



HOME OWNERSHIP ALTERNATIVES NON-PROFIT CORPORATION

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James Rajotte, Chair
Standing Committee on Finance
Sixth Floor, 131 Queen Street
House of Commons
Ottawa ON K1A 0A6

August 12, 2011

Re: Submission to the 2012 Federal Budget

Dear Mr. Rajotte,

On behalf of Home Ownership Alternatives (“HOA”), I am pleased to provide you HOA’s submission to the development of the 2012 Federal budget. Our two proposals are designed to strengthen Government support for middle class Canadians to purchase a home while also providing stimulus for the Canadian economy and creating jobs.

Affordable Housing and Economic Stimulus

Two years ago, your Government identified the construction of residential housing as a highly effective means to deliver stimulus to the economy. Residential construction is an investment with little leakage to foreign jurisdictions and has broad spin-off impacts in the local economy. Depending on the housing type, new residential construction creates 1.3 to 2.2 person-years of employment for every unit built.

I’m pleased to inform you that HOA has financed over 800 units of housing that are currently under construction and creating jobs in Canada. We hope to break ground on over 1,000 additional units over the next 18 months. We will continue to finance the construction of affordable housing and provide economic stimulus and job creation.

1. Target tax credit for middle class home purchasers

Building on your Government's success in the creation of the First Time Home Buyer Tax Credit (HBTC), Home Ownership Alternatives proposes refinements to the tax credit to better support modest income, middle class Canadians.

HOA proposes four important changes to the HBTC.

- 1. Restrict the HBTC to NEWLY-constructed homes registered on title at a value below the local MLS average price.*
- 2. Restrict the HBTC to home purchasers with incomes below the local median household income.*
- 3. Streamline the process - eliminate eligible expense criteria.*
- 4. Revenue neutral – maintain the current total funding available for the HBTC and increase the value of the tax credit amount available to the smaller pool of middle class home buyers.*

The targeted HBTC will simultaneously achieve several policy objectives.

First, by focusing the tax credit to families below the median income, the Government will lend greater support to the 50% of Canadian's more in need of assistance in acquiring a first home. This will help expand the demand for housing by families who otherwise would be less likely to enter the market and create increased construction activity. It will also focus the support to families who might be dependent on more expensive government supports for adequate housing thus reducing government expenditures in other areas.

By targeting the tax to newly constructed homes, the Government will further stimulate new home construction and the important economic spin offs that this generates.

By targeting the tax credit to new homes provided to the entry-level of the market, that is below the local median price, the Government provides a market signal to the development industry to build affordable housing - letting the market build more affordable housing without direct Government capital grants or on-going operating costs.

The thresholds recommended above would permit the elimination of eligible expense criteria which will result in simpler tax filings and lower tax administration costs for the

government. The expense criteria could be replaced by a tax credit based on a percentage of the price of the new home, providing support commensurate with the housing prices facing Canadians in each market.

The newly targeted tax credit will reduce the impact of the regressive charges and fees built into the cost of new homes. Currently, regressive Development Charges are calculated on a per unit basis. This means a modest \$150,000 home will be charged the same Development Charge as the million dollar home. Our proposals will make it fairer for hard working, modest income Canadians to fulfill their home ownership dream.

The tax credit improvements would provide a one-time support for middle class families to purchase a home. It would better support working families to leave government subsidized housing and will reduce the housing cost burden for taxpayers overall.

By taking a leadership role in developing the HBTC, the Government of Canada is in a position to target this tax credit to increase the number of Canadians who can afford to purchase a home and also influence supply by giving the market signals to build affordable housing. These proposals are directly revenue neutral for the overall federal budget however they will indirectly increase government revenue through increased economic activity and job creation.

2. Building on the success at Canada Mortgage and Housing Corporation

Federal government activity and support of the housing sector is largely provided through the Canada Mortgage and Housing Corporation ("CMHC"). CMHC has been successful in developing robust businesses that support the housing industry in Canada. To further strengthen the housing market and in particular the provision of affordable ownership housing HOA has two recommendations.

Pre Development Funding

CMHC has a successful program of providing support at the earliest stages of new affordable project development through its Seed and Proposal Development Funding ("PDF") programs. We recommend that the Federal government direct CMHC to reallocate within its budgets increased support for early stage housing development through the Seed and PDF programs. Not only will these small investments support the government's overall stimulus program, they have high multipliers for job growth and economic impact. CMHC should also consider widening the list of eligible costs under

these programs as this funding is critical to support the establishment of new developers focused on affordable housing.

A doubling of SEED and PDF funding could be achieved by less than ½ % reduction in CMHC's operating budget for other activities. The multiplier effect of encouraging housing development has been provided above.

Insurance Products

The success of the CMHC businesses in the provision of various types of insurance products has resulted in important cash flow for the federal government. However, the application of strict assessment rules to non-profit providers of affordable housing when they are designed to mitigate risk when insuring profit-maximizing private developers, does not reflect the broader mandate of CMHC to support housing affordability for Canadians. The result is a lack of insurance service and product availability in support of affordable housing developments or of the introduction of innovative financing products that support housing affordability for middle class Canadians.

HOA recommends that the federal government direct CMHC to ensure:

1. all of CMHC business divisions, including insurance, apply to their operations the CMHC Mission "Committed to housing quality, affordability and choice for Canadians";
2. a priority should be placed on providing insurance products to developments that provide affordable housing to Canadians or that introduce innovative financial products which support housing affordability.

This proposal has no direct cost associated with it. If there is a perceived increase in risk exposure of CMHC insurance activity due to these changes they can be easily offset by a relatively small tightening in insurance criteria for the balance of CMHC's insurance activities which support profit-maximizing development activity. The small adjustments to insurance criteria will have a direct positive impact on the ability of affordable housing developments to proceed and result in new job creation and economic stimulus.

Who we are

Home Ownership Alternatives is a non-profit organization dedicated to the financing of affordable ownership housing. To date, we have financed over 3,000 units of housing that are affordable to families of all income levels. Our recommendations are focused on building affordable ownership housing for working families with incomes from \$20,000 to \$60,000 a year. In 3 recent projects in the Greater Toronto Area, over 50% of homebuyers had annual incomes below \$60,000 whereas the average household income of homebuyers overall in the GTA exceeded \$90,000.

We trust that our submission will assist the Government in providing the economy with a broad based economic stimulus, and will simultaneously deliver on Canadians' need for new affordable ownership housing.

While I realize the deadline to register to make a verbal presentation to the committee has past, we would welcome the opportunity to meet with the Committee or with individual members at your convenience to discuss our proposal in detail.

Yours sincerely,
Home Ownership Alternatives Non-Profit Corporation

Joe Deschênes Smith
Vice President, Partnerships

Cc Finance Minister Jim Flaherty, Prime Minister Stephen Harper, Minister Diane Finley, Members of the Standing Committee on Finance, Karen Kinsley, CMHC, Guyanne Desforges, Clerk to the Committee.