5
AFFORDABLE HOMEOWNERSHIP COMPONENT OF THE CANADA-ONTARIO AFFORDABLE HOUSING PROGRAM

The Community Services and Housing Committee recommends adoption of the recommendations contained in the following report, May 25, 2006, from the Commissioner of Community Services, Housing and Health Services with Recommendation No. 1 amended to read as follows:

1. **Council indicate to the Province that the Region accepts the Province's proposal that the Province deliver the Affordable Homeownership Component directly.**

1. RECOMMENDATIONS

It is recommended that:

1. Council indicate to the Province that the Region accepts the Province's proposal to deliver the Affordable Homeownership Component directly.

2. The Province be advised that the Region proposes that the Province deliver the same number of units and dollar allocations under the Program as had been allocated for regional delivery, to ensure available funding is spent locally.

3. The Regional Clerk forward this report to the local municipalities, MPs and MPPs for information.

2. PURPOSE

The purpose of this report is to outline the details of the Canada-Ontario Affordable Housing Program Affordable Homeownership Component and to support provincial delivery of this initiative.

3. BACKGROUND

In May 2002, the federal and provincial governments signed an agreement to provide $245 million in federal funding for affordable rental housing in Ontario over a four-year period. The Program was not well subscribed for several reasons including minimal provincial contributions, complex and burdensome administrative arrangements and lack of rent supplement funding.

On April 29, 2005, the federal and provincial governments announced major revisions to the Canada-Ontario Affordable Housing Program (AHP) with each government providing additional funding. The main component of the funding remains the creation of affordable rental housing, which is further discussed in a concurrent report. In addition, the federal and provincial governments announced an Affordable Homeownership Component. The Province released guidelines for this program in February 2006.

Unlike the other program components, the Province has recognized that this program may not fit with the objectives of all Service Managers and have indicated that where a Service Manager chooses not to deliver the program, the Province will do so directly.

The total provincial allocation for the Affordable Homeownership Component is $28.37 million for 3,470 units. York Region's allocation is $2.169 million with an allocation of 249 units resulting in an average of $8,711 per unit.

4. ANALYSIS AND OPTIONS

4.1 Program Overview

The Province has indicated it has several overriding objectives for the Affordable Homeownership Component, including easing demand for rental housing, freeing up social housing units to address social housing waiting lists, and providing low and moderate income households an opportunity of moving up the socio-economic ladder.

Generally, the homeownership component provides financial assistance in the form of a forgivable loan to eligible purchasers to be used as a down payment towards the purchase of a new or resale home. To be eligible for the contribution, prospective purchasers must be renter households buying sole/principle residences. Their household income cannot exceed $59,000 annually. They must be selected through a fair and open process and the information about the Program, including the selection process, must be available to the public.

Eligible units that would be considered under this program are: new units, including conversions from non-residential to residential use that include a new home warranty; and resale homes provided that a home inspection is undertaken at the prospective homeowners expense. Homes in York Region cannot exceed $196,000 in price and must be modest in size relative to community norms in terms of floor area and amenities.

4.1.1 Funding Arrangements/ Contributions

Contributions to households must be used toward a down payment, to a maximum amount of $10,000. Contributions are forgivable to households remaining in their homes for 20 years. If the home is sold within the 20 year period, the homeowner must repay the funding plus 5% of any capital gain to the revolving fund. If there is no capital gain, the loan is forgiven.

If the Region were to deliver the Program, contributions to households would have to be paid from a revolving fund to be set up by the Region. Upon signing the Program Administrative Agreement, the Province would supply the Region with its funding allocation.

Service Managers must participate in the Program for a minimum of 15 years and must submit an exit plan to the Province if they discontinue the fund after that time.

4.1.2 Administration Requirements and Funding

If the Region chooses to deliver the Program, it would receive an administration fee in the amount of $60,857 over the 15 years of the Program, or $16.29 per unit per year which is not reflective of the real cost of delivering the Program. For this fee, the Region would be responsible for establishing and maintaining a revolving fund for a period of 15 years, providing education for new homeowners, registering mortgage and agreements on title, ensuring sales are at fair market value and at arms length, providing on-going reporting to the Province, promoting the Program, and establishing and administering a homeowner selection process.

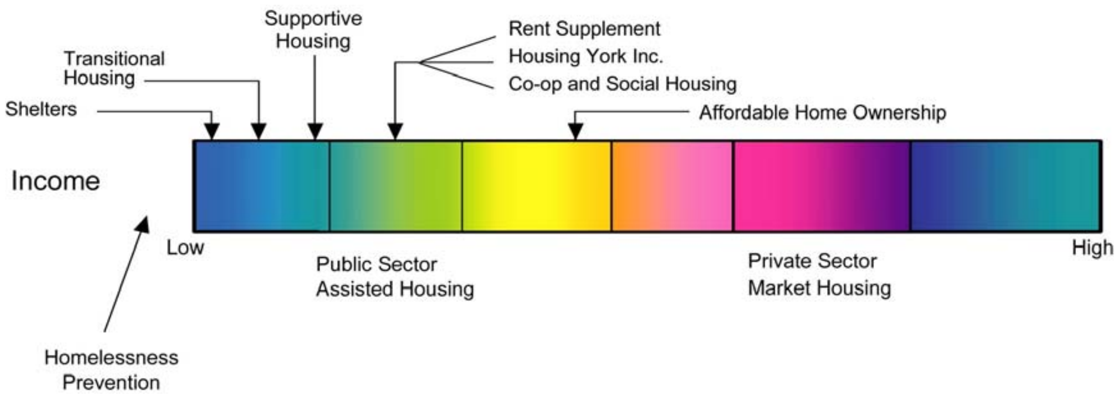
The Province has indicated it will deliver the Affordable Homeownership Component in those communities where Service Managers do not. However, the Province has recently stated it may not be able to commit to delivering the unit and dollar allocations as set out in the Service Manager allocations within specific Service Manager areas.

4.2 Implications of the Province's Affordable Homeownership Component to York Region

4.2.1 Region's Mandate and Objectives

The Region's primary focus in the provision of affordable housing is to serve those households with the greatest need including homelessness prevention programs and providing housing and financial assistance to those in need of affordable rental housing. The Province's Affordable Homeownership Component is a response aimed at serving moderate income households who typically earn more than those households in need of homelessness and affordable rental housing programs (*See Chart 1*).

Chart 1
Housing Continuum



Few social housing households, or those on the Region's Social Housing Waiting List, earn $59,000 a year. In fact, households making less than this amount could face significant financial hurdles if they were to participate in the Program.

The cost of carrying a $196,000 home could consume a large proportion of the income of a household making under $59,000. As indicated in Table 1, it is estimated that shelter payments could consume over 40% of the household's income if it earned $55,000—near the top of the allowable income range. The Canada Mortgage and Housing Corporation deem households to be in need of affordable housing if they spend more than 30% of their income on shelter.

The benefit to homeowners from receiving an average $8,700 forgivable loan would be to reduce their monthly payments by about $56 per month.

Table 1
Estimated Costs of Homeownership

Estimated Upfront Costs	**Amount**	**Estimated Annual Costs**	**Amount**
Moving	$1,500	Mortgage payments	$14,800
Land Transfer Tax	1,700	Property Taxes	2,100
Legal Fees	1,000	Condo Fees	3,500
Mortgage Insurance	5,100	Utilities	2,000
		Insurance	400
Totals	**$9,300**		**$22,800**

Notes: The mortgage payment is based on a 6% mortgage with a 25 year amortization rate. The amortization rate could be lengthened to reduce the payment; however this would result in significantly higher interest costs over the life of the mortgage and a significantly less accelerated payment of principal. The mortgage insurance is assumed to be financed through the mortgage.

In order to achieve the full benefit of the Program, that is to have the loan totally forgiven; households would have to remain in their existing homes for 20 years. It can reasonably be expected that this would have very limited application, as most households would not remain in their first home for this length of time. It may be more advantageous for homeowners to use bank financing tools, such as accelerated mortgage payments, rather than participating in this program, due to this 20 year obligation.

Finally, the Program would provide few opportunities for social housing residents or applicants to purchase a home, and as such, is a poor fit for the Region's overriding objective of serving those most in need. In any case, program participants would need to pay a substantial portion of their income for shelter costs.

4.2.2 Limited Availability of Housing Stock in the Program Price Range

An additional factor that could prohibit those most in need of affordable housing participating in the Program is the availability of housing falling within the price ceilings established by the Province.

An analysis of the Multiple Listing System (MLS) during the week of February 20, 2006 showed there were approximately 140 re-sale homes for sale in York Region under the price ceiling of $196,000. Of these, about one-third were small, older homes located in the northern part of the Region with many needing upgrading and repair. Most of the remaining units were small, re-sale condos located in the southern part of the Region.

A review of new condominium projects being built in the southern part of York Region indicates there are units of about 600 square feet available in several projects under the price limit of $196,000. Typically however, there would be few such units available at this lowest end of the price range in any one project. Units of this size are, for the most, part suitable for singles or couple households. There are a nominal number of units available within the Region under the required price ceiling of $196,000 that would be suitable for families in social housing or on the Region's Waiting List.

4.2.3 Administrative Fees/Considerations

Assuming a full take-up of units, administrative fees for the Program have been set at $60,857 or $16.29 per unit per year for the 15 year life of the Program.

The Province has indicated that the Region would be able to use a yet to be determined portion of the fees being returned to the revolving fund from home sale proceeds as an administrative offset. However, it is reasonable to expect that it could take several years before there are significant funds available. It can also be reasonably expected that many of the costs associated with the Program, such as establishing the revolving fund, promotion of the Program, educating first time homebuyers etc., would occur in the first several years.

Based on the expectation of requiring a dedicated staff person in the ramp-up period of the Program (approximately 3 years at a minimum), and 10% of a staff person's time for on-going monitoring, reporting, education, and client selection, it is expected the Region could expend an average of $20,000 per year in present value dollars over the next 15 years or a total of over $300,000.

Significant additional costs would be expected for legal fees for setting up appropriate legal agreements, framework, and documentation for the revolving fund and on-going transactions involving the fund. In addition to the legal fees applicable to each specific home ownership loan, there would be disbursement costs including title searches, sub-searches, execution searches, Teraview registration fees, appraisals, and potentially, in the event of a default, enforcement costs. Assuming a 3% increase in annual salary and related costs per year over the life of the Program, the Region could expend well over five times the amount of administrative funding being offered by the Province. It is not anticipated that the Province would allow this level of funding to be removed from the revolving fund, even if such levels of funding were available.

As such, the Region could be required to absorb substantial administration fees and related costs for a program which does not meet its primary function of helping those households in greatest need.

Finally, it is unclear how the Region could withdraw from the revolving fund at the end of the 15 year period. For example, if money from the fund is reallocated in the 15th year to a new homebuyer, the fund would need to exist for a further period of 20 years in order to properly administer and potentially collect the funding back. As it appears, the commitment to the fund could be perpetual.

4.3 Provincial Delivery of the Program in York Region

Based on the above analysis, it is recommended that the Region support the Province in delivering the Program itself in York Region. The Region should request that the Province deliver the same allocation in York Region as they had asked the Region to deliver, in order to ensure that available funds are spent locally. Given that the allocation was determined by the Province on some need/fair share basis, it should not matter who delivers the Program. The underlying reasoning for the allocation remains valid.

5. FINANCIAL IMPLICATIONS

If the Region decides to deliver the Affordable Homeownership Component, it can be expected there would be a requirement to fund a full-time, dedicated staff position for the next three years at a minimum, as well as significant up-front costs from other departments with respect to legal and financial services, purchasing and other resources. In addition, there will be long-term costs associated with the on-going administration of the Program. The present administrative fee structure is nominal in comparison to the costs which could reasonably be expected to be incurred by the Region in the delivery of the Program.

6. LOCAL MUNICIPAL IMPACT

Residents of local municipalities should receive the same benefits of being able to purchase affordable homes by nominally reducing their mortgage payments whether the Province or the Region delivers the Program.

7. CONCLUSION

The Affordable Homeownership Component, as presently constituted, does not meet a primary mandate of the Region to serve those households in the greatest need of affordable housing. Further, there are potentially too few units in the Region meeting program constraints that could help families in social housing. Delivering the Program would cost considerably more to the Region to deliver and administer than the administrative fees being offered by the Province.

It is therefore proposed that the Region agree that the Province delivers the Program within York Region and should request that the Province deliver the same allocation it had asked the Region to deliver.

The Senior Management Group has reviewed this report.