SUBJECT

FIRST-TIME HOMEBUYERS INCENTIVE

ISSUE

How will the National Housing Strategy help Canadians purchase their first home?

RESPONSE

- **Every Canadian need a safe and affordable place to call home, but today's high house prices mean that more Canadians are struggling to find housing. For many young Canadians, home ownership seems increasingly out of reach.**
- **As part of the 10-year, $72+ billion National Housing Strategy, the First-Time Home Buyer Incentive helps make homeownership more affordable.**
- **We recently expanded the First-Time Home Buyer Incentive by increasing the eligibility to help Canadians living in the higher priced markets of Toronto, Vancouver and Victoria.**
- **I'm happy to mention that we've supported more than 15,000 homeowners since the launch of the initiative, representing over $270 million.**
- **Our government is helping Canadians by lowering monthly mortgage payments for homebuyers without adding to their financial burdens.**

BACKGROUND

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 December 31, 2021, CMHC had committed $270.1 million representing 15,014 applications to the FTHBI.
  - Reducing the borrower's monthly mortgage costs.
  - CMCHC would offer qualified first-time home buyers 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.
  - The Incentive is available to first-time home buyers with household incomes of no more than $120,000 per year.
  - **New measure announced on May 3, 2021 as proposed in the 2020 fall economic statement:**
    - Increase eligibility in the higher priced markets of Toronto, Vancouver and Victoria, these changes will come into effect in spring 2021.
    - 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.
    - the eligible buyer's income threshold is being raised from $120,000 to $150,000 for Toronto, Vancouver and Victoria.
    - 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.
- **$100 million** over the next 5 years to fund existing providers of shared equity mortgages.

As of December 31, 2021, five commitment of $17 million has been made to support over 700 units.

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.

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 announced on May 3,2021and promised in 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.

Budget 2019 also proposes to increase the Home Buyers' Plan withdrawal limit from $25,000 to $35,000, providing first-time home buyers with greater access to their Registered Retirement Savings Plan savings to buy a home.

Other means:

At present, multiple other federal policies encourage investments in homeownership for FTHBs, including:

- Mortgage Loan Insurance: Mortgage loan insurance is mandatory for high ratio mortgages per the *Bank Act*, and it protects lenders against mortgage loan default, while enabling consumers, primarily FTHBs, to purchase homes with a minimum 5% down payment, at rates similar to homebuyers with 20% or more equity.

- CMHC Securitization: CMHC Securitization programs provide access to cost-effective and stable mortgage funding for a range of lenders (banks, credit unions, mortgage finance companies, etc.), which contributes to a steady flow of low cost mortgage credit to consumers.

- Home Buyers' Plan (Canada Revenue Agency lead): The Home Buyers' Plan is a federal program that allows FTHBs to withdraw up to $35,000 without immediate tax consequences from registered retirement savings plans to buy or build a qualifying home. Generally, all Home Buyers' Plan withdrawals have to be repaid to the registered retirement savings plan within 15 years.

- Capital Gains Exemption (Finance lead): Capital gains on the sale of a principal residence are exempt from income taxes.

- GST New Housing Rebate (Finance lead): New homeowners may qualify for a rebate of part of the GST paid on the purchase price or cost of building a new house, on the cost of substantially renovating or building a major addition onto an existing house, or on converting a non-residential property into a house.