NATIONAL HOUSING STRATEGY

Canada's First-Time Home Buyer Incentive

Canada

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Canada's First-Time Home Buyer Incentive

$1.25 billion

Helping make homeownership more affordable

Agenda

Canada's First-Time Home Buyer Incentive

- Key Definitions
- How does the First-Time Home Buyer Incentive work?
- Program Details & Eligibility Requirements
- Application process
- Funding

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Session Outcomes

Participants will:

- Learn the definition of First Time Home Buyer and the requirements
- Learn the borrower and property eligibility parameters
- Understand how to submit an application and required criteria
- Learn the roles and responsibilities of all parties
- Understand the funding elements and characteristics

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How does the First-Time Home Buyer Incentive work?

Canada's First-Time Home Buyer Incentive

- It is a shared equity mortgage ("SEM"):
  - The government of Canada has a **shared investment** in the home and shares in both the **upside** and **downside** of the property value.
- It is not interest-bearing, with no regular principal payments, and is repayable **in full** at anytime without a pre-payment penalty.

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How does the First-Time Home Buyer Incentive work?

Canada's First-Time Home Buyer Incentive

Property Type	Incentive (% of lending value)
New Construction	5% **or** 10%
Existing Home	5%
New or re-sale mobile/manufactured home	5%

The **Lending Value** is the lower of the purchase price/cost of construction or the fair market value of the home that is being purchased

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Who is a first-time home buyer?

Canada's First-Time Home Buyer Incentive

The definition follows Canada Revenue Agency (CRA)'s criteria to participate in the Home Buyers Plan (HBP)

A person is considered a first-time home buyer if one of following qualifications is met:

- Has never purchased a home before
- In the last 4 years, did not occupy a home that the borrower or borrower's common-law partner owned
- Has gone through a breakdown of a marriage or common-law partnership (even if/when the other first-time home buyer requirements are not met)

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Homeowner Eligibility

Mortgage loan insurance and lender eligibility requirements apply

Canada's First-Time Home Buyer Incentive

- Canadian citizens, permanent residents, and non-permanent residents who are legally authorized to work in Canada
- At least one borrower must be a first-time homebuyer
- Total qualified annual income of $120,000 or less
- The first mortgage + Incentive amount cannot exceed 4 times the total qualified annual income

What is qualified income?

Canada's First-Time Home Buyer Incentive

- If there is more than one Homeowner, the combined qualifying annual income can be no more than $120,000.
- Income verification is subject to requirements set out by Lenders and Mortgage Loan Insurer's policies
- Examples of qualified income include:
  - Fixed income such as regular full-time or part-time salary and wages
  - Variable income such as casual, contract, or seasonal employment
  - Traditional self-employment income such as from a business operated by the homeowner

EXAMPLE: Qualifying Income

Canada's First-Time Home Buyer Incentive

What if Anita has an annual qualifying income of $100,000 and a down payment of $20,000. What will be the impact on max purchase price?

Calculation:

= (Qualifying income x 4) + down payment
= ($100,000 x 4) + $20,000
= $420,000

Down Payment	Max Purchase Price
$20,000	$400,000
$21,000	$420,000

However, we have to ensure that minimum down payment requirements are met:

= $420,000 x 5%
= $21,000

Since Anita does not have the minimum down payment, she will need to purchase a home of $400,000 (minimum down payment of 5% met) or increase her down payment to $21,000

Property Eligibility

Owner-Occupied Properties

Canada's First-Time Home Buyer Incentive

- The Incentive is designed to help first-time homebuyers purchase their first home
- Eligible residential properties include:
  - New construction
  - Re-sale homes
  - New or re-sale mobile homes
- Residential properties can include 1 to 4 units
- Must be located in Canada and must be suitable and available for full-time, year-round occupancy

Types of residential properties include:

- single family homes
- semi-detached homes
- duplex
- triplex
- fourplex
- town houses
- condominium units

Financing

Canada's First-Time Home Buyer Incentive

Home Buyer's Down Payment plus Incentive less than 20% of property value

- Home buyer must have the minimum required down payment from **<u>traditional sources</u>** such as:
  - Savings
  - Withdrawal/collapse of a registered retirement savings plan (RRSP)
  - Non-repayable financial gift from an immediate family member
- Unsecured personal loans or unsecured lines of credit used to satisfy minimum down payment requirements are **<u>not eligible</u>** for the program.

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How to calculate the minimum down payment requirement

Canada's First-Time Home Buyer Incentive

Anita is purchasing a **newly** constructed home at $400,000

Home buyer's Down Payment

plus

Incentive

less than

20% of property value

5% - $20,000

10% - $40,000

Total down payment is 15% of property value ($60,000)

EXAMPLE: How the Incentive reduces mortgage carrying costs up front

Canada's First-Time Home Buyer Incentive

Anita wants to buy a resale home

Purchase price of a resale home	$500,000
Minimum down payment (5%)	**$25,000**
Mortgage amount * without the Incentive	$475,000
Incentive (5%)	**$25,000**
Mortgage amount * **after** the Incentive is applied	**$450,000**

At an interest rate of 3.5%, with the Incentive, the monthly mortgage costs will be reduced by
± $150/month
= more than $1,800/year

* Not including the mortgage insurance premium

Two important equations that work hand-in-hand

Canada's First-Time Home Buyer Incentive

To determine **maximum purchase price:**

(4x total qualifying income) + down payment = Maximum Purchase Price

To determine whether the **Mortgage to Income (MTI) ratio** is met **(4.0 or less):**

4 times = 4x

Loan amount + Incentive amount / total qualifying income = MTI

** You cannot exceed 4x the total qualifying income + Incentive amount (exclusive of mortgage insurance premium) **

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EXAMPLE: Two important equations that work hand-in-hand

Canada's First-Time Home Buyer Incentive

Here's an example, using a 5% Incentive:

Annual Income = $100,000
Down Payment from savings: $25,000
Incentive = 5%

Purchase Price $385,000
Incentive = $19,250
Insured Mortgage: $340,750
Loan-to-Value (LTV): 88.51%
Mortgage-to-Income (MTI): 3.6

Mortgage-to-Income:
(Mortgage + Incentive) / Income
= ($340,750 + $19,250) / $100,000
= $360,000 / $100,000
= **3.6 is less than 4.0**

Maximum purchase price:
4x income + Down Payment
= (4 x $100,000) + $25,000
= $400,000 + $25,000
= **$425,000 is greater than $385,000**

EXAMPLE: Two important equations the work hand-in-hand

Canada's First-Time Home Buyer Incentive

Here's an example, using a 5% Incentive:

Annual Income: $115,000
Down Payment from savings: $25,000
Incentive = 5%

Purchase Price $500,000
Incentive = $25,000
Insured Mortgage: $450,000
Loan-to-Value (LTV): 90%
Mortgage-to-Income (MTI): 4.13

Mortgage-to-Income:
(Mortgage + Incentive) / Income
= ($450,000 + $25,000) / $115,000
= $475,000 / $115,000
= **4.13 is <u>more</u> than 4.0**

Maximum purchase price:
4x income + Down Payment
= (4 x $115,000) + $25,000
= $460,000 + $25,000
= **$485,000 is <u>lower</u> than $500,000**

Direct-to-homeowner

- Dedicated website tied to the National Housing Strategy
- One-stop-shop for information about the Incentive
- Eligibility and savings calculators for illustrative purposes
- A separate downloadable disclosure document
- Dedicated call centre support

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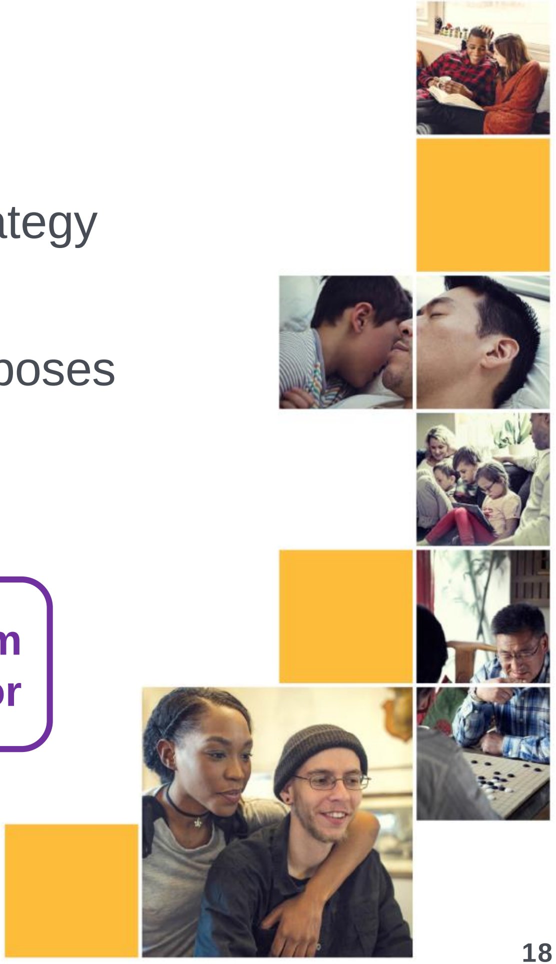

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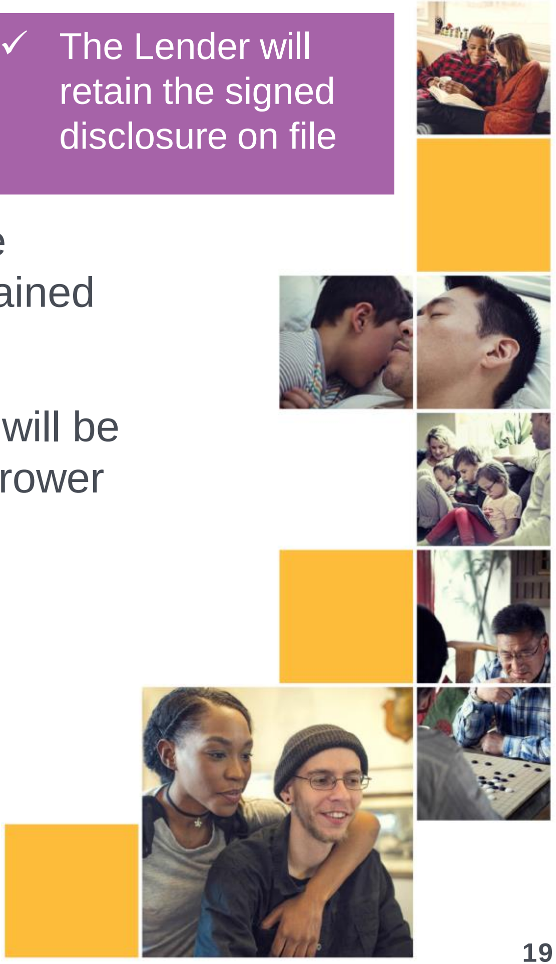
Mortgage Application

✓ The Lender will retain the signed disclosure on file



- The mortgage application process is unchanged, except the signed disclosure statement from the borrower must be obtained up-front and retained on file
- The statement includes consent and FTHB attestation, and will be available on the website and can be downloaded by the borrower or the lender.

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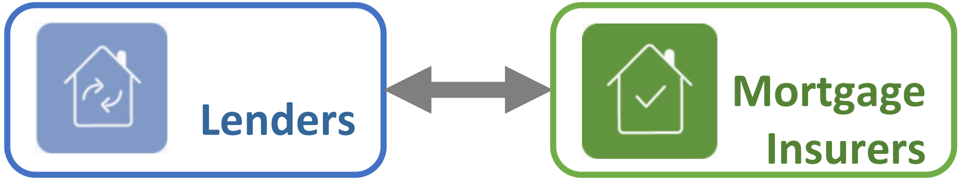
Mortgage Insurer and Incentive Application

- The application process for mortgage loan insurance is unchanged, except for the Incentive keyword (5% or 10%), which will be provided via the comments field
- LTV is based on the insured mortgage only
- Mortgage insurer approves or declines the Incentive

✓ FTHB incentive request is communicated by the lender via comments to the Insurer



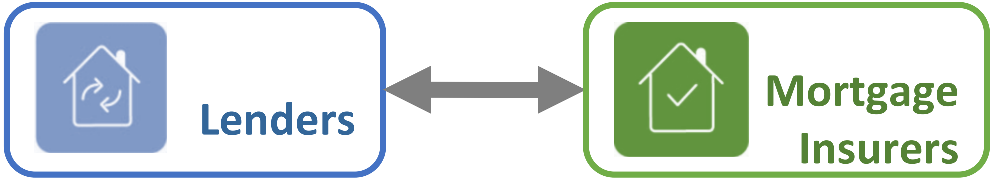
MLI & Incentive Application

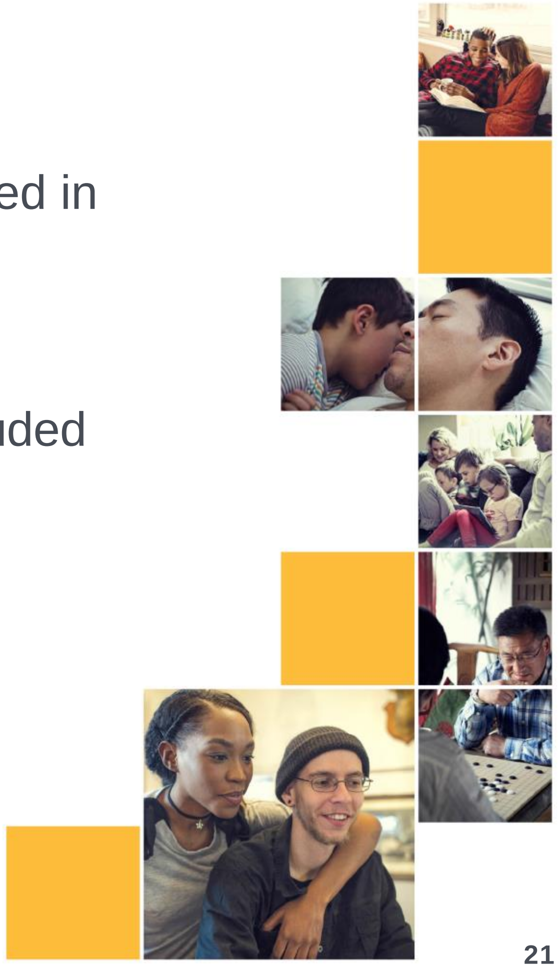
- For a 5% Incentive the following code must be included in the comments field:

++FTHBI5++

- For a 10% Incentive, the following code must be included in the comments field:

++FTHBI10++





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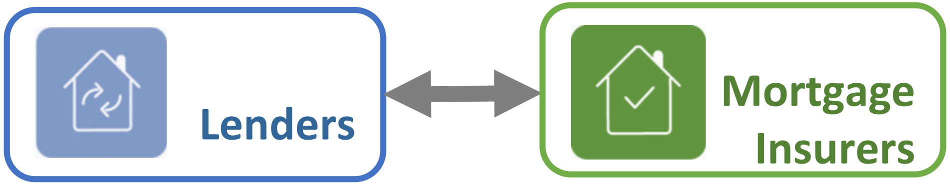
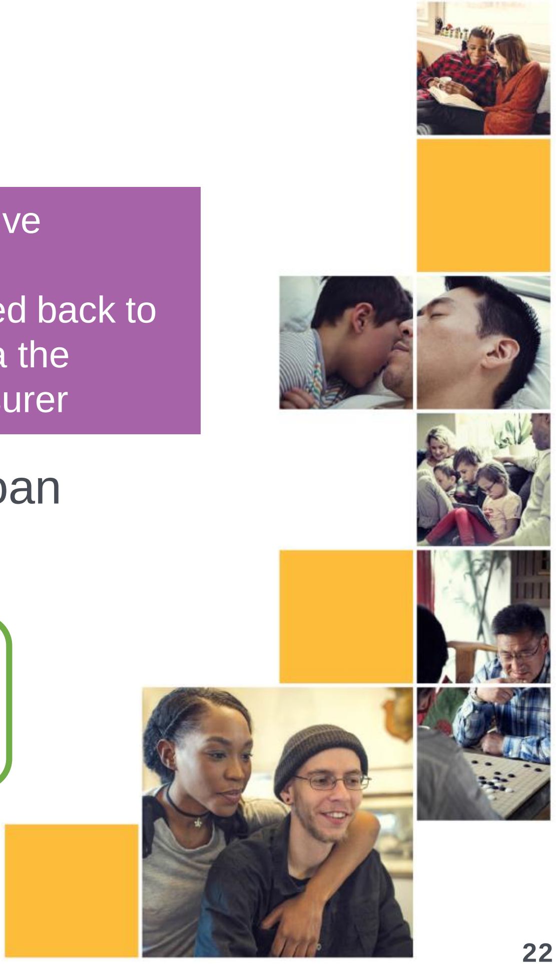
Incentive Approval

- Mortgage Insurer provides lenders:
  - Approve/Decline decision
  - Approved Incentive amount
  - A unique Incentive number (used to identify the loan at the time of funding)

✓ FTHB Incentive approval is communicated back to the lender via the Mortgage Insurer





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Incentive Approval

- For an approval, the MLI will return the following in the comments field:

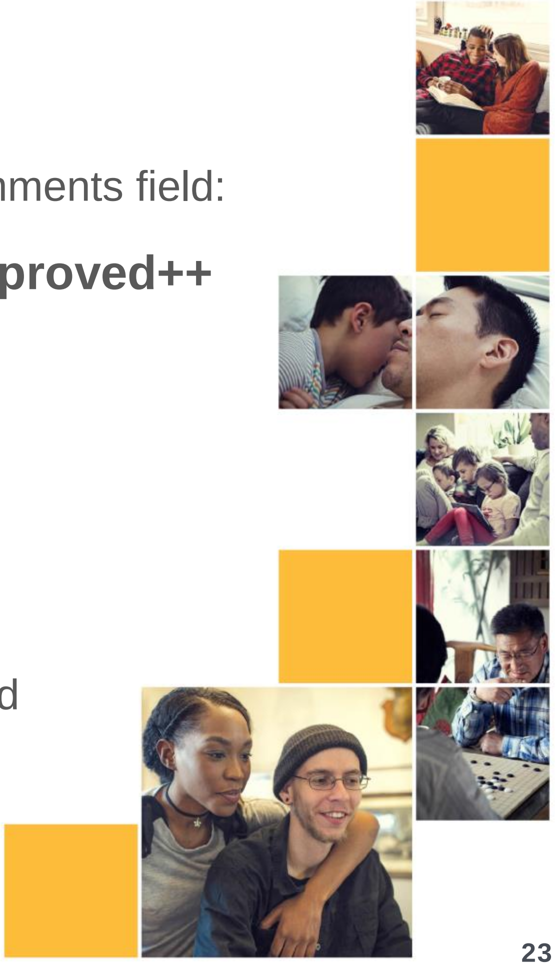
++FTHBI++101234567890++A++000000++Approved++

Incentive identification number

Amount of Incentive in dollars

“A” for Approval

- Upon approval, the Lender will retrieve the ID number and Incentive amount and provide the data to the Solicitor for funding purposes.



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Incentive Declined

- For a decline, the MLI will return the following in the comments field:

++FTHBI++101234567890++D++0++Declined++

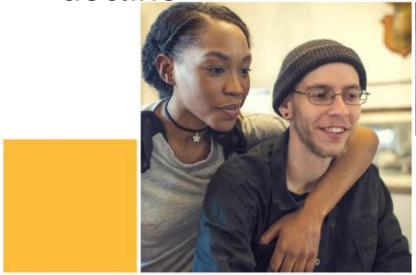
Incentive identification number

“D” for Declined

$0 as Incentive was declined

Message will be provided with rationale for the decline

✓ Although an Incentive application is declined, the homeowner may still be able to purchase the home through the standard mortgage loan insurance process



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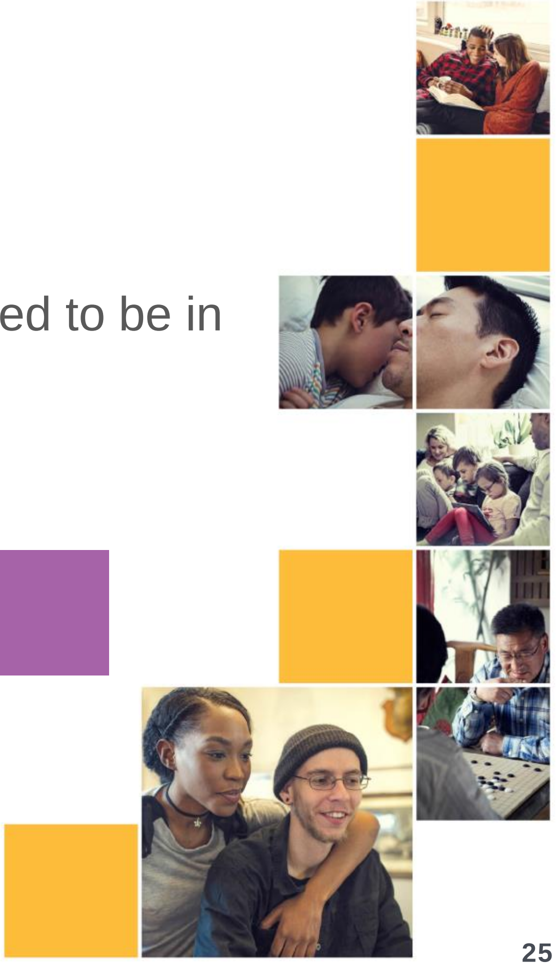
Incentive Cancellation

- To cancel an application, the following code is required to be in the comments field:

++FTHBICAN++

✓ A dedicated call centre will be available to answer questions specific to Incentive applications



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First Time Home Buyer Incentive

Lender Checklist:

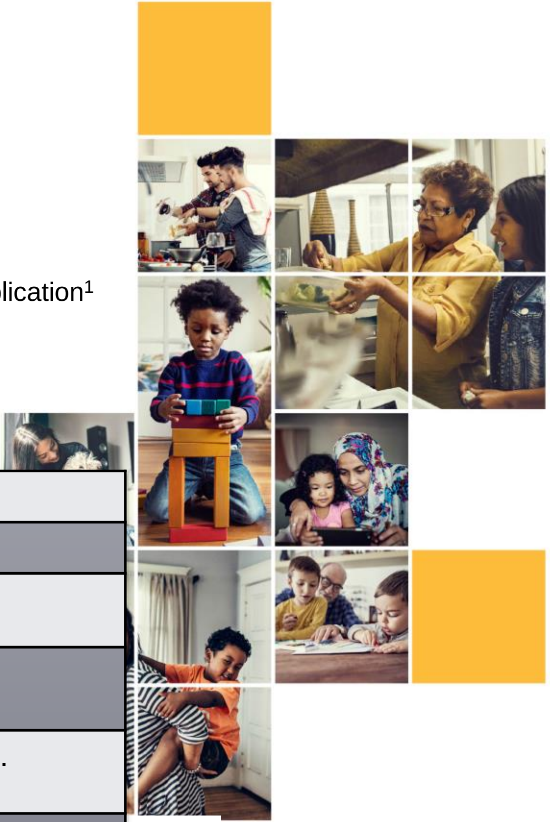
At time of mortgage insurance application:

- ❑ Obtain signed disclosure statement from the borrower and retain signed disclosure on file.
- ❑ Enter keyword **++FTHBI5++** or **++FTHBI10++** in the comments field of the mortgage insurance application[1]
- ❑ Retrieve the SEM_ID and Incentive amount provided by the MLI from the comments.

++FTHBI++YYYYYYYYYYYY++[A,D,C]++$$$$$$++XXXXXX++<Message>++

Where:

FTHBI	is an arbitrary string, and is identical in both English and French
YYYYYYYYYYYY	12 character Unique SEM ID
[A,D,C]	is either "A" for Approved, "D" for Declined or "C" for Cancelled
$$$$$$	is the SEM Dollar Amount, 0 if Declined or Cancelled.
XXXXXX	is the Reason Code for either the Approved, Declined or Cancelled decision.
<Message>	is the message corresponding to the Reason Code in the language of choice (without <>)



[1]For the purchase of an existing home, an Incentive amount of 5 percent is available. For the purchase of a newly constructed home, an Incentive amount of 5 percent or 10 percent is available to qualified buyers.

SEM = Shared Equity Mortgage

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Reason Codes for Lenders

Canada's First-Time Home Buyer Incentive

Code	Result Status	Message
10015	Error	FTHBI Program not available at this time
20001	Declined	Incentive already disbursed to one of the Borrowers
20002	Declined	Qualifying income exceeds program parameters
20003	Declined	Mortgage to income ratio (including Incentive) exceeds program parameters
20004	Declined	Closing date exceeds operational program parameters
20005	Declined	Program funds unavailable
20007	Declined	Closing date passed
20008	Declined	Incentive amount/percentage does not comply with program parameters
20009	Declined	Mortgage Loan Insurance not approved
20010	Declined	Incentive not approved
20011	Declined	Insufficient minimum down payment
20012	Declined	LTV ratio is < = 80%
20013	Declined	Down payment not traditional
20014	Declined	Property not intended for owner occupancy
20015	Declined	FTHBI Program discontinued
20016	Declined	Eligibility only available via SEM Administration, resend as Pending

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Reason Codes for Lenders

Canada's First-Time Home Buyer Incentive

Code	Result Status	Message
30001	Cancelled	Application requested to be cancelled
40001	Same as	Record received
50001	Approved	Approved due to hardship circumstances
50002	Approved	Enhanced Due Diligence required
50003	Approved	Approved
60001	Review	Program funds unavailable beyond previously approved amount, to maintain original approval please resolve within the next 30 days
60002	Review	Requesting special review by SEM Administration
70001	Pending	Requesting adjudication by SEM Administration

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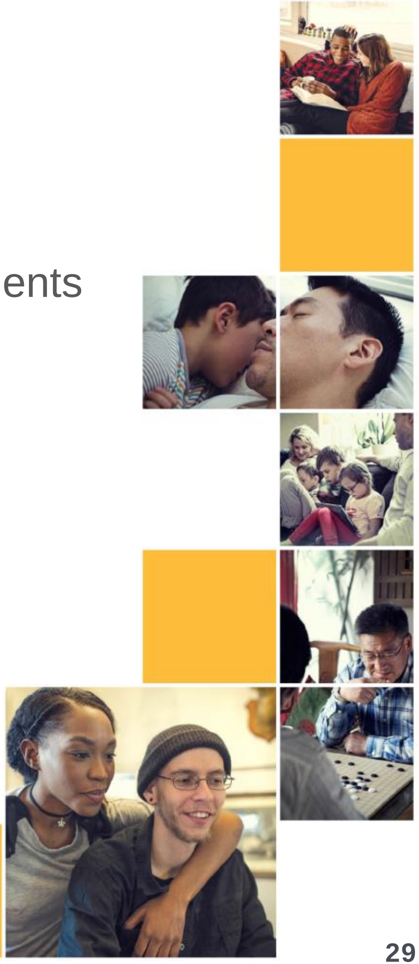
Incentive Resubmissions

- It is very important to ensure that the Incentive application is **resubmitted** after any changes to the Incentive qualifying requirements are made, including:
  - Qualifying income
  - Purchase price / lending value
  - Closing date

✓ A dedicated call centre will be available to answer questions specific to Incentive applications



Repayment of the Incentive

Canada's First-Time Home Buyer Incentive

Here's how to calculate the repayment amount, using an example with the 10% Incentive:

Original Purchase Value	Original Purchase Price:	$400,000
	Original Incentive amount:	$40,000
Property Value **Increased**	If the fair market value is:	$500,000
	The repayment amount is:	$50,000
Property Value **Decreased**	If the fair market value is:	$300,000
	The repayment amount is:	$30,000

Anita opted for the 10% Incentive when she purchased her new home.

At time of repayment, how much does she owe?

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Recap: Repayment of the Incentive

Additional costs will be paid by the homeowner:

- Appraisal cost
- Legal fees
- Third-party expenses

The repayment amount is based on either 5% or 10% of the fair market value of the property, as assessed **<u>at the time</u>** of repayment:

- Depending on original approved Incentive
- Is required in full whether it is made at any point ***within*** or ***at*** the 25-year period **<u>or</u>** upon the sale of the property

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EXAMPLE: Life of the Shared Equity Mortgage

Canada's First-Time Home Buyer Incentive

Scenario: Home improvements

In this scenario, the homeowner can elect to repay the Incentive prior to undertaking the improvements

November 30, 2019

- Purchase home at $375,000 fair market value
- Homeowner received a 5% Incentive at $18,750

March 5, 2024

- Fair market value determined at $400,000
- Voluntary repayment would be $20,000

July 10, 2029

- Improvements to the home are made at $50,000
- Fair market value with improvements is determined at $450,000
- Voluntary repayment would be $22,500

This scenario is for illustration purposes only, and is not intended to be used to forecast property values

How do homeowners repay the Incentive?

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Fair market value

- The homeowner will be responsible for **obtaining and incurring all costs associated** with the independent third-party appraisal
- The Program Administrator reserves the right to obtain its own independent third-party appraisal to ensure the valuation reflects fair market value. If required, the cost will be paid by the Program Administrator.

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Costs associated with the Incentive

- There is no application or processing fee payable to apply for the Incentive
- The Homeowner may, however, be responsible to pay certain third-party expenses, such as closing services and legal costs.
- There may also be costs the Homeowner is responsible to pay during the term of the loan such as:
  - costs associated with servicing the loan (i.e. monitoring the loan, attending to any defaults, etc.)
  - valuing the home at the time of repayment

A dedicated call centre supporting the program will be set up to answer all questions in regards to the costs associated with the Incentive

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Key Dates in 2019

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September 1, 2019 and prior

September 2, 2019

November 1, 2019 and after

Purchase Offers

Purchase offers dated prior to September 2nd, 2019 are eligible to apply for the program, so long as they are not closing prior to November 1st, 2019.

The program is expected to be operational

Purchase transactions that have already closed prior to September 2nd, 2019 cannot be considered for the program.

First Funding Date

Similarly, purchase transactions that have already closed prior to November 1st cannot be considered for the program

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Lender Responsibilities

Canada's First-Time Home Buyer Incentive

- The Lender will complete proper due diligence of the application following the standard practice currently in place for mortgage insurance applications
- The Lender must ensure that the total combined qualified annual income of the application does not exceed $120,000

Critical to Eligibility:

- The lender must ensure that the combined loan amount + Incentive amount/total qualifying income does not exceed 4 times the total qualified annual income on the application
- (The total qualifying income x 4) + the down payment = the maximum purchase price

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Lender Responsibilities

Canada's First-Time Home Buyer Incentive

- The Lender must obtain the borrower signed consent form including the FTHB attestation. They can be found on the website:

  www.placetocallhome.ca/fthbi

- The keywords: ++FTHBI5++ or ++FTHBI10++ are required in the comments field of the MLI submission
- If approved, the Lender will receive the unique Incentive identification number and Incentive dollar amount

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Lender Responsibilities

Canada's First-Time Home Buyer Incentive

- The Lender will direct Solicitor/Notary to contact the Program Administrator with key funding information to request the Incentive funds
- The Lender will need to provide the Solicitor/Notary with the name/phone number/details of the Program Administrator (once the info is available)

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Solicitor/Notary Responsibility

Canada's First-Time Home Buyer Incentive

- The mortgage must be registered in tandem with the mortgage granted in favour of the First Mortgagee
- The borrower is responsible for all costs incurred in connection with the second mortgage registration. This includes:
  - Fees
  - Disbursements costs
  - Registration costs
  - Whether or not the Mortgage proceeds or the Advance is made
- The solicitor/notary are solely responsible for: Borrower identification, suspicious/fraudulent activity, preparation of documentation and first time home buyer, income and use

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Solicitor/Notary Responsibility

Canada's First-Time Home Buyer Incentive

- Statutory declaration confirming homeowner is a first-time homebuyer and intent for property to be owner-occupied
- Policies in place such as new home warranty coverage, potability certificate, well certificate for new properties, copy of septic certificate are all required on file, following existing policies for insured first mortgages
- Validating clear and marketable title
- If the first mortgage is refinanced, the Program Administrator must be advised and will execute postponements as may be requested for the Incentive to remain in second position

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Program Administrator Responsibilities

Canada's First-Time Home Buyer Incentive

- The Program Administrator manages overall allocation levels:
  - ✓ All three Mortgage Insurers send required data elements to the Program Administrator
  - ✓ Program Administrator uses the data to ear-mark funds for an application
  - ✓ Program Administrator checks for duplication of applications across all three Mortgage Insurers and ensures the maximum amount committed is ear-marked only once for an eligible borrower

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For more information

https://www.placetocallhome.ca/fthbi

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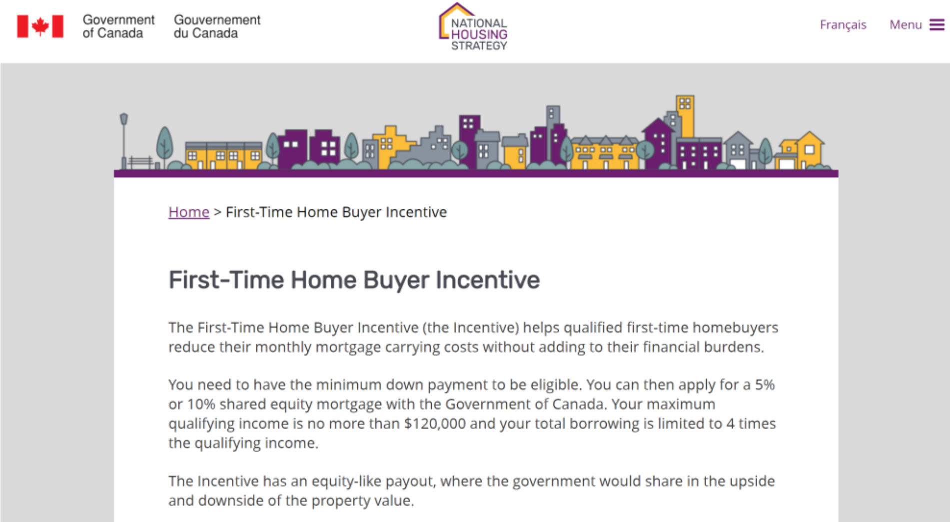
Government of Canada Gouvernement du Canada

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First-Time Home Buyer Incentive

The First-Time Home Buyer Incentive (the Incentive) helps qualified first-time homebuyers reduce their monthly mortgage carrying costs without adding to their financial burdens.

You need to have the minimum down payment to be eligible. You can then apply for a 5% or 10% shared equity mortgage with the Government of Canada. Your maximum qualifying income is no more than $120,000 and your total borrowing is limited to 4 times the qualifying income.

The Incentive has an equity-like payout, where the government would share in the upside and downside of the property value.

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1-877-884-2642