

Introducing the First-Time Home Buyer Incentive

Saving enough for a down payment on a home and managing the monthly costs of homeownership can be challenging—especially for first-time home buyers, many of whom are trying to establish or advance their careers, raise young families, or even relocate to a new community.

🏠 To help make homeownership more affordable for first-time home buyers, Budget 2019 proposes to introduce the First-Time Home Buyer Incentive. The Incentive utilizes a unique financing model that has been used by affordable housing associations and non-profits in Canada and elsewhere. The Incentive enables home buyers to reduce the amount of money required from an insured mortgage without increasing the amount they must save for a down payment. Through the First-Time Home Buyer Incentive, Canada Mortgage and Housing Corporation (CMHC) would provide up to \$1.25 billion over three years (starting in 2019–20) to eligible home buyers by sharing in the cost of a mortgage. As a means-tested program, the Incentive would target Canadians that face legitimate challenges entering housing markets.

What Is the CMHC First-Time Home Buyer Incentive?

The CMHC First-Time Home Buyer Incentive is a shared equity mortgage that would give eligible first-time home buyers the ability to lower their borrowing costs by sharing the cost of buying a home with CMHC. The Incentive would provide funding of 5 or 10 per cent of the home purchase price. No ongoing monthly payments are required. The buyer would repay the Incentive, for example at re-sale.

For example, if a borrower purchases a \$400,000 home with a 5 per cent down payment and a 5 per cent CMHC shared equity mortgage (\$20,000), the size of the borrower's insured mortgage would be reduced from \$380,000 to \$360,000, helping to lower the borrower's monthly mortgage bill. This would make it easier for Canadians to buy homes they can afford.

How the First-Time Home Buyer Incentive Would Work

Eligible first-time home buyers who have the minimum down payment for an insured mortgage would apply to finance a portion of their home purchase through a shared equity mortgage with CMHC.

The Incentive would reduce the monthly payments required to buy a home. This would give first-time home buyers greater flexibility both in purchasing a home and managing its ongoing costs. With a shared equity mortgage, first-time home buyers would save money every month, giving them more money to pay down their insured mortgage sooner or for other priorities.

CMHC would offer qualified first-time home buyers a 10 per cent shared equity mortgage for a newly constructed home or a 5 per cent shared equity mortgage for an existing home. This larger shared equity mortgage for newly constructed homes could help encourage the home construction needed to address some of the housing supply 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 household incomes under \$120,000 per year. At the same time, participants' insured mortgage and the Incentive amount cannot be greater than four times the participants' annual household incomes.

🏠 Shared equity mortgages are currently offered by non-profit and other providers in some regions. Budget 2019 proposes to establish a fund to assist providers of shared equity mortgages, helping eligible Canadians achieve affordable homeownership. The fund, to be administered by CMHC, would provide up to \$100 million in lending to shared equity mortgage providers over a five-year period, starting in 2019–20, to help existing shared equity mortgage providers scale-up their business and encourage new players to enter the market.

The Government will propose legislation that would enable CMHC to offer the First-Time Home Buyer Incentive and administer a fund for third-party shared equity mortgage providers. More details about CMHC's First-Time Home Buyer Incentive and funds to assist other providers of shared equity mortgages will be released later this year, with the programs expected to be operational by September 2019.

The First-Time Home Buyer Incentive: A New, More Affordable Path to Homeownership

Anita is seeking to buy a new condo in Ajax, Ontario for \$400,000. Under the First-Time Home Buyer Incentive, Anita can apply to receive \$40,000 in a shared equity mortgage (10 per cent of the cost of a new home) from CMHC, lowering the total amount she needs to borrow.

Compared with an insured mortgage, the CMHC First-Time Home Buyer Incentive would enable Anita to pay \$228 less in mortgage payments every month. Anita can use these savings to invest in her future, such as buying a home better suited to her needs, paying down her insured mortgage sooner, or having more monthly disposable income, e.g., to pay for a more convenient option for child care. When Anita sells her condo in the future, CMHC is repaid.

Savings in Mortgage Payments with the CMHC First-Time Home Buyer Incentive

\$228 per month / \$2,736 per year

Insured Mortgage Model (No Incentive)		CMHC First-Time Home Buyer Incentive Model	
House Price	\$400,000	House Price	\$400,000
Down payment	\$20,000 (5%)	Down payment	\$20,000 (5%)
		CMHC First-Time Home Buyer Incentive	\$40,000 (10%)
Insured Mortgage	\$380,000 (95%)	Insured Mortgage	\$340,000 (85%)
Monthly carrying cost*	\$1,973	Monthly carrying cost*	\$1,745

*Assumes an amortization period of 25 years and a mortgage rate of 3.5%.