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Homebuyer loan plan 'means doing the math'

Provincial program tempting, but one couple has reservations

BETHANY LINDSAY With a file from Rob Shaw blindsay@postmedia.com Twitter.com/bethanylindsay

It's not free money, but it gives people who didn't have access before, access into the housing market.

First-time homebuyers struggling to cobble together a down payment could soon get an interest-free loan from the B.C. government, a move some experts say undermines Ottawa's attempts to curtail risky mortgages to overstretched buyers.

Premier Christy Clark announced Thursday a new provincially backed loan program that would match the amount a firsttime buyer has saved for a down payment — up to $37,500, or five per cent of the home's purchase price.

Clark painted the move as a way to help middle-class British Columbians overcome the hurdle of saving for expensive down payments. Not everyone has a parent they can borrow money from to get into the housing market, and some need government's help, she said.

But down-payment requirements, set by Ottawa to curb risky lending, exist to weed out buyers who might overextend themselves on properties they can't afford if interest rates increase.

"I hate it. To be very clear, I think it's really bad economics," said Tom Davidoff of the University of B.C.'s Sauder School of Business.

"Big picture, it's a step in the wrong direction. We have too much demand chasing too little supply."

Davidoff said the move could be an attempt by government to prop up a real estate market that is at risk of a sharp decline in 2017.

The new loan program was greeted with praise by developers, the real estate industry, mortgage brokers and some housing analysts who argued it will help those who would already qualify for mortgages speed their entry into the market.

"What we know is for many first-time homebuyers, qualifying for a mortgage is hard, but getting past that down payment and scraping together the $25,000 or $50,000 you might need to be able to get into your first home is just impossible," said Clark.

"So we want to be there to help first-time homebuyers get over that hump."

The new loans — called the B.C. Home Owner Mortgage and Equity Partnership program — would be granted to Canadian citizens or permanent residents who have never previously owned a property and only apply to homes worth less than $750,000. A buyer must be able to pre-qualify for a mortgage and have a gross household income of less than $150,000. Applications open Jan. 16, and the program ends March 31, 2020.

The government would put a second mortgage on a property to reflect the amount it loaned, but not require any interest payments or payments on the principal for the first five years.

After that, the 20-year repayment plan would be set at the prime lending rate plus 0.5 per cent, leaving the homeowner to pay back both the original mortgage and the down-payment loan at the same time.

The 25-year loan is interest-free for the first five years and will be recorded as a second mortgage on the title of the property.

The loans are available for condos, townhouses or detached homes. On a property worth $600,000, the government loan could help a buyer meet or exceed the federally-set minimum down payment of $35,000. In one example, provided by B.C. Housing, a person who saved $30,000 could apply to get an additional $30,000 from the province, giving the buyer a $60,000 down payment.

"The fact is it does help first-time homebuyers and relieves the pressure on the bank of mom and dad," said Neil Moody, CEO of the Canadian Home Builders Association of B.C.

"It keeps the housing continuum moving along. We need these first-time homebuyers. Anything that can be done to help them get into the market at that stage is a positive thing."

Jill Oudil, president-elect of the Real Estate Board of Greater Vancouver, said the program will help first-time buyers overcome a "key obstacle" to home ownership.

Realtors work all the time with young families that can afford the mortgage payments, but not the thousands required for a down payment, she said.

"The great part about the program is it will really help give them incentive to save for the down payment that might have seemed unattainable," said Oudil.