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## SUBJECT

### FIRST-TIME HOMEBUYER INCENTIVE

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#### KEY FACTS

- 80% of Canadian households' housing needs are met through the marketplace.
- Typical First-Time Homebuyers are between the ages of 25 and 34.
- First-Time Homebuyers have an average annual household income of \$74,000
- According to CMHC's 2017 Mortgage Consumer Survey, the average down payment for FTHBs was \$46,000.

#### First-Time Home Buyer Incentive

- **\$1.25 billion** over the next 3 years for CMHC to implement the First-Time Home Buyers Incentive.
  - As of September 30, 2020, CMHC had committed \$173.1 million representing 9,520 approved applications to the FTHBI.
- **\$100 million** over the next 5 years to fund existing providers of shared equity mortgages.
- The Incentive is available to first-time home buyers with household incomes of no more than \$120,000 per year.

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#### RESPONSE

- **Our government believed that every Canadian needs a safe and affordable place to call home.**
- **However, with today's high house prices, more Canadians are struggling to find housing, especially young Canadians.**
- **That's why we introduced the First-Time Home Buyer Incentive in 2019 to help make homeownership more affordable for first-time home buyers.**
- **I am pleased to note that despite the COVID-19 pandemic, more than 9,500 applications have been approved, representing more than \$173 million as of September 2020. We've seen especially strong uptake on this program in Quebec and Alberta.**
- **The incentive allows a 5 per cent or 10 per cent shared equity mortgage for a newly constructed home, or a 5 per cent shared equity mortgage for an existing home, and can allow the borrower to save up to 286\$ per month in mortgage payments.**
- **As announced in last week Economic Update, the government is increasing the eligibility of the First-Time Home Buyer Incentive to help Canadians living in the higher priced markets of Toronto, Vancouver and Victoria.**
- **This means that with a minimum down payment, this targeted expansion will raise the maximum house price for eligible first-time home buyers in these cities by more than \$200,000 - from about \$505,000—the current program parameters—to about \$722,000.**

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## **BACKGROUND**

The housing needs of some 80 per cent of Canadian households are being met through the marketplace, supported by the government through CMHC commercial mortgage loan insurance and securitization activities, as well as guarantees of private mortgage insurers.

Typical First-Time Homebuyers are between the ages of 25 and 34, early in their careers, with average annual household incomes of \$74,000, and limited wealth accumulation.

### **First-Time Home Buyers Incentive**

The Incentive allow eligible first-time home buyers who have the minimum down payment for an insured mortgage to apply to finance a portion of their home purchase through a shared equity mortgage with Canada Mortgage and Housing Corporation (CMHC) who is acting as program administrator on behalf of the Government of Canada.

Since no ongoing repayments would be required with the Incentive, Canadian families would have lower monthly mortgage payments. For example, if a borrower purchases a new \$500,000 home with a 5 per cent down payment and a 10 percent CMHC shared equity mortgage (\$50,000), the borrower's total mortgage size would be reduced from \$475,000 to \$325,000, reducing the borrower's monthly mortgage costs by as much as \$286 per month. Terms and conditions for the First-Time Home Buyer Incentive can be access on the website of CMHC at [www.placetocallhome.ca/fthbi](http://www.placetocallhome.ca/fthbi).

CMHC would offer qualified first-time home buyers a 5 per cent or a 10 per cent shared equity mortgage for a newly constructed home, or a 5 per cent shared equity mortgage for an existing home. The larger shared equity mortgage for newly constructed homes could help encourage the supply of new homes needed to address housing shortages in Canada, particularly in our largest cities.

The First-Time Home Buyer Incentive would include eligibility criteria to ensure that the program helps those with legitimate needs while ensuring that participants are able to afford the homes they purchase. The Incentive would be available to first-time home buyers with qualified incomes of no more than \$120,000 per year. At the same time, participants' insured mortgage and the Incentive amount cannot be greater than four times the participants' annual qualifying income.

### **Expanding the FTHBI announcement from the 2020 Fall Economic Statement:**

The government is expanding the First-Time Home Buyer Incentive to enhance eligibility in the higher priced markets of Toronto, Vancouver and Victoria. This will help to make home ownership more affordable for Canadians who are buying their first home in these cities. To help people in Toronto, Vancouver and Victoria buy a house, the expansion will be available to eligible buyers to purchase a home up to 4.5 times their household income, an increase from the current limit of 4 times household income. Additionally, the eligible buyer's income threshold is being raised from \$120,000 to \$150,000 for Toronto, Vancouver and Victoria. These changes will come into effect in spring 2021. With a minimum down payment, this targeted expansion will raise the maximum house price for eligible first-time home buyers in these cities from about \$505,000—the current program parameters—to about \$722,000.

### **Impact of the FTHBI:**

We do not expect the FTHBI's inflation effect to be beyond a maximum of 0.2-0.4 per cent.

Limiting house price inflation will keep housing more affordable, more so than some of the other suggested policy and regulatory changes. For example, a reduction of one per cent in the mortgage insurance stress test or an extended amortization limit of 30 years would have added to indebtedness and resulted in house price inflation of five to six times more than this maximum.