



CITY OF ST. ALBERT ADMINISTRATIVE BACKGROUNDER

TITLE: SHARED EQUITY MORTGAGE PROGRAM

PURPOSE OF REPORT

On September 16, 2019, Mayor Heron provided notice in accordance with Section 23 of Procedure Bylaw 3/2018 that she intended to bring forward the proposed motion below.

In order for Council to debate the motion, the motion must be formally moved.

PROPOSED MOTION(S):

That the City participate/apply for the Canada Mortgage and Housing Corporation (CMHC)'s Shared Equity Mortgage Program to first-time home buyers.

ALIGNMENT TO PRIORITIES IN COUNCIL'S STRATEGIC PLAN

Strategic Priority #5 - Enhance Housing Options

Facilitate an increase in the variety of housing types in St. Albert to respond to market demands and accommodate the diverse needs of residents.

2018 – 2021 Corporate Business Plan Activity

5.3: Work with regional partners to explore the creation of additional housing options to address issues of affordability and accessibility and review best practices for alternative financing.

ALIGNMENT TO LEVELS OF SERVICE DELIVERY

N/A

ALIGNMENT TO COUNCIL DIRECTION OR MANDATORY STATUTORY PROVISION

N/A

BACKGROUND:

Canada Mortgage and Housing Corporation (CMHC) is currently offering two opportunities for municipalities and local citizens to participate in shared equity mortgages to assist with affordability for first-time home buyers.

1. First-Time Home Buyer Incentive Program – This program is being offered directly through CMHC to first-time home buyers across Canada.
2. Shared Equity Mortgage Providers Fund – CMHC is accepting applications from not-for-profit organizations, municipalities, Provinces, and for-profit organizations who would be interested in developing and operating a customized Shared Equity Mortgage Program for first-time home buyers.

First-Time Home Buyers Incentive (FTHBI) Program

The FTHBI Program is being offered directly to home buyers through CMHC. The first-time homeowner must provide a minimum 5% down payment on the purchase amount, with CMHC providing an interest-free down payment contribution of 5 - 10% of the home's value towards an equity investment equal to the contribution percentage.

Program Eligibility Requirements

- At least one borrower must have never purchased a home or has gone through a marriage or common-law partnership breakdown.
- The mortgage must be eligible for mortgage loan insurance through stipulated providers.
- The household's qualifying annual income cannot exceed \$120,000.
- The property is intended for owner occupancy as the borrower's primary residence when the incentive is applied for.
- The maximum amount that can be borrowed is four times the total qualified annual income (including the mortgage, mortgage loan insurance, and the FTHBI contribution) up to a maximum of \$480,000. The homeowner's down payment is not included within this calculation.

The Program benefits first-time homeowners through cost savings realized through reduced monthly mortgage payments from CMHC's down payment contribution (refer to examples shown in Attachment A). The equity share must be repaid without penalty when the home is sold, at a time preferred by the homeowner, or after 25 years. The repayment amount is calculated based on CMHC's equity percentage of the home's value at the time of repayment.

CMHC will provide up to \$1.25 billion towards the FTHBI over the next three years, subject to annual budget allocations. Applications are being accepted on a first-come, first-served basis, and cannot be applied for retroactively if borrowers have purchased and closed on the property prior to November 1, 2019.

CMHC bears the risk that there may be a loss or no capital appreciation to the home's value when the home is sold, but also receives the benefit of capital

appreciation if the value increases. As this Program is brand new, there is no information on uptake from first-time home buyers. The first eligible home purchase possession dates cannot occur before November 1, 2019.

Shared Equity Mortgage Program Funding

CMHC is accepting applications from not-for-profit organizations, municipalities, provinces, and for-profit organizations who would be interested in developing and operating a customized Shared Equity Mortgage Program for first-time home buyers. It is expected that features of a local program would differ from the FTHBI Program, aligning to unique conditions of local markets.

Approved proponents would be provided with loan at a favourable interest rate for shared equity mortgage advances, with operating costs at the proponent's expense. The maximum loan amount per proponent/borrower is \$5 million per year, with a maximum loan term of 26 years.

Applicants are required to provide the following information:

- The requested loan amount.
- The level of experience and capacity to deliver a shared equity mortgage program.
- Underwriting and loan administrative experience and capabilities (could include a partnership with a financial organization).
- Program description, eligibility requirements, and prioritization criteria.
- Shared equity mortgage term conditions, duration, repayment details, triggers of default, how gains or losses are shared, fees, penalties, or interest charges.
- Other incentives that would be provided to the first-time home buyer, such as top-up down payment contributions if applicable. A 5% down payment from the first-time home buyer must be provided from their own resources in all instances.

Benefits

- A Shared Equity Mortgage Program could attract more first-time home buyers to St. Albert and support existing St. Albert residents with their first home purchase.
- The Program could improve the supply of entry level homes that would align with program criteria, first-time home buyer preferences, and first-time home buyer fiscal constraints.
- The Program could be adjusted as needed if uptake is insufficient or the market changes substantially (with CMHC approval).
- Profits from shared equity mortgages could result in an on-going self-sustaining program, or the profits could be redirected to other affordable housing initiatives.

Risks

- A market evaluation study would be recommended to determine whether a secondary program would offer enough benefit to the St. Albert market beyond the current FTHBI Program being offered Canada-wide.
- The Shared Equity Mortgage Program could not be administered directly by the City, as the *Municipal Government Act* (section 264) stipulates that a municipality may only lend money to a non-profit organization, or a municipally controlled

corporation. As a shared equity mortgage is a loan to residents, the City would either need to partner with a non-profit organization to operate the program and distribute the funds on a fee for service basis, or operate the program and distribute the funds through a municipally controlled corporation (either a new one solely dedicated to this endeavor or potentially as a branch of the newly developing municipal utility corporation). Administration has not completed an in-depth analysis of costs but estimates a ball park figure around \$15,000 to establish a new arms-length corporation, \$35,000 for enabling operational criteria, and annual operational costs around \$125,000 annually for minimal staff, office space and overhead to administer the Program.

- Additionally, the City's municipal corporation or its partnership non-profit affiliate would also incur costs for interest and loan payments on funds advanced from CMHC, and for services rendered from financial and legal partners for residential loan conveyancing, underwriting, and administration. These costs are unknown at this time. While the City has experience in grant administration and corporate underwriting, it does not have experience administering residential loans.
- The City's partnership non-profit affiliate or municipal corporation would require staff and administrative capacity to operate the Program for the equity share term which could extend up to 26 years if local Program conditions align with the maximum loan term.
- If Program uptake was insufficient to continue operating, the City's partnership non-profit affiliate or municipal corporation would be required to continue to administer the Program to participants until Program conditions were completed, or until an alternative transition agreement could be reached with individual homeowners.
- There is a risk that the shared equity value of the homes at the time of repayment may not cover the cost of the shared equity loan, or alternatively, the City's municipal corporation (or its partnership non-profit affiliate) may realize a profit from the shared equity program operation that could be reinvested into future shared equity loans or other housing programs.
- Program administration would include mortgage default risks and repayment collection.

Recommendation

St. Albert first-time home buyers are eligible to apply directly to CMHC's FTHBI Program at no cost to the City. This program provides additional opportunities for the first-time home buyer, through traditional purchasing methods.

A St. Albert Shared Equity Program would need to be more attractive than the FTHBI for program participants to apply. While there is potential for a future monetary benefit that could be reinvested, the City would be responsible for Program administration costs for the term of the Program. Based upon the initial analysis of the Shared Equity Program, it appears that the criteria may be too restrictive for the City of St. Albert to develop its own program, and it would bring little benefit for first-time home buyers.

CMHC is also offering preconstruction loans to start new housing projects that provide shared equity mortgages to purchasers. Individual developers can apply through the [Preconstruction Loans Stream 1](#), which also has the potential to improve the affordability of new housing stock.

Based on these factors, Administration recommends that the City participate in the FTHBI Program through information and advocacy rather than developing a customized St. Albert Shared Equity Program.

Report Date: November 18, 2019

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