



*Popular Home Buyer Plan can get first-timers into a home faster, but there are some caveats.*

**T**he federal Home Buyer's Plan (HBP), which allows the penalty-free withdrawal of cash from an Registered Retirement Savings Plan to be used towards a home purchase, is being used by more than 100,000 home buyers a year. Since HBP started in 1992, more than 2.5 million home buyers have used it, withdrawing approximately \$27 billion.

A home buyer can withdraw up to \$25,000 from the RRSP without penalty. A married or common-law couple can each withdraw the same amount each. An applicant does not have to be a first-time buyer, but cannot have owned a home within the previous five years.

A key advantage of the BHP is that if it allows you to buy with a downpayment of 20 per cent or more, you will not need to purchase the mortgage insurance

required for high-ratio loans, which will save some money.

The RRSP must be active. You can't simply put money into the RRSP and then withdraw it for a downpayment. Your RRSP contributions must remain in the RRSP for at least 90 days before you can withdraw them under the HBP, or they will not be deductible.

There are some other rules, according to Canada Revenue Agency:

- You have to enter a written agreement to buy a home. Obtaining a pre-approved mortgage is not enough.
- You have to buying a home as a principal residence, not an investment property or a vacation home, for example.
- The RRSP withdrawal has to be repaid within 15

# RRSP CASH WIDELY USED FOR DOWNPAYMENT

years. For example, if a buyer withdraws \$25,000, it requires a repayment of \$1,667 each year for 15 years, or \$138 per month. Any missed payments are included in taxable income for that year. According to CRA, about a third of HBP applicants fail to make the full repayment.

• You cannot participate in the BHP in subsequent years unless the first withdrawal is repaid.

The first payment on the RRSP withdrawal is not required until the second year following the year of the withdrawal. For example if you used the BHP to buy this summer, you wouldn't need to make your first payment until the 2014 tax year.

Take a close look at the HBP if you are a first-time buyer: it can be an effective way to get into today's housing market.