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Financing the Property Transfer Tax (PTT). Is it possible? It depends …

When a home buyer begins working with a REALTOR®, typically the buyer has been preapproved for a mortgage. Early in the process a REALTOR® should ask whether the buyer knows about the Property Transfer Tax (PTT).

The PTT is a provincial tax that is paid when property ownership or interest is registered at the Land Title Office. The PTT is charged at a rate of one per cent on the first $200,000 of fair market value and two per cent on the remainder of the value.

The PTT adds $8,000 to the cost of a $500,000 home. This amount may come as a surprise to the buyer if they have not factored it into closing costs and it could result in a deal collapsing.

- **Is there provincial government legislation or policy that prohibits the financing of the PTT?**
  No. The provincial government sets the tax amount and collects the tax. But it has not enacted legislation or policy governing whether or not consumers may finance the PTT.
- **Is there federal government legislation or policy that prohibits financing the PTT?**
  No. There is no federal government legislation or policy that prohibits the financing of the PTT, including the *Bank Act*, which does not restrict financing the PTT.
  However, the *Bank Act*, section 418(1) governs the loan-to-value ratio for mortgage insurance. It requires borrowers of any mortgage with a loan-to-value ratio of 80 per cent or more of the value of the property to buy insurance against default from a mortgage insurance company such as CMHC or Genworth Financial. (Note: Until April 2007, the ratio was 75 per cent or more). A loan-to-value ratio of less than 80 per cent is a conventional loan and does not require mortgage insurance.
- **Is it possible to finance the PTT?**
  A borrower with a conventional mortgage may be able to take the PTT out of their equity or find some other source of financing.
  But, in a high ratio mortgage, lenders typically do not allow home buyers to take the PTT out of equity. Lenders consider the PTT to be a closing cost and closing costs are typically not financed as part of a mortgage. Underwriters providing mortgage insurance such as CMHC and Genworth Financial stipulate that applicants must be able to cover closing costs and lenders must perform due diligence to protect against default.
  However, lenders look at each situation on a case-by-case basis, particularly if borrowers have good credit and have the ability to pay monthly costs.
- **Is there a situation where the PTT could be financed?**
  Yes. For example, let's say a couple has just graduated from medical school. Several years ago they sold their home to finance their education, so they do not qualify for the PTT first-time home buyers' exemption. They see a $900,000 home and they don't want to wait a year to save a down payment. They visit their lender and because the couple have started new jobs, one as a cardiologist, the other as a family practitioner, with a combined annual income of $400,000, the lender agrees to finance the mortgage. The lender also offers the couple a line of credit for closing costs which includes the PTT. In this specific case, the couple's credit is good and they have no debt.

Talk about the PTT

For high ratio mortgages, financing the PTT is typically not an option. REALTORS®, each time you meet with a new client, make sure you help them understand all the costs involved in buying a home.

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