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Budget 2019 comes up short

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By Wayne Karl



The federal government released the much-anticipated [Budget 2019](#) this week, with homebuyers, builders and others awaiting measures to address housing issues.

And in short, it comes up, well... a little short.

First-time homebuyer help

Much of the housing focus in Budget 2019 was on addressing the needs of first-timers, namely with a new First-Time Home Buyer Incentive.

- The Incentive would allow eligible first-time homebuyers 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 Corp.](#) (CMHC).
- About 100,000 first-time buyers would benefit from the Incentive over the next three years.
- Since no ongoing payments would be required with the Incentive, Canadian families would have lower monthly mortgage payments. For example, if a borrower purchases a new \$400,000 home with a five-per-cent down payment and a 10-per-cent CMHC shared equity mortgage (\$40,000), the borrower's total mortgage size would be reduced from \$380,000 to \$340,000, reducing the borrower's monthly mortgage costs by as much as \$228 per month.
- CMHC to offer qualified first-time homebuyers a 10-per-cent shared equity mortgage for a newly constructed home or a five-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 the 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 buyers with household incomes of less than \$120,000 per year.
- Budget 2019 also proposes to increase the Home Buyers' Plan withdrawal limit from \$25,000 to \$35,000, providing first-time buyers with greater access to their Registered Retirement Savings Plan savings to buy a home.

Noticeably absent from the housing measures was any adjustment to the stress test, which a number of experts say is necessary.

Industry reaction

“The Building Industry and Land Development Association ([BILD](#)) agrees with (Federal Finance Minister Bill Morneau's) comments that there aren't enough homes for people to buy or apartments for people to rent,” says Dave Wilkes, president and CEO.

“BILD feels the policies presented in (the) budget are a step in the right direction to help first-time homebuyers. We will continue to advocate for a review of the stress test so that first-time homebuyers can realize the dream of homeownership. Supply challenges still exist and are at the centre of the current unbalanced market, and we call for action on these by the provincial and municipal government.”

Supply challenges in the Greater Golden Horseshoe are serious, and Budget 19 fails to address them.

“This was a re-election budget that didn't move the dial for new-home buyers in the GTA,” **Richard Lyall, president of the Residential Construction Council of Ontario ([RESCON](#))** told HOMES Publishing. “While increasing RRSP borrowing for first-time homebuyers is

helpful, creating The First-Time Homebuyer Incentive at a maximum of \$500,000 doesn't help many Torontonians or GTA residents.”

The Canadian Home Builders' Association ([CHBA](#)) had been recommending a shared appreciation mortgage approach for some time, as a tool to help those who can't get into homeownership but have the means to pay rent.

The modification to the RRSP Home Buyers' Plan will help get Canadians into their first home, but will also act as a burden because the loan has to be repaid within 15 years, including a minimum of 1/15th per year.

“This means that, in the years following their home purchase, a homeowner has the additional financial responsibility of repaying their RRSP,” says James Laird, co-founder of [Ratehub](#) Inc. and president of CanWise Financial.

Important details of the First-Time Home Buyer Incentive program have yet to be released. For example, says Laird, it remains unclear whether the government would take an equity position in homes, or whether the assistance would act as an interest-free loan.

“This is an important distinction because if the government is taking an equity stake in a home, the amount the homeowner would have to pay back would grow as the value of the home increases,” he says.

The very launch of the program is surprising, Laird says, given that the BC Government implemented a similar measure a couple years ago, with unsuccessful results, and it was terminated in 2018. First-time home buyers found it difficult to understand and unappealing to have the government co-own their home.

Let's do the math

Under existing qualifying criteria, including the stress test, homebuyers can qualify for a house that is 4.5 to 4.7 times their household income.

Under the new First-Time Home Buyer Incentive, however, the government has set a purchase limit of four times household income for the mortgage, plus the amount provided by the government, according to Ratehub.

By participating in this program, first-time homebuyers effectively reduce the amount they can qualify for by about 15 per cent, and their monthly mortgage payment naturally decreases in lockstep.

A household with \$100,000 of income, putting a minimum down payment of five per cent, can currently qualify for a home valued at \$479,888 with a \$2,265.75 monthly mortgage payment.

Affordability calculations

The maximum purchase price for the same household, if they participate in the first-time homebuyer incentive, drops to \$404,858.29 with a five-per-cent minimum down payment. The total mortgage amount would then be \$400,000 (or four times their household income).

Mortgage payment calculations

If the household took a five-per-cent incentive from the government (for resales), their mortgage amount goes to \$378,947.37, and monthly payment is now \$1,810.90.

If the household took a 10-per-cent incentive, (for new homes) their mortgage amount goes to \$357,894.73, and monthly payment is now \$1,710.29.

Stress test modifications

The CHBA is among the industry groups that is pushing for modifications to the existing mortgage stress test, which has served to lock out too many well-qualified Canadians due to the market and interest rate changes of the past year.

“The First-Time Home Buyer Incentive, if coupled with immediate adjustments to the stress test, has the potential for getting the housing continuum functioning again,” says CHBA CEO Kevin Lee. “It is essential that these changes come quickly, though. Current restrictions on mortgage access mean that many millennials and new Canadians are seeing homeownership slipping away, and in many markets the economic impacts are substantial.”

Looking ahead to the 2019 federal election, CHBA will be encouraging all federal parties to address housing affordability in very meaningful ways in their respective platform documents.

[Budget 2019 housing measures](#)

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