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Dear Clients,

The new federal budget certainly got the attention of house hunters, realtors and mortgage professionals. Unfortunately, the announcement turned into a cliff-hanger and we will have to wait for the next episode to find out what is really going to be delivered.

The budget contains two key components aimed at addressing affordability concerns and making it easier for first-time buyers to get a home.

The first is a straight-forward expansion of the current "Home Buyer's Plan" that allows the use of RRSP money for a down payment. The maximum amount of the RSP withdrawal has been bumped up from $25,000 to $35,000 – but the 15-year pay-back period is unchanged.

The second component is more complicated, and some important details were left unexplained in the budget. The "First Time Home Buyer Incentive" amounts to an interest-free loan from Canada Mortgage and Housing Corporation. There are several conditions but it allows CMHC to take an equity stake in a qualifying mortgage. The money will be paid back to CMHC when the property is sold, or sooner if the owner choses.

The money would go to first-time home buyers applying for insured mortgages. Borrowers would still have to pony up a down payment of at least five per cent of the home purchase price. On top of that, though, they would receive an incentive of up to 10 per cent of the house price, which would lower the amount of their mortgage.

For example, say you're hoping to buy a $400,000 home with the minimum required five per cent down payment, which works out to $20,000. With the new incentive, you could receive up to $40,000 through the CMHC. Now, instead of taking out a $380,000 mortgage, you'd need to borrow only $340,000. This would lower your monthly mortgage bill from over $1,970 to less than $1,750.

The cliff-hanger is: how much money will go back to the housing agency. Does the homeowner pay back the amount borrowed, or does CMHC get a share of the increased value of the property? Conversely, if the property value drops does CMHC share in the loss, or is the owner still liable for the full amount of the original loan? The answers are supposed to come in the fall.

Several prominent economists point out, that neither program actually makes housing more affordable. They merely add to the options for taking on debt that will have to be repaid. By some calculations the FTHBI might even decrease the maximum amount a buyer can qualify for.

This is all the information we have for now, as I get more information, I will provide updates.