

BC HOUSING Second Mortgage Financing Guidelines

**Brought to you by....Francine Tracey, Origin Mortgage Dominion Lending,
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About the Program (Program starts January 15, 2017)

The BC Home Owner Mortgage and Equity Partnership (BC HOME Partnership) assists residents of British Columbia who are eligible first-time homebuyers.

The program provides repayable loans to be secured by a second mortgage up to a maximum five per cent of the purchase price.

The BC HOME Partnership loan is only available to eligible homebuyers requiring a high-ratio insured first mortgage for the purchase of their home.

The government will MATCH the down payment of the borrower, to help them qualify for the 5-10% down payment required by CMHC. Minimum amount required by borrower is 2.5% to make a purchase up to \$500,000, but more if purchase is between \$500-\$750,000 (ie they will match the additional 5% requirement).

The loan is for a 25-year term, interest and payment free for the first five years.

All individuals who will hold both registered and beneficial interests in the home must meet all of the following eligibility requirements:

- Be a Canadian citizen or permanent resident that has resided in Canada for at least five years
- Have resided in British Columbia for the last 12 months
- Be a first-time homebuyer who has not owned an interest in a principal residence anywhere in the world at any time and has never received a first-time homebuyers' exemption or refund
- Purchase a home that is \$750,000 or less
- Be eligible for a high-ratio insured first mortgage for the home

Other eligibility requirements are:

- The combined, gross household income of all individuals on title must not exceed \$150,000.

- The home being purchased must be used as the principal residence of all individuals on title for the first five years after purchasing.

What types of homes are eligible for a BC HOME Partnership loan?

The home must be a legal, self-contained mortgageable residence located in British Columbia, with a maximum purchase price of \$750,000. Rental properties and seasonal/recreation properties are not eligible.

On closing, the homebuyer must become the registered and beneficial owner of the home. The homebuyer must take possession of the home within 30 days of closing and move in within six months.

The home must be maintained as the homebuyer's principal residence for the first five years (or less if the home is sold).

Examples of eligible properties include, but are not limited to:

- Detached/semi-detached homes
- Row homes
- Town homes
- Condominium homes

What is the lender's role?

The homebuyer must obtain approval from a first mortgage lender for a high-ratio insured first mortgage. As the lender, you must be aware that the homebuyer will be receiving this loan and agree to have the BC HOME Partnership loan registered on title as a second mortgage.

Will CMHC recognize the BC HOME Partnership loan as a traditional source of down payment?

No, the BC HOME Partnership loan is a non-traditional source of down payment.

BC HOME Partnership loan is a non-traditional source of down payment. How much is the BC HOME Partnership loan that a homebuyer can receive?

- The BC HOME Partnership loan will contribute to the homebuyer's down payment, up to a maximum of five per cent of the purchase price for their home. The total down payment, including the BC HOME Partnership loan, must be less than 20 per cent of the total purchase price.

- The homebuyer is responsible for ensuring the BC HOME Partnership loan, combined with the homebuyer's down payment, meets the minimum down payment requirements to qualify for an insured first mortgage.

Will the BC HOME Partnership loan be registered on title?

- Yes. The loan will be secured by a **second mortgage** in favour of British Columbia Housing Management Commission (the Second Mortgage) registered on title to the home on the closing date.
- The principal amount secured by and indicated on the second mortgage will be the BC HOME Partnership loan, plus an amount to cover BC Housing's legal costs.
- The amount of BC Housing's legal costs will be disclosed to the homebuyer at the time of BC HOME Partnership loan approval.

What are the terms of the second mortgage?

- The term of the second mortgage will be 25 years. No payments on account of principal and interest will be required during the first five years of the term.
- While the first five years is interest and payment free, the homebuyer may repay the loan in full or in part at any time with no penalty.
- After five years, interest will start accruing and the homebuyer will start making monthly payments of principal and interest, amortized over the remaining 20 years (because the first five years were interest and payment free).
- The initial interest rate on the fifth anniversary will be outlined in the Conditional Loan Approval letter received by the homebuyer. The interest rate will be reset at the Royal Bank of Canada Prime Rate plus 0.5% at each of the 10th, 15th and 20th anniversary dates.
- The BC Home Partnership loan is due and payable in full if any of the following occur:
 - Default under the first mortgage or the BC HOME Partnership loan
 - Change of ownership (including addition of a person to title)
 - The home is no longer the homebuyer's principal residence
 - BC Housing determines the homebuyer misrepresented or made a false statement in connection with the application for the loan

Is approval for the loan conditional?

- Yes. Homebuyers' applications are reviewed to confirm all listed applicants meet the program's eligibility requirements. Once the homebuyer enters into a contract of purchase and sale, they will be provided with a conditional loan commitment letter with the loan amount. The homebuyer can then provide a copy to you, their lender, in order to finalize financing.

How will the loan be funded?

- Funds secured by the second mortgage will be released to the homebuyer's lawyer/notary public at closing, following the registration of the second mortgage.
- At closing, if all funding conditions have been met, the homebuyer's lawyer/notary public can expect to receive the amount of the BC HOME Partnership loan, with BC Housing's lawyer retaining the amount required to pay for BC Housing's legal costs.

What are homebuyers' responsibilities?

The homebuyer is responsible for ensuring they continue to meet all BC HOME Partnership eligibility requirements.

They are also responsible for all costs associated with purchasing the home, including but not limited to the following:

- Deposit in accordance with the homebuyer's contract of purchase and sale
- Home inspection fee
- Mortgage insurance fee
- Legal fees
- Any fees payable to a first lender in connection with the high-ratio insured first mortgage

Other Notes:

- Recommended credit score minimum 650
- CMHC insured mortgages minimum down payment requirement is now 5% down for first \$500,000 and 10% down for the balance of the purchase price.

- 3.85% is the non-traditional down payment premium - premiums may be changed depending on other conditions and must be quoted according to underwriters.
- Even though there are no payments for first 5 years, the 25 year amortization must work into the debt servicing calculation (under TDSR).
- Co-signers cannot be used because they cannot be on title and cannot use them for additional income. Everyone has to be on title to be eligible for the program.
- Interest rate for the first 5 years has not been set now and will be set by the 15th of January
- The loan can be paid off anytime in full without penalty
- The program is NEW – not all questions can be answered right away but as the scenarios unfold, we can find out from BC Housing.

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