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The Government of Canada Introduces:

The First-Time Home Buyer Incentive Program

Toronto, Vancouver, and Victoria Census Metropolitan Area Version.

How can
this help you?

Canada 



What is it, really?

The Government of Canada's **First-Time Home Buyer Incentive (FTHBI) Program** provides qualified first-time homebuyers with a lump sum of money to help you reduce the size of your initial mortgage. Thereby decreasing the monthly carrying costs of your mortgage).

This lump sum of money does not require any repayment until the earlier of 25 years, or when you sell your home. The amount you need to repay will depend on the value of your home at the time of repayment:

- If your home value **goes up**, you will need to pay back more than the initial lump sum
- If your home value **goes down**, you will get to pay back less than the initial lump sum.

This "lump sum" is typically referred to as the **First-Time Home Buyer Incentive (FTHBI) Amount** or a **Shared Equity Mortgage**. For the purposes of this document, we will use the terms Lump Sum Amount or Incentive Amount.

How Much is Available?

The lump-sum amount available on your purchase depends on the type of property you are buying:

- **For Resale Homes/Condos: 5% of the purchase price**
- **For New Build Homes Condos: 5% or 10% of the purchase price**

How Much Can I Apply For?

While additional qualification criteria is outlined in later sections, **the maximum mortgage amount that will qualify under this program is \$675,000** (before CMHC fees and the FTHBI Amount), AND your total down payment must be less than **20% of the purchase price**. Assuming you meet all of the qualification criteria for a 5% FTHBI Amount, this would result in a maximum purchase price of:

- **Approx. \$790,000 with a 19.9% total down payment (14.9% own sources + 5% FTHBI Amount)**
- **Approx. \$750,000 with a 15.0% total down payment (10% own sources + 5% FTHBI Amount)**
- **Approx. \$720,000 with a 11.5% total down payment (6.5% own sources + 5% FTHBI Amount)**



How can the FTHBI Program improve your cash flow?

The purpose of the FTHBI Program is to make homeownership more affordable for first-time homebuyers.

Let's look at how much monthly and yearly cash-flow you can save if you take advantage of the Government of Canada's FTHBI Program. In the below example, we will assume you are buying a \$700,000 resale house/condo, you have the minimum required down payment from your sources (non-borrowed), and you will take advantage of the 5% First-Time Homebuyer Incentive Amount.

The result? A potential cash flow savings of \$2,785 per year.


Who is Eligible to Apply?

1. Borrower Eligibility:

You must be a Canadian citizen, permanent resident, or non-permanent resident who is legally authorized to work in Canada to apply.

2. Income Eligibility:

The combined qualifying income of all borrowers cannot exceed \$150,000 per year at the time of application. The definition of qualifying income will be set out by lenders and mortgage loan insurers. Examples of qualifying income include annual salary (before taxes), investment income, and rental income.



| <u>Buying a Resale Home/Condo</u> | Without the FTHBI | With the FTHBI |
|---|-------------------|------------------|
| Home Price | \$700,000 | \$700,000 |
| Less: Down Payment (6.4%) | \$45,000 | \$45,000 |
| Less: FTHBI Amount (5%) | \$0 | <u>\$35,000</u> |
| Base Loan Amount | \$655,000 | \$620,000 |
| Plus: CMHC Mtg Insurance | <u>\$26,200</u> | <u>\$19,220</u> |
| Total Loan Amount | \$681,200 | \$639,220 |
| Montly Mortgage Payment <small>(Assumes: 4.49% rate, 25yr Amortization)</small> | \$3,766 | \$3,534 |
| Difference in Monthly Payment | | -\$232 |
| Difference in Annual Payments | | -\$2,785 |

Maximum Income Criteria – the “4.5×” Rule

The maximum borrowing allowed to qualify for the FTHBI Program (before accounting for CMHC fees) is limited to **FOUR AND A HALF** times (4.5x) the total annual qualifying **income of all borrowers**. For example, if your total annual qualifying income is \$150,000, you would be limited to \$675,000 of borrowing (refer to the example in How Much Can I Apply For? above). If your total annual qualifying income is \$80,000, you would be limited to \$360,000 of borrowing.

Qualification Tip

Given the current Bank of Canada Benchmark Qualifying rate, your income may support a higher borrowing amount than what is allowed under the FTHBI Program. Speak with your mortgage broker to discuss the pros and cons of applying for this program.

1. First-Time Homebuyer Requirement:

At least one of the purchasers must be a first-time homebuyer. A first-time homebuyer means:

- You have never purchased a home before;
- In the last four years, you did not occupy a home that you or your current spouse or common-law partner owned;
- You are experiencing the break-down of a marriage or common-law partnership (even if you don't meet the other first-time homebuyer requirements).

2. Occupancy Eligibility:

The FTHBI program is meant to help first-time homebuyers purchase their first home with the intent to occupy. **Investment properties are not eligible**. Further, the property must be located in Canada and must be suitable and available for full-time, year-round occupancy.

First-Time Homebuyer Requirement:

At least one of the purchasers must be a first-time homebuyer



When Do I Have to Repay the Lump Sum Amount?

You will need to repay the FTHBI/Lump Sum Amount after 25 years or when the property is sold, whichever comes first. You can also repay the amount in full at any time, without a pre-payment penalty, and refinancing of your first mortgage will not trigger repayment. *Note: the FTHBI Amount is registered as a second mortgage.*

How Much Do I Have to Repay?

Repayment is based on the property's fair market value (or sale price) at the point in time when repayment is required.

- **Example 1 (home INCREASES in value):** If you purchased your house or condo for \$500,000 and received a 5% FTHBI Amount of \$25,000 ($\$500,000 \times 5\%$), if you later sell for \$600,000, you will be required to pay back \$30,000 ($\$600,000 \times 5\% = \$30,000$).
- **Example 2 (home DECREASES in value):** If you purchased your house or condo for \$500,000 and receive a 5% FTHBI Amount of \$25,000 ($\$500,000 \times 5\%$), if you later sell for \$450,000, you only will only be required to pay back \$22,500 ($\$450,000 \times 5\%$).

**Note: at the time of repayment, the FTHBI repayment amount will be calculated based on the appreciation/depreciation of the home's value. The appreciation or depreciation rate is capped at +8% or -8% (annualized non-compounding) for this calculation.*



I might have to repay more than I received?

Yes —

But that isn't necessarily a bad thing. If you are required to pay back more than you received, that means your house or condo increased in value — congratulations! Further, during your home ownership period you benefited from cash flow savings of having lower monthly mortgage payments.

Does it Make Sense to Apply for the FTHBI Program?

That all depends on your goals, circumstances, and priorities. The best first step is to contact your mortgage broker and go over the details of the FTHBI program to identify the specific pros and cons for your circumstances.

At Outline Financial we've created a detailed **Financial Model** where we can input your specific details to help analyze if the FTHBI Program may be right for you.

At **Outline Financial**,
we have created a
Financial Model to help
you assess the impact of
using the **FTHBI Program**
and help you determine
if it is right for you.



While every scenario is different, there are a few general principles you should keep in mind:

Tip #1: Home Appreciation:

- The more your home appreciates, the more you will need to pay back.

Tip #2: Years Until Sale:

- If your home is appreciating in value, the longer you keep your home, the more you will have to pay back.

Tip #3: Early Pay Back Option:

- Given the above two points, there may be scenarios where it makes sense to pay back the FTHBI Amount BEFORE you sell your home. If you wanted to pay back the FTHBI Amount early, you would need an appraisal of your home to determine the fair market value, and the amount of FTHBI you will need to pay back will be based on that amount.

To demonstrate the impact of Home Appreciation and Years Until Sale, we've included the examples on the following page —



Potential dollar impact of utilizing the FTHBI Program

Assumptions for all examples:

- Purchase Price = \$600,000
- Down payment from own sources (5.83%) = \$35,000
- FTHBI Amount (5%) = \$30,000
- Mortgage Rate (4.49%*) / Amortization (25 years)

Scenario 1:

Sell home in 5 years / 4% Home Appreciation Per Year

Outcome: If you utilized the FTHBI Program, you would end up with approximately \$4,385 **LESS** sale proceeds than you would have without the FTHBI Program. However, this can be offset by the approximate \$11,948 (\$2,390/yr) **benefit of lower mortgage payments** over the 5-year period. Net cash-flow result in this case is a \$7,563 **BENEFIT** of utilizing the FTHBI program.

Scenario 2:

Sell home in 5 years / 4% Home Depreciation Per Year

Outcome: If you utilized the FTHBI Program, and sold in 5 years with 4% home **DEPRECIATION** per year, the FTHBI will help absorb some of your losses. For example you would end up with approximately \$7,615 **MORE** in sale proceeds than you would have without the FTHBI Program. You would also have benefited from approximately \$11,948 (\$2,390/yr) in **lower mortgage payments** over the 5-year period. Net cash-flow result in this case is a \$19,563 **BENEFIT** of utilizing the FTHBI program.

Scenario 3:

Sell home in 10 years / 8% Home Appreciation Per Year

Outcome: If you utilized the FTHBI Program, and sold in 10 years with 8% home appreciation per year, you would end up with approximately \$27,879 **LESS** sale proceeds than you would have without the FTHBI Program. However, this can be offset by the approximate \$23,896 (\$2,390/yr) **benefit of lower mortgage payments** over the 10-year period. Net cash-flow result in this case is a \$3,983 **LOSS** of utilizing the FTHBI program.

**Rates are for illustrative purposes only and subject to change (up/down at any time). Please contact Outline Financial for current rates and rate specials.*

Other Resources:

For complete details regarding the **First-Time Home Buyer Incentive Program**, please visit the Government of Canada [website](#).

As mortgage rates and guidelines are always changing, this guide is meant for illustrative purposes only and is based on the information available at time of publication.

For updated rates, or guidelines, please contact a member of the Outline Financial team. **Contact Outline Financial**, as every situation will be different!

We can model out your specific circumstances and assumptions, so you have a clear understanding of the potential risks and rewards of using the program.





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To learn more about the **First-Time Homebuyers Incentive Program**, or for customized analysis or quotes, please contact Outline Financial.

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