

# First-Time Home Buyers Incentive – What Does it Really Mean?

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*Will the First-Time Home Buyers Incentive (FTHBI) really help Canadians that are ready to commit to a home of their very own?*



Put that question to [Canada Mortgage and Housing Corporation](#) representatives and they'll tell you it helps make homes more affordable. Ask mortgage brokers in Toronto and Vancouver and they'll point out FTHBI will likely benefit first-time home buyers purchasing outside Canada's most expensive cities the most. As importantly, first-time home buyers, mortgage and real estate agents and other real estate professionals are all waiting on additional FTHBI details and its official September launch. In late April, CMHC said that "more details on the terms and conditions around that will be shared in the coming months."

"FTHBI is a political strategy that will have little, if any impact, on first-time home buyers seeking homes in downtown or central Toronto, because most homes are above the \$480,000 maximum mortgage amount including the CMHC loan," says Darlene Hanley,

mortgage agent, Mortgage Architects, Toronto, who notes 30% of her clients are first-time buyers. "I've had very few queries about it so far, whether it's because of my focus on downtown Toronto or the FTHBI's September start date."

Here are the FTHBI facts the CMHC has shared so far:

- It is expected that approximately 100,000 first-time home buyers would be able to benefit from the Incentive over the course of the program's three years.
- FTHBI is limited to households with a maximum combined income of \$120,000. In addition, the program caps out at four times the applicant's annual income, which means it can only help homeowners looking to buy properties where the mortgage value including the CMHC loan doesn't exceed \$480,000.
- The maximum equity CMHC will take in a first home purchase is 10% of a newly built home and 5% of an existing home. It will also require borrowers to meet minimum insured mortgage down payment requirements.

Since no ongoing payments would be required on the Incentive, Canadian families would have lower monthly mortgage payments. For example, if a borrower purchases a new \$400,000 home with a 5 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.

Of course, first-time home buyers still have to pass the B-20 stress test introduced by the Office of the Superintendent of Financial Institutions to prove they can handle interest rates that may become substantially higher than their contract rate.

"You still need to be pre-approved, qualify for a mortgage and prove you can carry that mortgage as well as your living expenses," says Hanley. "The FTHBI has very little tangible impact on the first-time home buyers' financial situation."

First-time home buyers can use search sites such as [REW.CA](https://www.rew.ca) to find a variety of listings that meet CMHC's price criteria. Buyers will have to decide whether the homes and their locations align with their lifestyles and needs.

"First-time buyers are interested, but in the Greater Vancouver Area, the homes that meet the FTHBI price criteria tend to be older, smaller and in less desirable locations, but I will always recommend getting into the market as soon as you possible can - that's my best advice," says Elvis Hui, mortgage broker, the owner and founder of Guaranti Mortgages, Vancouver. "First-time buyers who earn more than \$120,000 combined tend to want bigger, newer homes in the downtown core."

Despite the income and borrowing limits, the CMHC is "confident this program can work in all markets, including Vancouver and Toronto." The average insured home in Canada is worth \$284,000, less than the national average house price of \$470,000. The CMHC points

out market average prices (\$1 million in Vancouver and \$770,000 in Toronto) shouldn't be confused with starter home prices. Condos in Vancouver's Yaletown and homes in Toronto's Riverdale neighborhoods are well beyond the cap, but CMHC notes around 23% of transactions in Toronto are for homes under \$500,000 and 10% in Vancouver. According to the CMHC, more than 2,000 home buyers in Toronto could be eligible for the FTHBI and over 1,000 in Greater Vancouver.

"In view of the limited GTA inventory below that price point and the limited information to date, I suspect it will prove appealing and effective to a very limited group of first-timers," says Toronto mortgage broker Lee Welbanks.

The Home Buyers Plan, which allows first-time home buyers to withdraw funds from an RRSP to purchase or build a home without having to immediately pay tax on the withdrawal. In 2019, the government increased to \$35,000 from \$25,000 per spouse or partner. Amounts withdrawn must be repaid to the RRSP over a 15-year period.

Over the next several months, first-time home buyers can top up their savings and start talking to their brokers and agents to preparing for the coming investment opportunity.

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