Enhancing Access to Ownership for Moderate Income Yukon Families: Two Program Proposals

Prepared for Yukon Housing Corporation

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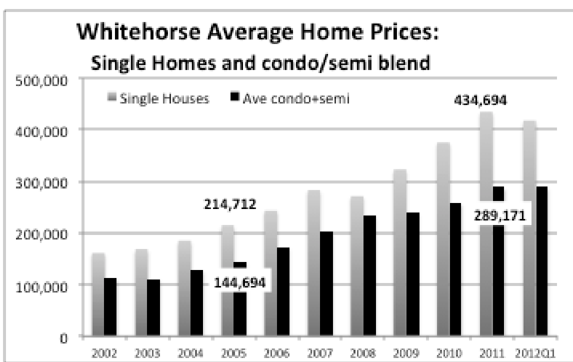
Issue:

Since 2006 the price of detached homes has doubled from $215,000 to $435,000 in 2011. Although more affordable, the price of lower priced forms including semi-detached, townhomes and condominium apartments have also doubled, increasing from $145,000 to $290,000.

The historically low mortgage rates and, until recently, very favourable mortgage insurance rules (up to 40 year amortization in place between 2006-2010) that prevailed over this period had the effect of increasing ability to buy through lower carry charges. These factors partially offset, but also contributed to, rising home prices. With new insured mortgage rules effective July 2012 weakening demand prices have softened a little. Nonetheless, the significant increase in home prices since 2006 has doubled the amount of down payment needed and this may create a constraint for potential new buyers.

Alongside rising home prices, rents have also significantly increased, constraining ability of moderate-income households to save for a down payment.

More recent change in the federal government regulations for insured mortgages, reducing the maximum amortization back to 25 years, has the effect of increasing mortgage payments and raising the income required to qualify for mortgage financing, adding a further constrain to potential home buyers.



Proposed response

This brief presents the rationale, and design for a modest initiative to assist first time buyers overcome the down payment barrier to entering the ownership market – an Accelerated Home Buyer Program (AHBP).

It also presents a complementary program of financial literacy intended to help those lacking a credit score and credit impaired borrowers to establish or restore their credit and thereby improve opportunity to secure financing and move into homeownership – Home Ownership Preparation and Education (HOPE).

Defining eligible households – those at margin of capacity to buy:

A detailed analysis of the existing home market and the array of factors impacting affordability and capacity to purchase a home has determined that the households on the margin of being able to buy a home fall in an income band of roughly $40,000-$80,000. This is the range of incomes above the income eligible for social housing and below the income at which households are capable of purchasing without assistance. The upper limit ($80,000) is very close to the 120% of Whitehorse median household income, the benchmark used in many US ownership assistance programs and adopted in Calgary's Attainable Homes program. [1]

Within this income range there are two potential market segments, each requiring a different approach.

A. Those that might potentially qualify for bank mortgage (acceptable credit) but their income is too low relative to price of homes and they have insufficient savings for a larger down payment that would let them qualify.

B. Those who are unable to qualify for private bank financing (essentially the group targeted by YHC's existing Home Ownership Program) either due to insufficient income, lack of, or impaired, credit rating.

A further subset of group B could be current social housing residents who have had some success in the labour market such that their income approaches the upper end of the social housing eligible housing income limit (HIL) or slightly above this (i.e. income $35,000- $50,000). They are at the margin of buying and not yet ready, but with some assistance might transition into ownership and in doing so could vacate their social housing units to a more needy low-income household.

To respond to the differing capacity and situation of each group, two specific approaches are recommended:

1. Accelerated Home Buyer Program (AHBP) – a down payment assistance program targeting households that may be eligible for bank financing but whose income is currently slightly too low to afford mortgage payments and who have not accumulated a sufficient down payment. Assistance is in form of a deferred loan so the program cost is fully recoverable.
2. Home Ownership Preparedness and Education (HOPE) – a financial literacy and education program directed to households that lack sufficient credit worthiness or capacity to qualify for bank financing. The program is designed to repair weak credit and to prepare the household to purchase in the future. It targets those in the $40-$60k income band, including existing social housing tenants with employment income at upper range of social housing income eligibility.

The design and parameters of each program are presented below.

[1] In 2010 the weighted median income of all Yukon households (family and non family) was $65,800. 120% of this is $80,000.

1. Accelerated Home Buyer Program (AHBP)

Design considerations

- Financial assistance needs to be sufficient to offset the rise in home price and related increase in required down payment. But should not be overly generous, to avoid any inflationary impact of home prices. This concern can also be managed by limiting number of loans approved in any year as a percentage of typical home sales volumes.
- The program will contribute toward the down payment (5% of price). The homebuyer would also add a small down payment (2.5% of price). This ensures that the purchaser is invested in the program. It also moderates consumption because purchaser's own down payment amount is directly impacted by price of home selected.
- With this combined down payment (7.5%) the remaining mortgage amount is lower and payments are more affordable than would the case without assistance.
- Borrower/purchaser must be able to qualify for private lender/bank mortgage (including use of the down payment assistance).
- The assistance should be in the form of a deferred loan. Specific details of repayment to be determined (below). The approach used to recover loan may influence size of the down payment assistance.
- A maximum price should be established to ensure that the program allows only access to moderately priced "entry level" options. It is recommended that a price based on the 25th percentile price of homes sales in past years (Whitehorse) be established as upper price limit. Currently this will be $365,000
- Both individuals and families are eligible to participate.
- Maximum total household income will be established at 120% of the median income of all households as published by Statistics Canada latest tax filer income data. Currently this is $80,000 (120% of $65, 800), based on latest data release (2010)
- In order to avoid a cliff effect, household eligibility will phase out from the maximum eligible for full assistance with level of assistance tapering off from the maximum. The down payment assistance will decline by 1% for each $2,000 of income above the threshold ($80k) to fully phase out $10,000 above ($90k).
- The AHBP should be managed to avoid reinforcing inflationary pressures that may re-emerge in the market – if factors such as strong migration and low mortgage rates start to inflate prices it may be appropriate to limit the volume and or reduce the level of assistance provided.

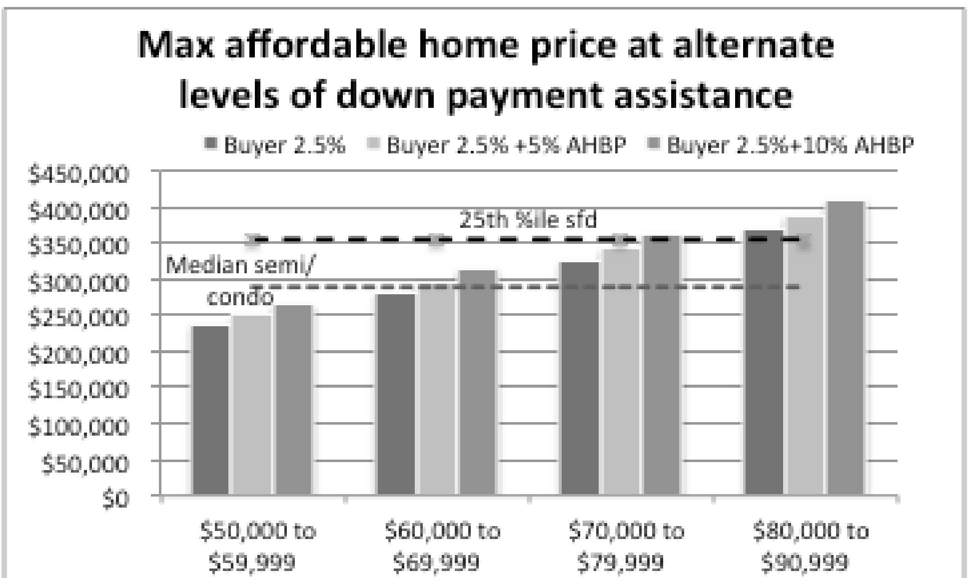
Determining appropriate level of assistance

The intent is to “nudge” potential buyers over existing affordability constraints (ability to manage payments and accumulate sufficient down payment) without providing overly generous assistance that can be counter-productive in inflating prices and accessibility.

Accordingly, a range of assistance levels were examined to determine the optimal level of assistance, based on the defined target group with income of \$60,000-\$80,000 (phasing out up to \$90,000).

The recent 2011-12 home price statistics (Whitehorse) are used to assess efficacy of alternate levels of assistance. The median for semi/row/condo is \$289,000, while the 25th percentile detached home price is \$365,000

It is assumed that the purchaser contributes a 2.5% down payment as a minimal requirement (this should be required to ensure they are invested in the home). The maximum home price is then determined for each income band, with alternately just the 2.5% down and with additional assistance of 5% and 10% of the price. This is illustrated below.



Incomes below \$60,000 cannot afford the median semi/condo, even with 10% assistance. However at a \$60,000 income and 5% assistance this is achievable. At higher incomes and the larger 10% assistance the median price as well as the 25th percentile single price is easily exceeded. So a 10% contribution is unnecessary.

Thus it is determined that a 5% level of down payment assistance is optimal. This is in addition to a purchaser contribution of 2.5%

Determining form of assistance

Any form of assistance than enables households (singles or families) to make the first step onto the ownership ladder provides an opportunity to build an asset and realize equity in that asset.

However, in a strong market this can create a windfall gain and most ownership assistance programs therefore include mechanisms to preclude speculative participation and efforts to "game the system". Program participants invest a minimal amount but depending on how the home market trends in future years stand to accumulate significant equity (e.g. if home prices double again in next 6 years).

While at the outset the objective is to enable access to ownership it is appropriate to balance this objective with a mechanism that both precludes windfall unearned gain and recovers the public investment so that it can be recycled into future initiatives, without any harmful impact of the program participants.

A number of design options are possible:

1. Outright grant- no repayment or recapture of equity gain
2. Deferred loan to recover the original assistance amount (which will decline in real term value)
3. A deferred loan with a predetermined rate of interest payable at some trigger point such as sale of dwelling or 5 year mortgage rollover
4. A deferred loan based on a share of appreciation

In the event that the initial assistance is to be repaid, with or without interest it is necessary that the borrower and home can qualify for bank refinancing at the rollover of initial 5 year term, with repayment funded through refinancing. New insured mortgage regulations (effective July 2012) limit refinancing to a maximum 80% of value and 25 years. This is an important consideration in setting level of assistance and recovery mechanism.

Simulations under a range of mortgage rates to include the potential of some increase (used range of 4%-6%) and alternate levels of price appreciation (ranging from 0% to 5% p.a.) were used to examine future value and the level of purchaser accumulated equity (via both principle repayment and home appreciating value). The simulations used a home value of $290,000 (recent median of entry level homes) and the recommended program price maxima ($365,000).

Additional simulations were also used to help select level of assistance. At higher program contributions (10% and 15%) it was found that the borrower may not be able to qualify to refinance and fully repay these down payment loans, thus corroborating the earlier recommendation to restrain level of assistance to 5%.

The simulations found that at both current (4.0 – 4.5%) and higher mortgage rates (6%) and at the maximum eligible home price ($365,000), the purchaser will accumulate substantially more equity than the amount of the program contribution. Accordingly they should have some capacity to repay this contribution.

However if recovery is pursued via refinancing, their ability to repay is also impacted by the maximum loan-value ratio permitted for refinanced insured loans (80%) and the level of price appreciation over the next 5 years.

With no (0%) appreciation in home values and at prevailing interest rates (roughly 4% for credit worthy borrowers), full repayment is not possible, because this results in a LTV greater than 80%. This occurs both for the lower price level (recent median of semi/condo) and the higher home price (25th percentile single).

So in a zero price appreciation environment (as may exist in non-Whitehorse communities) there is some risk of incomplete repayment (although this could be managed with partial repayment, and residual deferral until year 10).

At moderate rates of appreciation (i.e. 2%) and even at higher interest rates (6%), the initial contribution could be fully recovered through refinancing.

Further, in either scenario, if the home were sold within the first 5 years the initial assistance could be fully recovered.

Impact of alternate mortgage rates and home appreciation

Home Price		***$290,000***			***$365,000***	
Borrower Down Payment		2.50%			2.50%	
Borrower cash		$7,250			$9,125	
DP Grant %		5%			5%	
DP Assistance		14,500			18,250	
Mortgage Amount		$268,250			$337,625	
Initial LTV		0.925			0.925	
Interest rate	4.0	5.0	6.0	4.0	5.0	6.0
Pmt (25yr amortization)	1,411	1,560	1,716	1,776	1,963	2,160
Req'd Income	60,473	66,863	73,554	76,113	84,156	92,577
Principal balance after 5 yrs.	$232,753	$236,446	$239,803	$292,947	$297,596	$301,821
Buyers principal payments	$35,497	$31,804	$28,447	$44,678	$40,029	$35,804
Original Price		**$290,000**			**$365,000**	
Appreciation in home value (after 5 years)						
0% appreciation	$0	$0	$0	$0	$0	$0
2% appreciation	$30,183	$30,183	$30,183	$37,989	$37,989	$37,989
5% appreciation	$80,122	$80,122	$80,122	$100,843	$100,843	$100,843
Equity = principal payments plus appreciation at 5 years						
0% appreciation	$35,497	$31,804	$28,447	$44,678	$40,029	$35,804
2% appreciation	$65,681	$61,987	$58,631	$82,667	$78,018	$73,794
5% appreciation	$115,619	$111,925	$108,569	$145,520	$140,872	$136,647
LTV at 5 yr. rollover with DP repay (Nb max = 80% for refinancing)						
This includes outstanding principal plus full loan amount as percentage of new value						
0% appreciation	**85%**	**87%**	**88%**	**85%**	**87%**	**88%**
2% appreciation	77%	78%	79%	77%	78%	79%
5% appreciation	67%	68%	69%	67%	68%	69%

The 80% LTV constraint on refinancing is another significant reason for limiting the level of the down payment loan to only 5%. At high levels of assistance (e.g. 10%) it would be more difficult to realize recovery in 5 years.

The other factor explored is the form of recovery: via a fixed rate of compounding interest, versus via some form of shared appreciation mortgage.

For the two illustrated home prices and based on a 5% initial down payment loan the initial grants are $14,500 and $18,250 respectively. These can be recovered in a variety of methods.

Simply requiring full repayment of the initial amount recovers the cost, but ignores devaluation due to inflation. This that approach is not recommended.

The use of shared appreciation is used in other jurisdictions. This can be highly beneficial in rapidly rising markets as it generates strong return on the public investment and can negate large windfall gain for the home-buyer. It is also a useful mechanism when homes are sold at a discount due to reduced cost such as public land contributed below cost, or waived public fees and charges, neither of which apply in the current approach.

In the proposed model of a 5% contribution with the purchaser also contributing 2.5% the initial equity share is 67 YHC/33 Homebuyer. However, the owner then unilaterally makes all the principal payments on the mortgage, and by 5 years their combined down payment and principal reduction is equal to 75% of the total equity gain in the asset (a ratio of 25 YHC/75 Homebuyer). This suggests that any public equity share be set at between 25% and 50%.

Again modeling whether sufficient equity appreciation occurs to fully extract the initial public contribution it was found that with slow appreciation, of 2% or less, insufficient value is generated to fully recover the initial assistance amounts with a 25% share; but a 50% share fully recovers the investment, and generates a small surplus.

At a 5% rate of appreciation a larger surplus is generated (it is more beneficial to YHC).

Potential to Recover Assistance at alternate shares and appreciation rates

Home Price	290,000	$365,000
Down payment Assistance	14,500	18,250
2% appreciation		
50% share	15,092	18,995
25% share	7,546	9,497
Recover grant at 50%	Yes	Yes
Recover grant at 25%	No	No
5% appreciation		
50% share	40,061	50,421
25% share	20,030	25,211
Recover grant at 50%	Yes	Yes
Recover grant at 25%	Yes	Yes

One issue with shared appreciation is that extracting a significant portion of the equity gain makes it difficult for the participant to reinvest in the same market – as all prices will have been affected by the appreciating trend. Without a larger share of equity, the owner may be locked out of the local market (unable to trade up).

Shared appreciation models also add a level of administration. It is necessary to undertake appraisals and evaluations and to arbitrate between the program estimate of value and the owners to determine payout shares.

A far simpler model is to simply set a repayment schedule based on a pre-determined level of interest, which should reflect the governments (YHC's) cost of capital. For example, if set at a 3% interest rate the amount due on sale or at rollover can be readily calculated. Since no interim payments are made, this would be a compounding interest rate.

In the two price examples with $14,500 and $18,250 initial outlay, the fixed repayment due to YHC at the 5-year rollover (at 3%, compounding) would be $16,809 (against $14,500) and 21,157 (18,250). This would fully recover the original capital and maintain the purchasing power of the original investment, allowing it to be recycled back into the program.

This simple approach of a fixed predetermined compounding interest rate is the easiest to administer. It fully recovers public investment without overly penalizing the beneficiary. **Accordingly a repayable loan with a specified interest rate and deferred lump sum repayment, registered on title as a second mortgage, is recommended.**

This option avoids the complications of appraising the value and adjudicating fair shares of appreciation. For purposes of public accounting the predetermined schedule creates a tangible asset with a transparent value that can be readily recorded on YHC's balance sheet and in the YTG public accounts.

It should be noted that at this time, the AHBP is intended to complement rather than replace the existing Homeowner Loan Program (which targets bank ineligible buyers). Additional analysis is required to determine benefit of retaining or refining the existing loan program.

Impact of Mortgage Insurance Premiums

As proposed, the 1st mortgage will be at 92.5% of the lending value (same as price in a competitive market) and because this exceeds 80% the loan must, by regulation, be insured. The premiums charged by either CMHC or Genworth for a high ratio loan between 90-95% is 2.75% of the loan amount.

However where the down payment is of a "non traditional" form (as it is here) a slightly higher premium of 2.9% is charged. In case of the lower priced example at $290,000 this amounts to an additional charge of $8,410. This is not payable as cash, but is added to the loan such that the payment increases to amortize this cost (monthly payment at 4.5% increased by $47; and at the $365,000 price monthly payments would increase by $59).

Potential take up and cost

Using census and tax filer data the number of renters in the target income range can be identified (this of course excludes any potential returning Yukon youth). The target group are those with income of $60,000-$80,000, currently renting. This identifies just under 600 households, and the majority are single persons, who may be less interested than families.

Typically, such programs generate only partial participation. Some households (including those in current YHC Home Owner Program) are not able to secure bank financing and thus are precluded from the AHBP; others may not have the reduced minimal down payment (2.5%) and some may simply not be interested in pursuing ownership. Overall it is expected that participation will capture half of these total counts.

For each income band the estimated total down payment loan is identified as $15,500 and $17,500 – higher income groups are expected to purchase higher priced homes. But for those at upper income there is a reduction in the assistance amount (phasing out as incomes rise above $80,000) so loan is less than full 5% of price.

These counts are for Whitehorse only. To the extent that moderately priced homes exist for sale in other communities households will be equally eligible, although this is expected to capture only a small number of homes and these are assumed to be included in total take-up here.

Estimating the number of potential participants (per year)

	Estimate of potential buyers (renters) in 2010				50% Participation		Costs/yr.	
Income	Couple Family	Lone Parent Family	Non-Family	All		Per year	Ave Loan	Total Loans
60k-75k	103	51	191	331	160	32	$15,500	$496,000
75k-85k	108	36	141	257	130	26	$17,500	$455,000
Total	211	87	332	588	290	58	$33,000	$951,000

Assuming 50% participation, evenly distributed over 5 years, a total of 58 loans per year might be awarded at a total cost of just under $1 million. This is an annual expenditure, which would be repeated for a total of $4.755 million over the full 5 years.

The loans become repayable either on the rollover at the 5th year anniversary (repaid via refinancing the loan) or upon sale of the property, if this precedes rollover. Thus the program cost is fully recovered, with interest, after five years enabling the program to operate on a self-sustaining revolving basis beginning in year six.

From an accounting perspective, the funding ($1 million) would be allocated each year by the YTG to YHC and identified as an immediate expenditure in year allocated. The repayment due as lump sum at the 5th anniversary would be recognized as a receivable on the corporation's balance sheet).

Need to confirm co-operation of bank lenders

The AHBP is premised on the 1st mortgage being financed by the commercial lender (authorized by CMHC/Genworth as an approved lender for high ratio mortgages). Prior to implementing the proposed Accelerated Home Buyer Program it is critical that YHC confirm that such lenders will be prepared to partner with YHC in underwriting the initial loan as well as agreeing to refinance at the 5th year anniversary. This may require that YHC defer or suspend its recovery on the second mortgage in those circumstances that the original borrower is not able to refinance at a sufficient amount to fully repay the second mortgage.

Recap summary of program elements

Eligible participants: Current or former Yukon renters eligible (after including AHBP contribution) for commercial bank insured mortgage.

Income limits: Maximum income 120% of median Yukon Household income (currently equals $80,000, with a benefit taper to incomes up to $90,000).

Price eligibility: dwellings (including apartments, semi/row and detached homes up to the 25th percentile price of detached homes as published by YSB/YREB for prior year (currently $365,000).

Borrower minimum contribution: 2.5% of approved lending value of home

Form of Assistance: Down payment loan, secured as a 2nd mortgage. Assistance up to 5% of approved lending value of home; for households with incomes above ceiling income ($80,000) level of loan declines by 1% for each additional $2,000 in come, reaching zero at $90,000 income.

Repayment: Loan payments fixed at a specified rate of interest (reflecting YHC cost of capital, plus an administrative spread, e.g. 3%) with payments deferred to the earlier of (a) resale of home or (b) the 5th year anniversary of 1st mortgage. Loan due in full with compounded interest.

Exceptions: In event that property value at renewal does not facilitate refinancing at maximum 80% of the then assessed lending value, the repayment will be established at the maximum recovery within the 80% maxima, with a new 2nd mortgage placed for the residual amount.

2. Home Ownership Preparedness and Education (HOPE)

Design Considerations

This is intended to be both a stand-alone initiative and a complementary program to the AHBP.

It does not provide direct financial contributions. It is intended as an educational program focused on helping prospective future buyers prepare themselves to take on the responsibilities and obligations of homeowners.

The HOPE will provide mentored counseling to help participants develop improved financial management and budgeting skills and where necessary to establish a sound credit rating or to repair poor credit status.

Credit establishment/repair takes time so the participants in the program will be mentored and re-evaluated on a periodic basis to measure progress against personal financial goals, and particularly in raising their credit score while saving a minimal down payment.

The YHC already provides this type of educational assistance to applicants in the YHC Home Ownership Program – all of whom are ineligible for commercial bank financing.

This option therefore involves taking the current program to a larger scale (staffing implications) and implementing outreach/promotion to attract participants.

The program will also be offered on an invitational basis to existing social housing clients who are employed and have incomes approaching or above the Housing Income Limit (HIL). Here the ancillary objective is to help successful social housing tenants make the transition to ownership. In doing so they free up an existing social housing unit and subsidy to another household in need. But their success can also be used as a role model and inspiration to other social housing tenants.

In both the social housing and general counseling it may also be beneficial to link participants with employment/career counseling to help them move into vocations with stronger income prospects.

Potentially for existing social housing tenants, a transitional saving incentive can also be added. This would engage tenants in employment counseling to increase employability and income while they also participate in HOPE. Any increase in RGI rent due to improved income could be allocated to a reserved savings account on tenants behalf, as a form of down payment saving. Detailed design of such a sub-option is not included here but is not a complicated arrangement to design.

Participation and Costs

The HOPE program would be directed to renter households that may aspire to ownership but are constrained by both insufficient income and poor financial management skills. The target income bands are those between $40,000- $60,000 (which may capture some social housing tenants). The upper band ($60-$75k) is included in the AHBP above, but some may be ineligible as a result of impaired or weak credit, and thus would default into the HOPE program as an initial step before securing assistance under the AHBP.

As before 100% participation, or anything close is very unlikely.

Moreover in this case, participation is likely to be lower than for AHBP because there is no immediate financial benefit. As such it is unlikely that more that 25% of rents between $40-$60k would seek to enroll.

So a potential catchment of 150-200 households in total might seek assistance under HOPE, although not necessarily all in initial year.

Estimating the number of potential HOPE participants (Whitehorse only)				
	Estimate of Potential buyers (renters) in 2010			
Income	Couple Family	Lone Parent Family	Non-Family	All
40K-50K	122	40	260	399
50k-60k	89	33	194	311
60k-75k	103	51	191	331

Currently under their Home Ownership Program YHC counsel roughly 30-40 households (where they are motivated by the prospect of a low rate loan and opportunity to access ownership). Staff report that they receive 5-10 inquiry phone calls per week, although most relate to a desire to obtain purchase assistance. Currently staff provides general advice.

The proposed program would formalize this existing activity and add structure via specific educational modules as well as one-on-one advisory services.

The potential number of additional participants could be limited to an acceptable caseload for one addition staff year (with capacity possible increased if external resources are secured through partnerships with banks).

So the cost would be equate to the salary and benefits for a program officer at YHC.

Potential program elements

To the extent that YHC already provides this service, minimal design details are included here.

Based on the YHC current practices and that in other jurisdictions this will include:

- Initial review to establish credit score and financial acumen
- Periodic updating of credit score

Series of workshops to cover:

- Opening and maintaining a savings account
- Basic household budgeting
- Understand debit and credit cards
- Managing credit and reducing current debt
- Saving and investment
- Good practices that help improve credit rating

- Preparing for ownership – qualifying for a mortgage
- Mock process of applying for a mortgage
- Searching and selecting an appropriate home (trading off price and operating costs)

In addition, evaluation of homeowner education and counseling (HEC) programs in the US has determined that post occupancy counseling is equally important, so post purchase reviews/monitoring in would also be incorporated in the program. This will also reassure lenders.

In many jurisdictions these financial counseling programs are delivered in collaboration and partnership with financial institutions, with institutions proving "in kind" support via staff time to deliver workshops. Ideally such partnersjip approaches can be developed in the Territory.

Conclusion and recommendations

This brief presents the rationale, and design for a modest initiative to assist first time buyers overcome the down payment barrier to entering the ownership market – an Accelerated Home Buyer Program (AHBP). It also presents a complementary program of financial literacy intended to help those lacking a credit score and credit impaired borrowers to establish or restore their credit and thereby improve opportunity to secure financing and move into homeownership – Home Ownership Preparation and Education (HOPE).

The proposed designs achieve the government's immediate objective to help moderate income renter households that face challenges in accessing ownership, due to rising down payment requirements that have been increased by over rise in home prices. The HOPE design supports additional moderate-income households to increasing their capacity to buy.

The recommended programs detailed here are only one step in a more comprehensive program to address broad housing need across the territory. As part of a comprehensive review to establish new strategic directions YHC is developing a full range of initiatives designed to re-establish and sustain a healthy, balanced housing system in the Yukon.

It is recommended that YHC:

1. Implement an Accelerated Home Buyer Program (AHBP), based on a down payment loan equal to 5% of the home price up to a maximum price set at the 25th percentile detached home price in past year.
2. Establish this assistance as a fully recoverable loan, to be repaid via future refinancing.
3. Target renters with incomes below 120% of the median Yukon household income from most recent Statistics Canada Tax Filer data.
4. Implement a parallel and complementary Home Owner Preparedness Education (HOPE) program to assist non-qualifying potential buyers to increase their ability to purchase a home.

5. Secure funding from the YTG to implement and sustain such a program with contributions of $1 million annually for 5 years, after which the program will become self-sustaining.
6. Undertake a comprehensive review of existing social and loan programs with a view to modernizing and refining existing housing policy and programs across the territory to reflect current need and circumstances.

Appendix A: Background Supporting Analysis

Consequences of constrained access to ownership

The rise in home prices, relative to gains in income has created a perception that it is prohibitively expensive to live in or move to the Yukon. This in turn contributes to broader economic impacts:

- It discourages labour from migrating to the Yukon to fill jobs in an expanding resource based economy, both skill mine workers as well as others that are need to fill employment in ancillary related and service industries.
- Inability to buy and settle in the Yukon may also contribute to outmigration and loss of skilled workers
- High home prices may discourage young Yukoners that have left to pursue higher education from returning to live in the Yukon
- A resource-based sector that depends on fly-in-out migrant labour undermines growth of sustainable territorial finances. Workers with a permanent address pay taxes in other provinces, even while earning this income in the Yukon. This undermines fiscal capacity to provide basic services to residents.
- Inability to afford ownership leaves housing demand in a small rental sector. Demand for rentals reduces vacancies and contributes to rising rents exacerbating affordability issues for low and moderate-income renters. Rising rents also limit the ability to save for purchase.
- By discouraging labour migration high housing prices disrupt the labour market, causing both lack of necessary skilled labour and potentially causing wage inflation.
- Lack of growth in labour supply stalls the expansion of the territorial economy

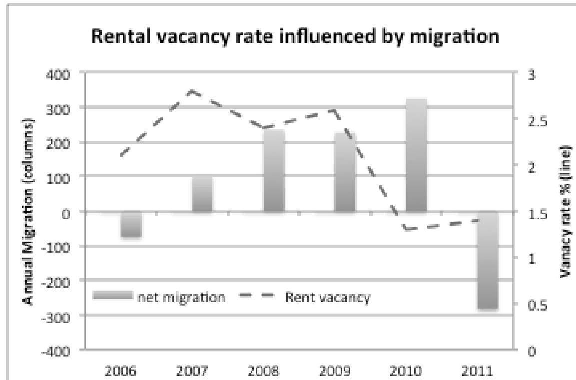
Important considerations in developing assistance options

The core concern that the YTG seeks to address is the impact of rising prices. Accordingly, it is important that any policy response not simply add fuel to the fire. Home prices have risen in recent years because consumers had the capacity to pay more. This was enabled by a set of self-reinforcing factors including strong economic growth and income gains, increase labour force participation, lower levels of income and consumption taxes (GST reduced by 2%) which increased disposable income and most significant, a steady decline to historically low mortgage rates (roughly 6.5% to 4.0%), augmented by longer amortization periods, rising from 25 years up to a peak of 40 years (2006-2009) although this has more recently been retracted back to 25 years.

In short substantial home price increases did not occur in isolation. Prices were driven up by the increasing capacity of consumers to buy. An initiative to increase capacity to buy, if introduced in such a price-inflationary context, would obviously be counter-productive.

Fortunately, many of these factors have now waned, with slower growth in incomes, stabilization in mortgage rates with some potential for slight increases and reversal of extended amortization policy. The effects of these changes can be seen in some softening in both sales volumes and prices – not just in Whitehorse but also all across the country.

In the Yukon, two additional factors are also important, inter-provincial migration (fueled by employment prospects), which while small in national terms are very significant in a small housing market. Positive net migration of 200-300 persons per year between 2006-2010 coincided with the self reinforcing price factors to further drive home prices (and rents), but historically such migration has been cyclical and a few years of negative migration tends to rebalance demand (as it did 2004-2006, and again in 2011).



A second factor, which also had a significant contribution in price increases, is the state of housing supply, a function of land servicing and availability. Until recently there have been constraints on new land supply, which limits new home building activity. Development of a large subdivision (Whistling Bend) and the release of new lots onto the market should help to minimize this impact in the immediate future.

Although circumstances and pressures have shifted (now less inflationary), it is desirable to exercise some caution in designing any home purchase assistance program. This should target only those at the margin of affordability that, without help may be precluded from buying at this time (but might be capable in a few years).

Defining eligible groups – who is at the margin

To determine potential eligible target group we must first define the margin of affordability. This was done by examining the sales prices for recent sales, including both detached homes and other, typically more affordable homes (semi, row, condo). New buyers do not expect to purchase a large detached home in an upscale neighborhood. Most seek an entry-level starter home to gain a foot on the ownership ladder and subsequently used acquired equity to move up the housing ladder. Accordingly we can frame a price band that reflects entry-level product. Two benchmarks are used here: the median price of other more affordable dwelling forms and the 25th percentile detached home.

At these benchmarked entry-level prices purchasers require incomes roughly in the $55,000 to $75,000 income range. The volume of sales shows that there has also been a healthy volume of sales activity, with 100-160 sales of all types in each quarter. So there is a reasonable volume of moderately priced homes available to marginal borrowers.

Given the volume of over all sales it appears that at incomes above $75,000 it is less challenging to purchase, assuming the buyer is realistic about what they can afford. Some may, however, have some challenge in assembling a down payment and this is explored later.

Demarcating entry level prices (Whitehorse)		
	Average semi/condo	25% Percentile single detached
2010	258,496	311,875
2011	289,170	375,026
2012Q1	289,868	365,000
Income required to buy		
2010	54,320	65,537
2011-12	60,913	76,701
Source: Sales prices from YBS; Required income calculated at 30% GDS with 5% down, 4.5% mortgage amortized over 25 years		

To define a potential buyer lower level, the current social housing income limit (HIL) provides a readily available and quite useful lower boundary. Other researchers have noted that facilitating ownership for lower income households, such as those eligible for social housing may be counter-productive. Lower income households may not have the income to manage unexpected expenses such as furnace replacement etc. Also in lower priced homes energy efficiency may be poor and consequently utility costs may present a heavy burden.

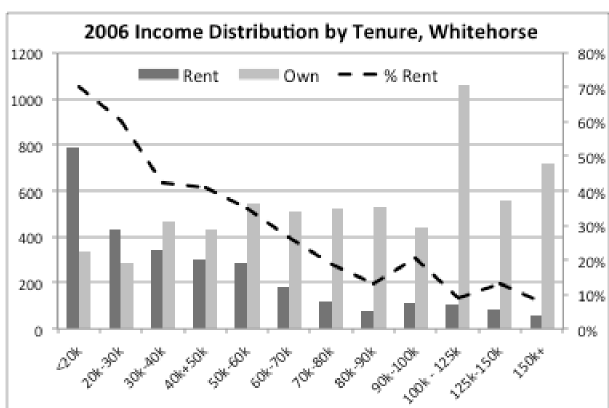
The HILs vary by dwelling and associated household size. For singles potentially seeking to buy a studio or 1 bedroom apartment the HIL (2011) is $35,000 (Bach) and $41,500 (One-bed); For families (either lone parent or two parents with children the two to three bedroom HILs would apply. These are $45,000 and $48,500 respectively.

Accordingly a “floor” for potential buyers is likely in the range of $40,000 (non family individuals) to $45,000 (small families) and this lower boundary is adopted here. At incomes below these levels there would be very few homes available to buy without spending more than 30% and the available homes are likely in poor repair or energy inefficient, so not good candidates for affordable purchase.

Accordingly the $40,000 to $80,000 income range is used to determine eligible homebuyers for a potential assistance program.

In examining income distribution by tenure in the 2006 census, it is notable that as incomes reach $60,000 the ownership rate increases quite dramatically.

This further corroborates the identification of this income range as the range where most marginal buyers will fall.



How many potential buyers are there at the margin of affordability?

Using Statistics Canada tax filer data (most recent is 2010), the number of potential program participants is estimated. Because the focus is on renters transitioning to ownership, the tax filer data are prorated by the 2006 census distribution of renters vs. owners in each income band and by household type. This determines the maximum potential participants in an assisted ownership program targeting renters with 2010 incomes between $40,000 and $75,000. These are show in the following table.

Estimating the number of potential homebuyers at margin of affordability (Whitehorse only)

Estimate of Potential buyers (renters) in 2010				
Income	Couple Family	Lone Parent Family	Non-Family	All
40K-50K	122	40	260	399
50k-60k	89	33	194	311
60k-75k	103	51	191	331
75k-100k	108	36	141	257
100k+	249	12	64	340
All	958	545	2575	3849

The non-family group is the largest singe category, but may overstate the number of potential buyers. The tax files income data identify these as separate individuals, but they are not necessarily living alone. Frequently singles share an apartment or board with others. Some may wish to buy and then rent rooms to other singles, as an investment property, but generally this latter group is less likely to aspire to ownership and where they do (as investors) may face fewer financial barriers than families.

Potential program design could target only families and exclude singles, although singles might be a good target for an investor incentive (with objective of creating rental options). Also, if the objective is to encourage Yukon youth that left to gain education and skills to return, individuals should remain eligible for the program (and may in fact do so as buyer-investors, sharing with friends).

Program participation of 100% is extremely unlikely, so actual take-up will be much lower, perhaps half these numbers.

For some, including higher income households, renting is a conscious choice – such lifestyle renters, estimated in US research as roughly 15% of all renters prefer this tenure, typically because of the greater flexibility (and lower transaction costs) associated with moving.[2]

At the lower end of the identified income range (40k-60k) it is likely that a number of households would be found to have excess existing debt (credit cards, auto loans etc.) and thus would not have sufficient debt service room. And some may be credit impaired – they have a poor and unacceptable credit rating.

[2] Varady, D and B Lipman, (1994) What Are Renters Really Like? Housing Policy Debate, Vol 5 Issue 4, 1994

Also, at these lower levels they may also have difficulty qualifying, as payments would be excessive (exceed acceptable debt service ratio used by lenders), unless they have large down payment.

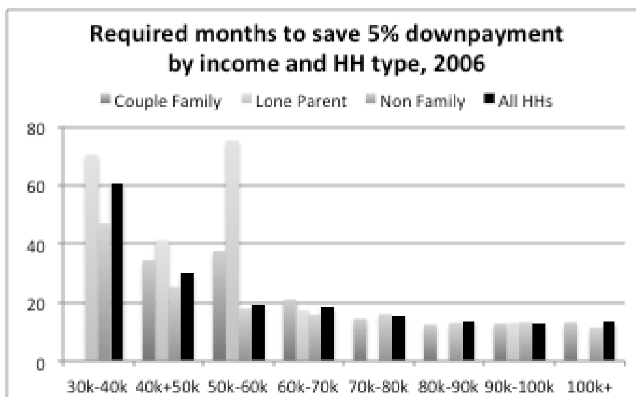
Is down payment a serious challenge and constraint?

There are two main financial considerations in accessing ownership – ability to carry the resulting mortgage payments alongside utilities and taxes, and ability to save. The capacity to carry the payments has been significantly aided by declining and low mortgage rates and it has been suggested above that rather than being a constraint, increased effective capacity has been a key cause for rising home prices.

The second issue is down payment capacity, which has been impacted by rising prices. Doubling of non-sfd average price from $145,000 to $290,000 has effectively raised the required down payment minimum of 5% from $7,250 to $14,500.

Ability to save a down payment was examined by comparing the required mortgage payments on the average entry-level home against the current average rent within each $10k income group. It is assumed that as an owner the household have the ability to meet the higher payments, so in the interim should be able to save the amount of the increase from renting to owning. Using this monthly saving about, the number of months the save is determined. In this calculation, it is assumed that the household has zero savings at the outset, and no other source of down payment.

The results of this assessment are illustrated below. Incomes below $30,000 are not included because in all cases the savings capacity was negative (and their income is too low to qualify for a loan).



At incomes below 50,000, capacity to save is quite limited – most household types would have to save for at least 3 years (36 months) to accumulate sufficient savings.

Non-families (individuals) earning between $50k-60K are able to save within two years, mainly because they have lower rent and thus more room to save, but most households with income less than 60,000 are constrained in their ability to save a down payment.

However, once they cross the $60,000 income level all household types appear to have better capacity to save.

The previously identified 2010-2012 entry level home prices (singles and semi/condo are then used to examine savings capacity, but focusing only on couple families (the single largest group of potential buyers in the benchmarked 40-75k income range).

Again the $60,000 income level emerges as the critical threshold below which households have difficulty. For family households with income above $60,000 in 2012 most will have capacity to save a minimal down payment within a two-year period, and this capacity increased quite significantly as incomes move above 75k-80k.

It is important to note that for those in this transition income range ($40k-$80k), their challenge is not solely the inability to accumulate a sufficient down payment, it is also due to the cost of homes, relative to income, and their inability to qualify for mortgage financing.

The fact that these moderate-income households cannot qualify and cannot carry necessary mortgage payments means that providing some form of down payment assistance alone is insufficient.

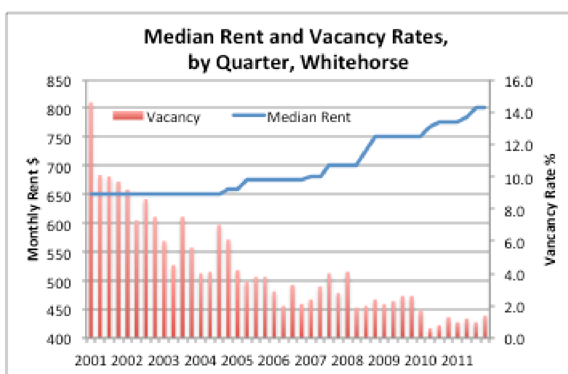
If the policy objective is to enhance the ability of moderate-income households to make the transition from renting to owning then a more comprehensive intervention is required.

Not just financial capacity – credit worthiness also important

Another important consideration, beyond capacity to save and capacity to carry resulting mortgage payments is the credit worthiness of borrowers. In discussion with YHC staff administering the First Buyer Loan program and with private lenders dealing with potential borrowers both identified weak and unacceptable credit as the primary reason that households were unable to qualify and secure financing. So some form of financial literacy and credit counseling may be necessary to augment any ownership assistance initiative targeting the moderate-income marginal buyer sub-set.

Ancillary Impacts and benefits

A further consideration is how access or constraints on access to ownership impact other parts of the housing system. As households transition from renting to ownership, this creates vacancy in rental units, and an opportunity for a new household. Historically, and especially from the mid 1990's through 2005, rental vacancies in Whitehorse have been high. It has been a soft market and this has been an important factor in stabilizing rents at moderate levels. However it has also lessened the attraction for new investors to build new rental housing. Since the mid 00's, concurrent with rising home prices, the rental market has significantly contracted. Rental vacancies have fallen and remain well below a healthy benchmark of 3% and following a decade of relative stability, rents (in the formal surveyed rental sector) have steadily increased, rising almost 20% since 2005.



While these rental trends have been driven mainly by the positive migration since 2006, it is conceivable that constraints on access to ownership may have contributed to this pattern.

The point here is that intervening in the ownership sector can have some permeating impact on rental demand and can help to manage the consequence of lower rental supply.

Looking to the future economic forecasts suggest that the mining and exploration sectors will continue to grow, and will driven the territorial economy to grow at a faster rate than most provinces. This is expected to attract migrants and increase demand and requirements for housing, placing upward pressure of the existing stock of both ownership and rental housing.

In the face of projected growth, expansion of housing supply will be critical and as the primary land holder/developer the YTG plays a pivotal role in managing new housing supply. Without concerted action to bring new building lots on stream, any initiative to enhance ability to buy will be futile.

Exploring Potential Policy and Program Options

Policy approaches founded upon increasing access to ownership are prolific in many jurisdictions. This is especially the case in the US where two previous administrations (Clinton and JW Bush) have embraced growth in the homeownership rate as a national policy objective. These programs have included developing programs to enable low income (and existing public housing) tenants to transition into ownership, as well as programs directed more to moderate income workers in higher cost markets (so called "workforce housing").

The UK and Australia have experienced rapid home price increases and have similarly identified the issue of high housing cost as a deterrent to labour market mobility. Both have developed and implemented programs for "key workers", or "essential workers".

The UK has also implemented programming targeting the "intermediate market" which is essentially the segment that is identified above – those households at the margin of eligibility for social housing (roughly \$40,000 income) through to those that can independently qualify for financing (\$80,000).

The UK models include households that would be eligible for social housing. By facilitating a move into ownership this has the benefit of reducing demand for limited and typically more expensive social housing (with ongoing long-term subsidy). Where the household is currently living in social housing but has improved their employment and income such that they are closer to the higher end of social tenant incomes, enabling a move to ownership, when appropriate, can free up their assisted unit to a more needy lower income household on the waiting list.

While less extensive in Canada, a number of jurisdictions have developed small initiatives to provide homeownership assistance, typically targeting the transition group noted here. Most of these involve affordable new construction – an aspect that may be pertinent in the Yukon, certainly outside of Whitehorse

It is also notable that the YHC already has a mortgage loan program in place that has many of the design elements that would fit with the needs of the target population.

In the preceding review the recent (2012) entry-level price benchmarks were identified based on the 25th percentile detached home price (\$365,000) and the average sales price of condominium apartments and row/semi-detached homes (\$289,000). It is notable that the maximum price under the YHC Home Ownership Program is quite similar, at \$360,000. In the last two years average purchase price in this program \$280,000.

Similarly with regard to income levels, the analysis derived a target band of \$40,000 to \$80,000, although it was noted that below \$60,000 potential buyers are in most cases unlikely to qualify. Since 2010 under YHC loan program applicant incomes have averaged $60,000 while approved purchasers (total of 48 loans in 3 years) have averaged $80,000.

So, coincidentally it appears that the Yukon already has a program that with some refinement could be well suited to the context found to characterize this issue in the Yukon. And, equally notable, that the existing program already includes both down-payment assistance (2.5% down) and enhanced affordability via low mortgage rates (1% below market).

This current design, combining the low down payment requirement with below market mortgage rate and a 30 year amortization results in a program in which the qualifying income to buy a modest priced home ($290,000) is lower than even a 15% down payment grant. The main challenge is how to fund such a capital-intensive program.

Typology of ownership assistance options

A plethora of designs currently exist across various jurisdictions both in and outside of Canada. The following typology enumerates the main approaches.

Pre-purchase Assistance

- Homeownership Education and Counseling (HEC) – buyer preparation (credit impaired, financial literacy)

Down payment assistance

- Supported/incented savings program (e.g. registered homebuyer savings plans, RRSP homebuyer plan)
- Grant/Forgiveable loan to cover part of down payment
- Repayable deferred loan (silent second)
- Incented savings (tax exempt; escrow)

Financing assistance

- Low (below market) interest rate
- Partial forgiveness (e.g. repay only 90%)

Partial purchase

- Lease-to-purchase
- Stair-casing (partial ownership, increasing fraction over time)
- Shared equity/appreciation

Supply based

- Discounted pricing and shared appreciation
- Discounted land cost (including leasing)

In many cases a combination of these measures may be used. For example, down payment assistance, below market mortgage rate and shared appreciation. The use of shared appreciation has the benefit of generating a return on program capital and adds a degree of financial sustainability, especially if a program has a fixed budget.

In many US programs low rate financing is a key feature, facilitated by the unique financing system in the US. All US states have created State Housing Finance agencies and the federal government authorizes each to issue tax-exempt bonds. This is a critically important source of low rate financing for which one of the main uses is provision of low rate mortgages to low-moderate income purchasers.

No similar tax-exempt vehicle exists in Canada, although CMHC does lever the credit rating of the federal government to issue mortgage bonds from which they generate very low cost capital.

Many (especially US) programs but also Calgary's attainable homes program include homeowner education as a prerequisite criteria, so ensure that new purchasers understand their obligations as owners and have solid budgeting and credit habits. Some programs targeting very low-income populations (usually in lower cost markets) also use HEC and financial literacy counseling over a sustained period (pre and post purchase) to help clients with poor credit ratings that are ineligible for bank financing.

A recent initiative in Massachusetts is extending this HEC approach to residents of social housing as part of a more comprehensive program to promote family self-sufficiency. This includes career or labour market counseling and coaching to help individuals select appropriate career paths and support them in developing and acquiring necessary pre-requisite skills to improve income. This is augmented with financial literacy counseling – how to budget, how to manage debt and credit, how to rehabilitate poor credit scores and how to save. Once their income rises, which normally increases their RGI rent, the incremental increase over their base RGI rent is set aside and accumulates in an escrow account, which after a specified period (minimum 3 years) can be used to fund a down payment and purchase a home (as well as for other things such as paying university fees).

While existing homes are typically lower priced than newly constructed homes, and thus may better serve a lower income target group, some initiatives do focus on a supply objective and seek to stimulate construction of moderately prices new units. These have some specific advantages in provided discounted prices due to opportunities to offset market costs, developer profit and land costs.

For example in Ottawa a non-profit corporation purchased land for an affordable ownership development and in the interim between purchase, construction and completion, appreciating property values raised the value of the units and the underlying land value. As a non-profit, the developer directed the increased value by selling some units at full (new) market value and used proceeds to offer deeper discounts on assisted units. Because this model employed a shared appreciation component, they ultimately benefit from the increased value at resale. Discounted sales prices are also a key element of the Options for Homes program in Toronto and the more recent Calgary Attainable Homes Program, both of which use guaranteed sales to save developers marketing and sales costs, which encourages them to make the units available under the program at below full market price.

In Whitehorse (and the Yukon generally), where the YTG is the primary land developer and supplier it should be possible to offer homes discounted below full market price by discounting the land component. Applying a shared appreciation second mortgage will recover this contribution downstream, so the YTG is effectively deferring its receipt on land sale, while facilitating access at a more affordable price.

Financial sustainability of assistance programs has recently emerged as a key consideration. Historically many US jurisdictions have provided down payment assistance (typically in conjunction with low rate financing), however this expends capital and is generally not recoverable. Faced with limited funds, jurisdictions have adopted a practice of providing assistance in the form of either a forgiveable or deferred repayable loan. Typically repayment is triggered by a sale or kicks in at some future date by which time it is expected that both income and equity will have increased.

A final design issue is that by enabling households to acquire an appreciating asset, the household stands to gain from appreciation of that asset. This can represent a windfall gain, tantamount to winning the lottery. For this reason mechanisms to share the appreciation and recover public investment (with some return on this investment beyond simply cost recovery) are often implemented. This helps to address issues of horizontal equity and political perception that certain households benefit at the expense of others.

Evaluating design features

In selecting any of these approaches for detailed program design the key evaluation criteria are:

- Responsive - does the approach respond to specific issue in the Yukon, as described in preceding analysis?
- Cost effectiveness – are the program costs appropriate for outcome derived
- Leverage – does the initiative stimulate private financing or investment (thereby stretching limited public funds further?
- Stimulate supply – does program cause builder/developers to add moderately priced homes for sale?
- Cost recovery or profitable - does the approach generate revenues, or at least recover its costs?
- Affordable to government – what is cost associated with the initiative and how is it funded (and is it financially sustainable)?
- Equitable – does assistance achieve vertical and horizontal equity (who is eligible, who is excluded; does assistance phase out gradually or have a cliff effect wherein an income $1 higher is ineligible)?
- Unintended negative consequences – will it have an inflationary impact on the Yukon/Whitehorse market?
- Ancillary benefit – does the approach have any multiplier or knock on effects, such as creating a RGI social housing vacancy?
- Asset building & enabling effect – does the program enable purchaser to sustain affordability over the long term (i.e. is home operating and maintenance cost not excessive) and does it help build up equity that the household can subsequently lever.