Core Program Class of 2022

Solution: Registered Home Buyers Savings Plan

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PROBLEM

Problem Drivers

The price of rent is disabling young Canadian's from saving for a down payment for their first home. Many could afford the monthly mortgage payment on a house but are struggling to get approved for a mortgage loan because they haven't been able to save enough for a down payment. The struggle to save enough for the down payment is spurred not only by rising rent costs, but inflation, and limited housing stock as well.

Actors

The main actors involved are individuals or couples aged 18-40 working to purchase their first home. Other actors who have the power to make changes include all levels of government, banks, and credit unions.

Barriers to Solving the Problem

The barriers to renters moving along the housing continuum into home ownership include but are not limited to:

- Those who do not have wealthy parents/caregivers who can gift them with a first down payment.
- The cost of rent and meeting basic needs do not allow for individuals to save for their future.
- An income raise is up to the discretion of employers or they need to find a new higher paying job.
- The small number of houses available in a reasonable price range require maintenance/repairs that are an extra expense we need to consider on top of the purchase price.

Places to Intervene

Whatever the cause, there are a range of approaches that might be helpful in providing a solution to those trying to buy their first home. Some things to consider:

- Shared down payment pool for shared housing projects.
- Employer incentive with regular deductions from employment income to put towards home savings.
- Tax breaks to families who help their children with a down payment
- 100% financed mortgage products from Financial Institutions, so no down payment required.
- Savings matching in a registered product as outlined by Canada Revenue Agency, like RRSP or RESP products.
- Rent to own home purchases administered through cooperative housing projects, where the rent goes towards down payment.
- Not-for-Profit agencies, such as Habitat for Humanity, that target fresh from school, dual working young people and provide down payment support.

PROPOSED SOLUTION

Persona

Alyssa is a 29-year-old college graduate who has been struggling to purchase her first home. She and her partner earn comparable salaries of approximately $55,000 annually, and have a household income over $100,000 annually. They are able to save some money monthly, but with the current housing market in the Waterloo Region, it isn't enough for a 5% down payment because of their other expenses (especially high rent). On paper, Alyssa has done everything right. She went to school, got a good job, and saves what she can, but it is not close to what she needs.

Alyssa's situation has become the norm rather than the exception. We see young working professionals stuck renting, unable to move along the housing continuum into home ownership. Based on their income and savings they can qualify for a mortgage, but, unfortunately, just don't have the down payment necessary to purchase a property in KW.

With the help of Alyssa's story, we decided to focus on the final stages of the housing continuum: moving from rental to ownership. For some, home ownership comes with a sense of pride or a stamp of approval that they are successfully progressing into the next stages of adulthood. We wanted to provide a solution for first time home buyers, to help get people into homes. Home ownership deepens the sense of community and commitments to the neighbourhoods, cities and municipalities that people find themselves living in. We know that when people enter into home ownership, they begin to grow wealth through market appreciation of their homes. They begin to pay down their mortgages, their home value increases and they can take advantage of this to reinvest, sell their property and potentially use the money they make for retirement. Having to support people less through social service supports, or old age security supports, will allow more money to flow to those in our society who need it. We also know that those who have stable homes and increasing assets, will give back by donating their time and money to help others who need it.

Solution Details

The Registered Home Buyers Savings Plan is our solution to the problem of being able to save for a down payment. It is a savings plan designed to help people accelerate their savings for their first home through a government matching program. This is an upstream approach that will not make a difference today, but can assist those in the coming years to start saving for their future home purchase.

This program would run similar to an RESP, an education savings plan is started for children when they are born, knowing that the funds won't be used for several years.
How Does RHBSP work?

The RHBSP is intended for adults ages 18 to 40 to accelerate their savings for the purposes of a down payment towards the purchase of a first-time home. The government provides a matching grant to top up your RHBSP contributions. This is referred to as the Canada Home Buyers Savings Grant.

The Canada Home Buyers Savings Grant has a tier matching program based on the individual's gross Federal income. If individual could be eligible for up to 40% matching grant if their income is less than $41,775[1]

- If an individual's gross income is between $41,776-$89,075 the grant matching would be 30%
- If an individual's gross income is greater than $89,075 the grant matching would be 20%
- The lifetime maximum you can receive as a grant is $10,000.

Your RHBSP can be in investment vehicles such as:
- Stocks
- Bonds
- Exchange traded funds
- Mutual Funds
- Guaranteed Investment Certificates (GICs)

RHBSPs help you by collecting money through government grants and accumulating all earnings (capital gains, dividends and interest) on your investments without having any tax implications on the growth. The RHBSP contributions are not intended to reduce your gross income similar to the Registered Retirement Savings Plan and the use of the Home Buyers' Plan withdrawal.

RHBSP Withdrawals
RHBSP withdrawals help to build up down payment for a first-time home purchase. When withdrawing from your RHBSP, the expected closing date of the home purchase must be within 30 days of withdrawal. The RHBSP can remain open for up to 35 years after the plan was open, however, after the age of 40 individuals would be ineligible to receive grants. Growth within the plan can continue tax sheltered.

If someone wants to withdraw from the RHBSP, without having purchased a home, they may transfer the funds into their RRSP, provided RRSP room is available. In this case, the government grant contributions would be returned. They may also withdraw their contributions tax-free, however the growth would be taxed at 20% to offset the years of growing tax sheltered within the plan.

Intended Outcomes
According to the MLS Home Price Index, Kitchener Waterloo had the second-highest house price growth in Canada from January 2015 to July 2021. To add to this, home price to income ratios put Waterloo Region comparable with some of the most expensive cities in the world. The KW Community Foundation Vital Signs report states that home prices are 8.6 times higher than the estimated median household income in 2021, up from 3 times higher in the 2005 Census.

In April 2022, Peak Realty published home sale statistics for Kitchener – Waterloo. The average residential sale price in KW was $907,205. This represents the price of 633 homes sold. Of those sold homes, 107 were condominiums at an average price of $600,219; 117 were townhome units at an average price of $763,422 & 48 semi detached units were sold at an average price of $785,394. The accelerated savings plans should allow young Canadians to reach their 5% down payment requirement sooner. In addition to a cooling market in a rising interest rate market we hope to see more Canadians reach their goal of home ownership. While limited statistics were available for other dwellings that may be attractive options for first time home buyers, the RHBSP allows for savings towards any housing option including - cooperatives, tiny homes, shared homes, condos, and single-family dwellings.

The RHBSP is also an upstream intervention, intended to help alleviate the current bottleneck in the housing continuum keeping those who have the desire and the means to own a home, in rental housing. With more individuals moving into home ownership, there will be less of a demand on the rental housing market, leaving more rental units available for many individuals that either do not have the desire or means to own a home.

Potential Unintended Consequences

With any bold intervention, there are always potential unintended consequences. The RHBSP is available to any individual between the ages of 18 and 40, regardless of income. This means that even high-income earners can take advantage of this accelerated savings plan. As a result, this plan has the potential to increase the inequality between the rich and the poor.

In addition to this, as more buyers enter the market with the help of the RHBSP, the demand for housing could increase in turn. If there remains a limited supply of housing inventory, this may result in house prices continuing to rise, making it more difficult to attain home ownership. Increasing taxes to fund the program which could be done through various tax sources.

Financial Implications

Housing benefits are currently the responsibility of Employment and Social Development Canada. The RHBSP would be a new program and funding of grants would fall within the scope of improving the standard of living and quality of life for all Canadians.[2]

In 2022, the Liberal Government unveiled their Forward. For Everyone. (liberal.ca) plan to invest $3.6B over the next 5 years to help First Time home buyers save for a down payment. This plan combines the features of an RRSP and a TFSA to allow young Canadians under the age of 40 to save towards their first home tax free. The contributions to the FHSA will be tax deductible, similar to RRSPs. This allows for offsetting of income tax paid throughout the year, so at tax time, the individual could be eligible for an income tax refund, which in theory could be reinvested back into their home buying savings account.

With the RHBSP the government will credit the savings accounts in real time.

Our Registered Home Buyer's Savings Grant would work as follows:

Alyssa has a $50K income - savings at 30% matching, age of 29 in 2022
(This illustration represents RHBSP being available at Alyssa's age of 18)

	Contributions	RHBSG
2012	$ 2,500.00	$ 750.00
2013	$ 2,500.00	$ 750.00
2014	$ 2,500.00	$ 750.00
2015	$ 2,500.00	$ 750.00
2016	$ 2,500.00	$ 750.00
2017	$ 2,500.00	$ 750.00
2018	$ 2,500.00	$ 750.00
2019	$ 2,500.00	$ 750.00
2020	$ 2,500.00	$ 750.00
2021	$ 2,500.00	$ 750.00
2022	$ 2,500.00	$ 750.00
2023		
2024		
2025		
2026		
	$ 27,500.00	$8,250

$27,500 represents a 5% down payment for a purchase price of **$550,000**
If we factor in Alyssa's contribution and the grant $27,500 + $8,250= $35,750 this represents a 5% down payment for a purchase price of **$715,000**

Who We Spoke To

- Habitat for Humanity
- CMHC
- Krystin Scheels - First-time home buyer who has been driven out of the Waterloo Region (where she grew up) because of high housing prices.
- Region of Waterloo - Affordable Homeownership Program
- Affordable Housing Cafe
- Panel members at Leadership Waterloo Region orientation

Suggested Partners

- Government of Canada
- Government of Ontario
- Banks and Credit Unions
- Employers who could run a program similar to an RRSP program

Lessons Learned

The current housing market is running people out of contention to get into it. That there are so many solutions to the problem that will have to be done in tandem to make a dent in this problem. This is one of many programs and initiatives that can be put into motion to make first-time home ownership more of a reality to many who have given up hope.

It isn't that people can't afford a mortgage; many people are paying more a month in rental fees than they would be in mortgage payments. Because rental fees are so high, it is hard for people to save for that minimum 5% down payment, when their finances will clearly show they can support the mortgage payments.

Levels of government will have to work together to get this off the ground.
Money for the program will have to come from raised taxes or reallocated funds from other initiatives.

OTHER RESOURCES

- Employment and Social Development Canada - Canada.ca
- Forward. For Everyone. (liberal.ca
- Kitchener Waterloo Community Foundation Vital Signs Report-https://www.kwcf.ca/vital-signs
- Peak Realty- https://www.peakrealtyltd.com/