



# 2019 FEDERAL BUDGET UPDATE FOR FIRST-TIME HOME BUYERS

In March, the Federal Government came out with their long-awaited 2019 Federal Budget. For those of us on the West Coast, there was an expectation, or at least a hope, that we'd see some relief from the '2% Stress Test' - Or perhaps an extension of the maximum amortization to 30 years. Instead, Ottawa introduced a new **zero-interest loan** to help first-time homebuyers. It's a federal government incentive designed to target housing affordability. The real question in cities like Vancouver is: *Will it work?*

There are still a lot of details missing and the implementation is not slated to start until September 2019, but here's a list of what we do know:

## INTRODUCTION OF THE FIRST-TIME HOME BUYER INCENTIVE (FTHBI)

- A new initiative that will see CMHC provide an additional 5% for the down payment for the purchase of existing homes, or 10% for the purchase of a new-build
- The mortgage must be default insured
- Household income must be less than \$120,000
- No monthly payments are required, and the loan can be paid back at any time, or upon the sale of the house
- "There will be some sharing of upside and downside," Finance Minister Morneau told reporters
- The insured mortgage plus incentive cannot be more than four times the participants' household income

## CONCERNS ABOUT THE FIRST-TIME HOME BUYER INCENTIVE

The real question is whether this will actually help first-time homebuyers get into the market. To be clear - free money is always a nice place to start, but here are some of our concerns:

- There are two specific areas of concern:
  - Household income must be less than \$120,000
  - Maximum mortgage cannot be more than 4 times the household income
- This restriction actually limits the amount people can borrow since households can typically qualify for roughly 4.7 times their income.
- Since borrowers still must come up with the 5% down minimum, this incentive does nothing to help decrease the amount of cash required to close.



So, a few things to ponder:

- If a young couple earns more than \$120,000 as a household, they do not qualify.
- If the household earns \$100,000 combined, the maximum purchase price under this program is \$400,000 whereas, if they chose to forego the 'interest-free' loan, they could qualify for a purchase just shy of \$480,000.
- Also - keep in mind that the program also includes a clause whereby the government can 'participate' in any upside appreciation on your property - effectively making them a joint venture partner in your purchase. Again, details on exactly how this will work were not offered.

We're not saying this is a bad program, but it is certainly lacking in some areas. The BC Government tried a similar program a few years ago and it was scrapped within a very short time due to the fact it was largely ineffective.

On a more positive front, the Federal Budget did allow for an increase in the RRSP Homebuyers' withdrawal.

## **INCREASING THE RRSP HOME BUYERS' WITHDRAWAL LIMIT TO \$35,000 FROM \$25,000**

- Permits two first-time buyers in the same household to combine withdrawals for up to a \$70,000 down payment
- Available for first-time homebuyers. But as of 2020, this program is also eligible for those who split from their spouse or common-law partner, even if they are not first-time buyers
- The funds must be repaid within 15 years, or the withdrawal will have tax implications

Again, we would have preferred a change to the 'Stress Test' or an increase in maximum amortization. However, when you combine a few government incentives with the fact that interest rates are falling back to near-record lows - The Spring Market in Vancouver is sure to start blooming!

As always, we're happy to answer any of your questions and happy to help with all your mortgage needs.

Sincerely,  
Peter Kinch Mortgage Team

*Our goal is to help you achieve yours*