Zero down mortgages?

By Christine Ibbotson

Dear Money Lady

I am 72, retired and a widow. I like living alone and keep myself busy with friends and hobbies. Recently my son and his new wife moved in with me to save money. While I do like the company, it is very tight in my little house. One of my friends told me that my son could buy a home with zero down. What exactly does this mean? My son is trying to save to buy a home, but with house prices continuing to go up, I am worried he will never leave home again.

Sincerely,

Gladys, Empty-Nester No More!

Dear Empty-Nester No More!

Your question is one that I get asked all the time and I am glad to answer it.

In 2004 all the banks were offering a true ?Zero-Down? mortgage and were essentially gifting new home buyers with the required 5% down in the form of a cash back.

Of course, this cash back offer was recouped to the banks in the lending rate which was offered with no discount, often times being considerably higher than conventional rates. But it was a great way for buyers to get into the market with very little saved.

Today, with all the government-mandated changes, big banks do not offer ?Zero-Down? mortgages. That being said, there is a new offer that will be coming out this fall to assist new home buyers across Canada.

If a buyer is unable to put down the required 20% of the purchase price for a conventional mortgage they would then have to be approved for a high ratio mortgage.

A high ratio mortgage, also called an NHA mortgage, is for deposits of less than 20% with the lowest required down payment no less than 5% of the purchase price. If your son wishes to purchase a home with less than 20% down he would need a high ratio mortgage.

There are many government-approved NHA providers with the most popular being CMHC-Canada Mortgage & Housing Corp., or Genworth Financial. Here the banks partner with the insurer and acquire default insurance as loan protection on a non-conventional mortgage.

Great news is that CMHC, together with the Canadian Government, are providing a similar cashback offer like we had years ago.

Here's how it works. Starting September 2, 2019, CMHC will offer a ?first-time home buyer shared-equity plan? where banks can still provide competitive low rates to qualified clients. For those buyers who have 5% down, CMHC will match the 5% on a resale home or provide 10% on a new build for a first-time homebuyer owner-occupied primary residence.

This is a great deal for buyers wanting to get into the market, although it is not FREE money. The new buyers will have the funds interest-free and are not obligated to pay it back until the end of a 25-year amortization, unless the property is sold, therefore having to pay it back upon sale.

There are some conditions: qualified buyer's joint incomes cannot exceed $120,000 annually and the maximum purchase price cannot exceed four times the income after the down payment.

So, as an example, if your son and daughter-in-law earned $80,000 annually together, the maximum insurable mortgage they could acquire would be $320,000 or 4x their income. A 5% down payment would be $16,000 which CMHC would match upon qualifying.

That means they would have an additional $32,000 added to their purchase price so they could safely buy for $352,000 and soon be on their way to building independence, equity and wealth!

Just as a side note, the definition of a ?first-time home buyer? has changed. Now anyone can qualify as long you have not owned a home in the last four years. Great news for people who are wanting to get back into the real estate market like your son.

I hope this helps and you can soon ?re-launch? your son out of the nest again!

Good luck and best wishes,

Money Lady

Christine Ibbotson is author of ?How to Retire Debt Free and Wealthy? Follow on Facebook & Instagram

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