



CMHC

Canada Mortgage
and Housing Corporation

SCHL

Société canadienne
d'hypothèques et de logement

REVIEW OF THE ASSISTED

HOME OWNERSHIP PROGRAM

TO DECEMBER 31, 1979

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The Assisted Home Ownership Program (AHOP) together with the Assisted Rental Program (ARP), were the federal government's major housing instruments in the decade just ended. They directly affected one quarter of a million households and indirectly touched many more. They have had a permanent impact on both the nation's housing stock and its social fabric. Recent record mortgage interest rates have focussed considerable attention on the plight of many AHOP recipients who face large increases in their monthly payments. However, in order to properly assess AHOP it should be considered in its entirety and within the context of the course of the nation's economy and housing markets over the last ten years.

At the beginning of the last decade record numbers of new households were being formed due both to the post-war baby boom and relatively high rates of international immigration. As a result of these demographic forces and several economic factors (world-wide inflation, prolonged growth in incomes, exemption of housing from capital gains taxation) house prices rose sharply beginning in 1972, pushing the possibility of homeownership beyond the reach, perhaps permanently, of many new households. Against this background the AHOP program was designed with several goals in mind:

1. To encourage builders to produce large quantities of modestly-priced housing;
2. To increase the affordability of this housing;
3. To generate employment during slack economic performance in other sectors.

In general the intent was to provide this generation the same option of homeownership that previous generations had enjoyed. In any event, housing, whether rental or ownership, was required to accommodate the new households, and there were fears that many would end up on the waiting lists for public housing units.

AHOP was designed to accomplish these objectives at a lower cost than previous public housing type programs. AHOP evolved continually throughout the decade, but the basic approach was to reduce the monthly mortgage payments to an affordable level for moderate-income house purchasers. Another device employed throughout the program was the use of maximum qualifying house prices varying from market to market which assured that the program would be used for basic accommodation compatible with local community standards.

The forerunner of AHOP began in 1970 in the form of direct mortgages from CMHC at up to two percentage points below market rates for specially designated units purchased by low income households. AHOP officially began in 1973 with legislative changes to permit CMHC to subsidize eligible home-buyers in addition to providing mortgages at reduced rates of interest.

By 1975 interest rates climbed to over 12% and housing starts dropped off dramatically. Rental vacancy rates were at a cyclically-low level and it was clearly advisable to stimulate the production of new housing. In order to contain the cash requirements of the federal government, AHOP was changed to allow the substitution of private funds for direct CMHC mortgages. The subsidy was increased at that time to \$600 and later to \$1200. With this approach the government through CMHC insured the mortgage and paid the subsidy, but the bulk of the cash required was for the first mortgage and was provided by the private sector.

At the end of 1975 with the introduction of wage, price and rent controls, there were further major changes to AHOP under the Federal Housing Action Program. The subsidy was converted to an interest-free loan (IRL) which would bring the effective monthly payment on the first mortgage to that of an 8% mortgage. In addition, provision was made for the level of assistance to be reduced each year so that the recipient would be in a position to begin to repay the loan after the fifth year. This program was open to all buyers of new homes under the maximum qualifying price regardless of income. An additional grant of up to \$750 was available for low income purchasers with at least one child and further grants were available from some provincial governments. Under this version 51,593 interest-free loans were extended to AHOP borrowers 21,812 of whom also received grants. A final change was made in 1978 to render the program comparable to the Graduated Payment Mortgage (GPM) which was being introduced concurrently, and AHOP expired 31 December 1978.

In summary AHOP evolved from a public direct lending program of reduced interest rate mortgages to be finally replaced by one featuring an entirely private (except for mortgage insurance) mortgage with reduced initial payments which then escalate, but provide the lender a full market rate of return on his funds.

In total under the various versions of the AHOP program there were 138,783 designated units. 6,935 units have been returned to CMHC, although a large number of these had never been sold and were the result of builder default. Taking account of those that had been sold without assistance (8,914), that builders have not yet sold (3,375), or where assistance terminated for example because of resale of the unit), there were 74,481 still receiving assistance at the end of 1979.

Before examining the present situation of AHOP recipients, an analysis of how AHOP operated in terms of its original goals is in order. First of all, it is clear that the program was successful in both adding to the housing stock and changing the nature of that stock. During the crucial mid-decade years when vacancy rates were low and house prices had been sharply escalating, the stimulus given to the building industry given by AHOP caused builders to produce more dwellings. While some of these units were produced earlier at the expense of later production, it was during these years that they were needed. Another result of this additional activity, of course, was increased employment in the construction and related industries.

Because of the escalating demand and prices early in the 70's, the tendency was to build large single detached units. AHOP, with its maximum house prices, countered this trend with an average floor area of about 93 square metres (1,000 square feet) and almost half the units being other than single detached.

AHOP was also mainly successful in reaching the intended target group. A sample of the 1976 AHOP program of those who were receiving both the loan and the grant showed 78% were under 35 years of age, 88% had previously been renters, and 75% had incomes under \$14,000. A typical recipient receiving both an interest free loan and grant would have received a \$35,000 first mortgage (on a \$36,800 house) at 12% for potential monthly payments including taxes of \$407. With an annual income of \$12,700 the family could afford to pay only \$265 per month (at 25% Gross Debt Service) leaving a shortfall of \$142 per month. This shortfall would be made up through an interest free interest reduction loan (IRL) of \$94 and a grant of \$48 per month. This assistance would be reduced each year by one-fifth provided it did not cause the family to pay more than 30% of its income on

the first mortgage plus property taxes. This process would continue until the end of the fifth year when the first mortgage came up for renewal, interest started to accumulate on the hitherto interest free loan, and the grant, if any remained, would be reviewed. The process clearly depended on incomes rising, as they did for the average Canadian household by about 55% in the last five years. This would put the recipient in a position to refinance the house and pay off the IRL assuming that interest rates were not appreciably higher and that real estate values had risen moderately. What nobody anticipated, of course, were current record mortgage interest rates (16% range at time of writing) combined with stagnant or declining values in certain markets.

It is impossible to predict at this point how many AHOP recipients will lose their homes because they cannot meet the new monthly payments. For several reasons, it is anticipated that this number will not be excessive. First of all, of the 74,481 households receiving AHOP assistance at the end of 1979, 33,589 received the interest free IRL only. This loan was not income tested beginning in 1976, and almost all should be able to refinance without taking on payments exceeding 30% of their income - the accepted norm in the mortgage industry. For those receiving a grant in addition to the IRL the federal government has made aid available for hardship cases upon mortgage renewal of up to the amount of the original grant. This program will be reviewed after one year. Given the experience so far, many recipients will have sold their unit voluntarily or received greater than average income increases and no longer need assistance by the time they must renew their mortgage.

Finally, the problem of units that have not increased in value is concentrated in certain locales. The following table shows the location of the units so far returned to CMHC.

THE ASSISTED HOME-OWNERSHIP PROGRAM

UNITS ACQUIRED BY THE MORTGAGE INSURANCE FUND
TO 31 DECEMBER 1979

PROVINCE	AHOP UNITS APPROVED	% OF APPROVALS	MIF ACQUISITIONS		
			UNITS	% OF TOTAL ACQUISITIONS	% OF PROVINCIAL APPROVALS
Newfoundland	2,874	2.1	291	4.2	10.1
P.E.I.	618	.5	7	.1	1.1
Nova Scotia	4,296	3.1	92	1.3	2.1
New Brunswick	3,176	2.3	186	2.7	5.6
Quebec	43,578	31.4	904	13.0	2.1
Ontario	49,606	35.8	3,930*	56.7	7.9
Manitoba	4,422	3.2	26	.4	.6
Saskatchewan	6,382	4.6	37	.5	.6
Alberta	5,529	4.0	6	.1	.1
B.C.	18,091	13.0	1,455**	21.0	8.0
Yukon & N.W.T.	211	.2	1	-	.5
TOTAL	138,783	100.0	6,935	100.0	5.0

* Includes 2,947 condo units

** Includes 1,091 condo units

Over three-fourths of these have occurred in Ontario and B.C. and three-fourths of these are condominiums. The most concentrated areas of problems are in the Toronto area, where the current oversupply of condominiums, including those under construction, is about 7,000 units and is expected to disappear in the next eighteen months.

There will never-the-less be some AHOP recipients who will not, even with the maximum aid available, be able to retain their houses. Without detracting from the seriousness of the situation for these households, we can say that AHOP has served the large majority of its recipients well. They have been able to acquire suitable housing at affordable prices.