate collateral adjudication processes to assess the current and as-improved value of the property, which may involve a full appraisal at origination.

**11. Can projected rental income from the secondary suites be used for qualification purposes?**

Yes, projected rental income will be permitted. Rental income must be confirmed via fair market rent from an appraiser.

**12. Will Lenders be permitted to manage their own advances and progress inspections?**

Consistent with existing programs today, Lenders will have the option to manage draws, or they may be eligible for insurer managed draws based on predetermined parameters.

**13. What products are eligible in combination with the refinance to add secondary suites?**

Refinance to add secondary suites will be available on all products that meet the eligibility criteria.

**14. Are refinances to add secondary suites permitted for the Rental Advantage™ Program?**

No, one of the existing units must be occupied by the borrower or a close relative (i.e., related to the borrower by marriage, common-law partnership, or any legal parent-child relationship) on a rent-free basis.

**15. Is a 30-year amortization period permitted in combination with the refinance to add secondary suites?**

Yes, refinance to add secondary suites is allowed up to a maximum amortization period of 30-years.

For currently insured borrowers seeking a refinance to add secondary suites, the following amortization options are available:

- Maintain the amortization schedule of the existing insured loan with the same insurer; or,
- Blend the remaining amortization period of the existing insured loan with the amortization period associated with the additional financing with the same insurer; or
- Obtain an amortization period to a maximum of 30-years, which is qualified as a newly insured loan.



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**16. Is refinance to add secondary suites eligible for portfolio insurance transactions?**

Yes, portfolio insurance transactions that include refinance to add secondary suites and are received on or after January 15, 2025, are permitted. Canada Guaranty will provide further guidance on program requirements for the refinance to add secondary suites under portfolio insurance.

**17. What happens if the construction is not completed as planned, and the refinance does not result in legal suites?**

In the event the construction does not result in legal secondary suites, the Lender must disclose this information. Any risks associated with this will be assessed and processed in line with required monitoring and reporting standards.

**18. Will there be any changes related to existing premium rates for refinance to add secondary suites?**

No, existing premium rates will apply, with a premium surcharge of 20 basis points for an amortization period above 25 years up to the maximum of 30 years.