An innovation guide under More Homes, More Choice:
Ontario's Housing Supply Action Plan

ontario.ca/housinginnovation

Shared equity homeownership

Ontario

Introduction

In shared equity arrangements, a home buyer and **shared equity investment provider** will both invest in a property and share the potential rewards and risks associated with an increase or decrease in the value of that property over time.

If you are looking to purchase a home to live in, shared equity arrangements could help you get into the housing market sooner by increasing your **down payment**.

This guide provides practical information to help you:

- understand the different types of shared equity arrangements
- determine if a shared equity arrangement is right for you
- learn the steps that you can take to protect yourself before entering a shared equity arrangement

Housing innovation

More Homes, More Choice: Ontario's Housing Supply Action Plan recognizes that fresh approaches to tackle Ontario's housing crisis will give people more options to access housing that is affordable. The ministry has created a series of housing innovation guides to help homeowners and homeseekers navigate building processes and financing options. These guides make it easier for people to explore different housing options, and to help homeowners, property owners and landlords navigate complex design and building processes to create more housing supply, including rental housing, and make housing more affordable for Ontarians.

Contributions to this guide

A variety of stakeholders contributed to the development of this guide by reviewing drafts and participating in discussions, including:

- shared equity investment providers, including public, non-profit and for-profit organizations
- real estate associations
- financial institutions
- real estate lawyers
- home building associations
- service managers and Indigenous program administrators

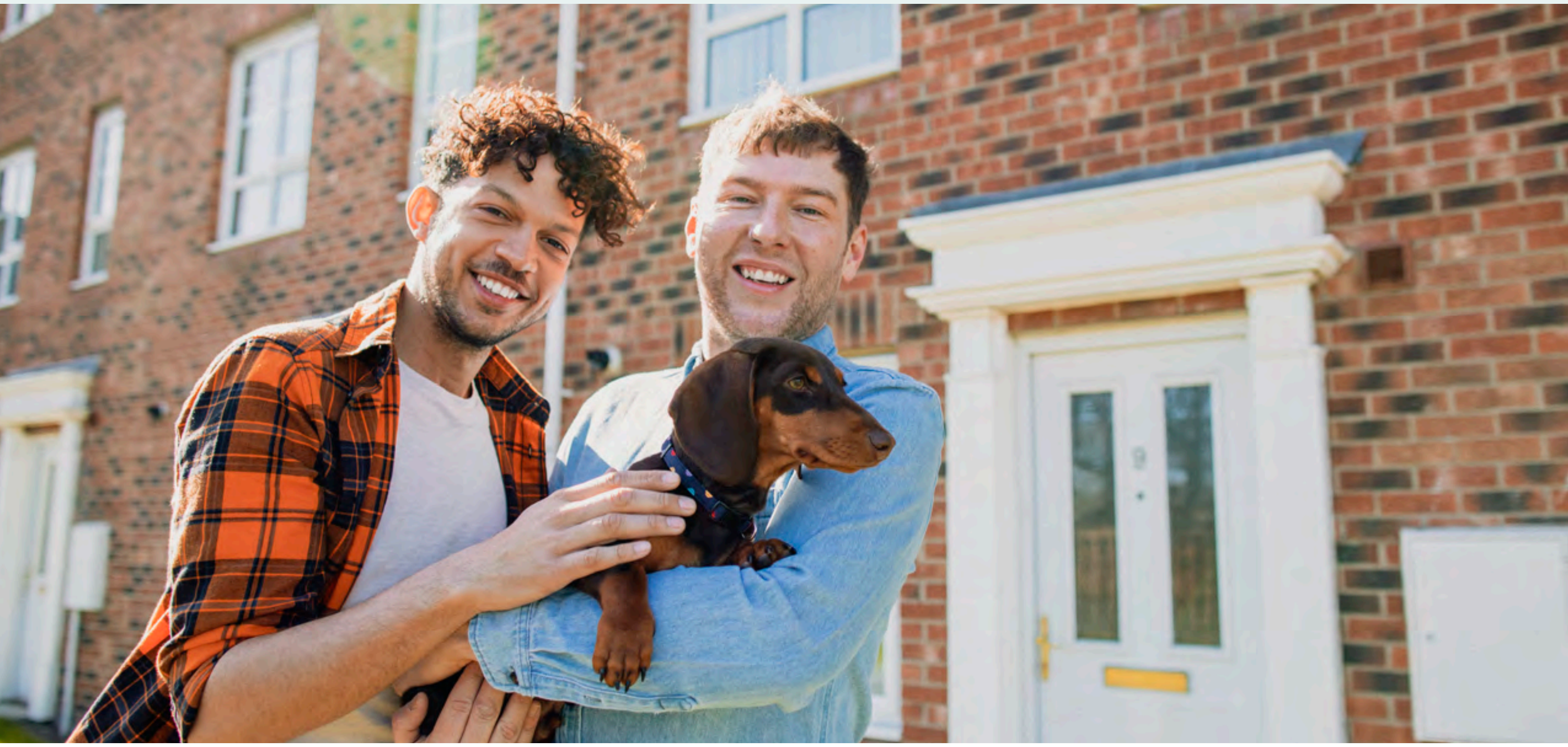
The ministry thanks the participants for taking the time to share their valuable insights.

Home ownership

This guide is geared towards people who are looking to purchase their own home and can qualify for a mortgage. There are many factors to consider when deciding whether owning or renting is the best option to meet your current housing needs.

Before buying a home, you may want to learn more about financing, becoming financially ready to own, how to find the right home and making an offer. Canada Mortgage and Housing Corporation has published a series of informative home buying guides to help you better understand the process.

You may also want to consult with various professionals including real estate agents, real estate lawyers, home inspectors, mortgage and insurance brokers and other professionals as needed.



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Shared equity homeownership explained

How shared equity arrangements help home buyers

Generally, when purchasing a home, a home buyer provides the down payment on the home being purchased. In a shared equity arrangement, both the home buyer and a shared equity investment provider provide a portion of the down payment. This helps a home buyer afford the down payment, make lower monthly mortgage payments or maintain liquidity (available cash) for other purposes.

Most shared equity investment providers require home buyers to contribute towards the down payment on the property (usually a minimum of 5% of the purchase price), while the shared equity investment provider contributes to or 'tops up' the down payment by providing an additional percentage of the purchase price (often between 5% and 15%). Some shared equity investment providers may provide a higher percentage of the purchase price than others.

Down payment assistance is usually limited, so the home buyer will also need to obtain a mortgage to cover the remainder of the home's purchase price. From the date of closing, the homeowner is responsible for paying the mortgage, including the principal and interest that accumulates over time. The homeowner may still need mortgage default insurance if the total down payment is less than 20% of the purchase price.

There are no payments required on a shared equity investment until the arrangement ends (although the homeowner must continue to make payments on their mortgage). Instead, in return for providing a portion of the down payment, the shared equity investment provider will be entitled to receive a portion of the appreciation (increase) or depreciation (decrease) of the home's value, (usually in addition to the initial investment), either at a pre-determined date or at the time when the homeowner chooses to sell, rent out the home, or buy out the shared equity investment provider in advance of any set repayment date.

In a shared equity arrangement, the homeowner has the exclusive right to reside in the home. The shared equity investment provider may be entitled to a share of the home's value but does not have the right to live there (or to allow anyone else to live there).

Benefits

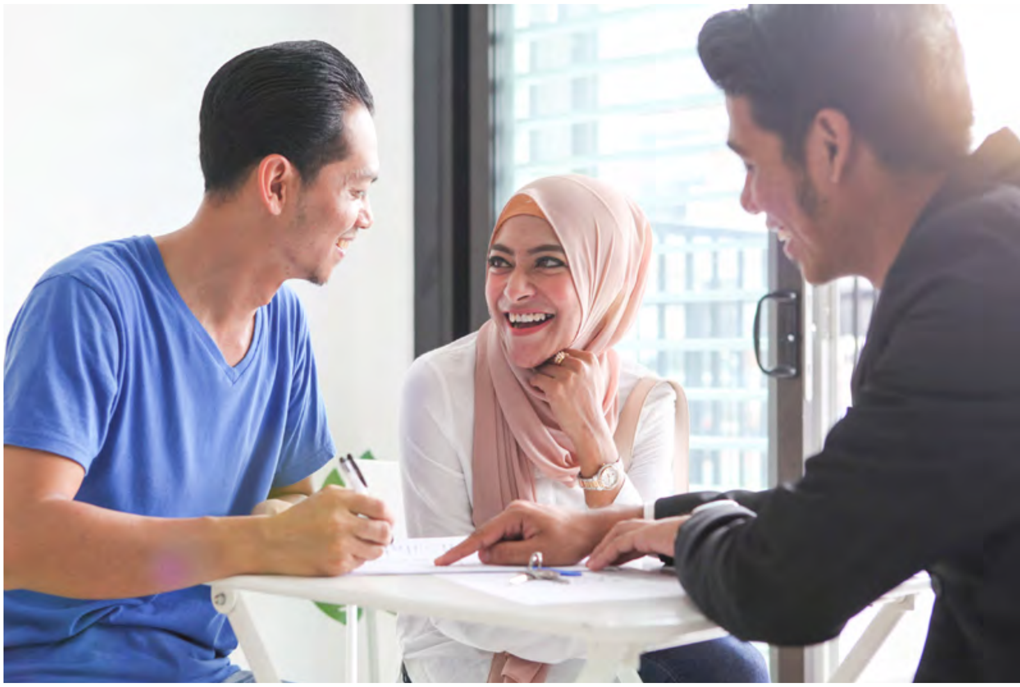
There are several potential benefits to a shared equity arrangement, which may include:

- assisting you with your down payment, helping you to enter the housing market sooner
- lowering your monthly mortgage payments by boosting the initial down payment
- making it possible to buy a larger or more suitable home because of the larger down payment available
- reducing or eliminating the requirement for you to obtain and pay for mortgage default insurance
- allowing you to keep some of your money to use for other purposes, such as other investments, instead of using all of your savings for a down payment on a home
- potentially sharing the risks associated with a decrease of your home's value with the shared equity investment provider (not all providers will share this risk with the home buyer)

Considerations

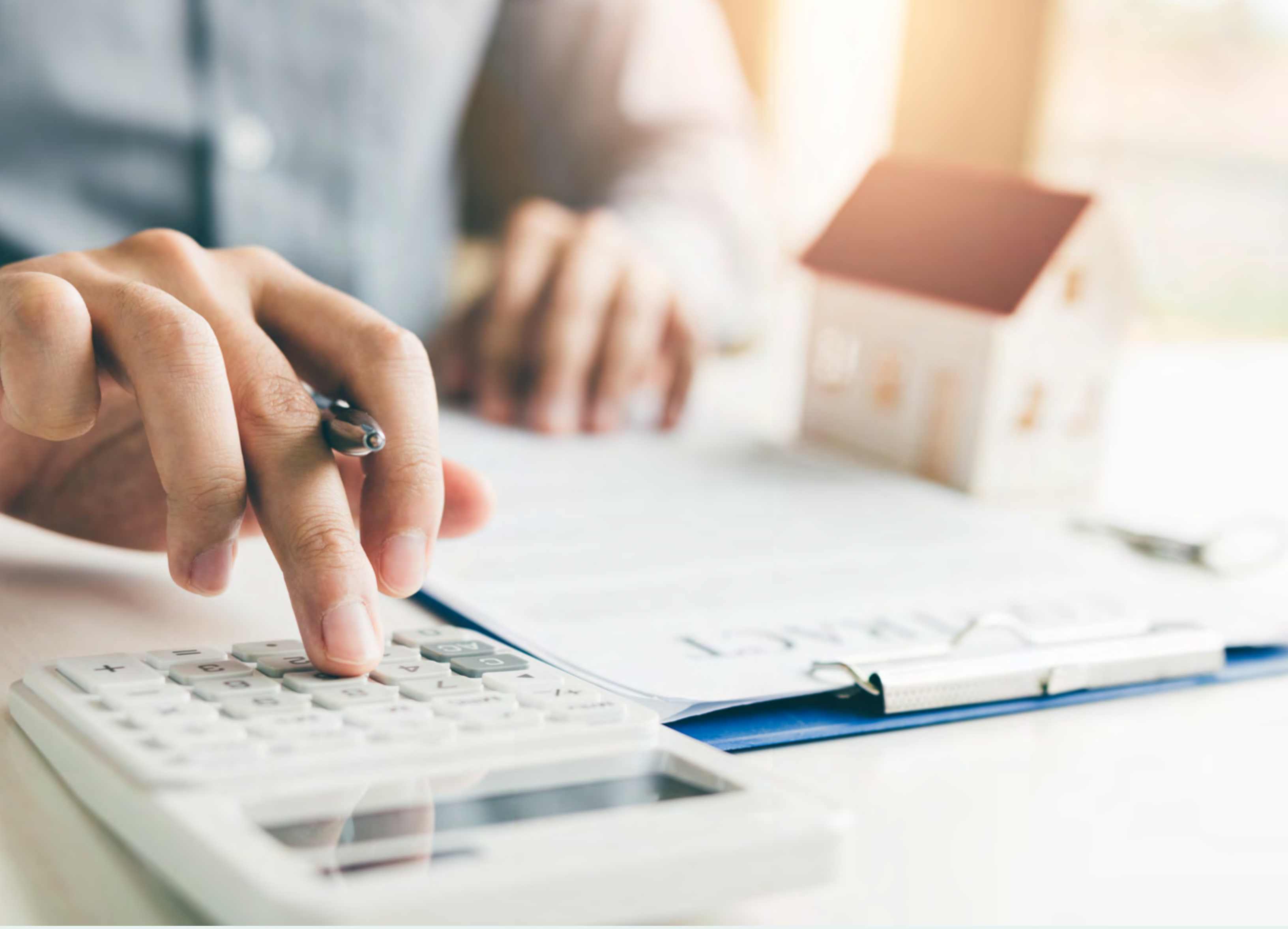
There are several things to consider before you enter into a shared equity arrangement, which may include:

- potentially building less wealth if your home grows in value, since you will need to share a portion of the increase with the shared equity investor; some providers will take higher percentages of that growth than others



- potentially needing to sell your home if you do not have the funds available to buy out the shared equity investment provider at the end of the agreement
- less flexibility, for example, you may not be allowed to rent out your home to tenants or short-term rentals, renovate or rebuild your home unless you get permission from the shared equity investment provider
- extra fees associated with a shared equity arrangement, including higher legal fees, appraisal fees and origination fees, all of which are typically paid by you, the homeowner

While a shared equity arrangement will not be a fit for everyone, if you research and investigate the range of offerings available from a variety of shared equity investment providers, you may find one that fits your needs.



Understanding equity and debt

In home ownership, **equity** means the portion of a home's value that is fully 'owned' by the homeowner. It is generally equal to the current market value of the home, minus any loans or mortgages the homeowner has against it. Homes can also depreciate or lose value, which will reduce the homeowner's equity.

Debt is money that is borrowed or owed. Asking a financial institution (bank, credit union, finance company, credit card company) or another person to lend you money that you promise to repay at some point in the future, generally with interest, is a type of debt referred to as a loan. When purchasing a home, this type of loan is usually referred to as a mortgage. You will need to repay the money that was lent to you (the loan principal) and some additional fee (the interest) over a set period of time, usually in regular payments.

Most home purchases are made using a combination of initial equity (the down payment) and debt (the mortgage).

Shared equity investment providers

In Ontario, shared equity arrangements are offered by the public sector (municipal, provincial or federal governments), not-for-profit organizations, for-profit companies and even individuals.

Non-profit shared equity investment providers

There are various non-profit organizations that offer shared equity down payment assistance.

Like other shared equity investment providers, the non-profit organization will share in the appreciation or depreciation of a home's value. Restrictions on eligibility and the amount of assistance available will vary by provider.

Many non-profits only offer down payment assistance for homes built by their organization. In some cases, the non-profit provider may also require the homeowner to sell the property back to the organization or another qualified buyer if/when they choose to sell the property.

Some providers also require the homeowner to volunteer their services to the organization to be eligible.

You can contact organizations directly for information on available assistance and eligibility requirements.

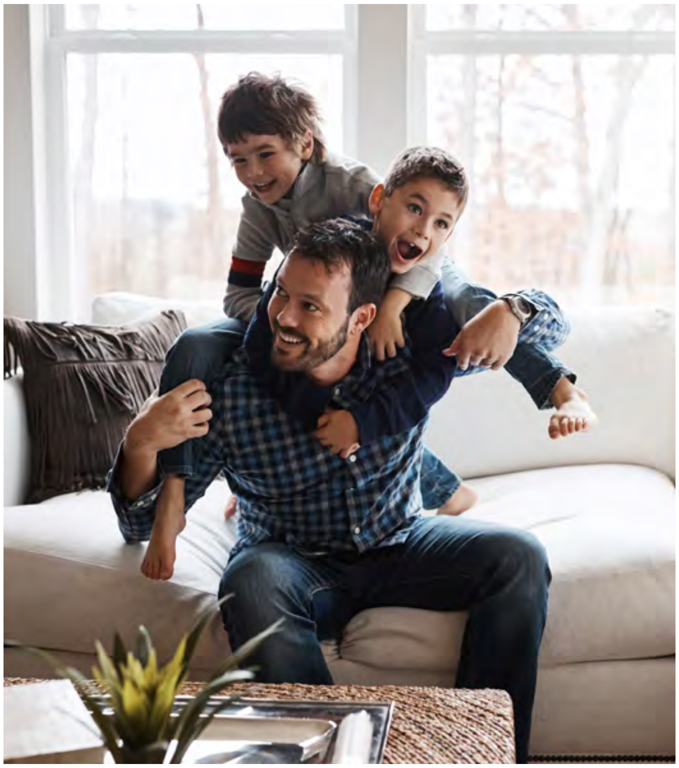
Example: Nadda and Sarah are both artists who are looking to buy a home together. They have saved $30,000 towards a down payment. They apply to a non-profit building geared towards the arts community for a shared equity arrangement to purchase a condominium at a cost of $600,000. The non-profit will provide down payment assistance of 10% or $60,000, which will help Nadda and Sarah to lower their monthly payments.

After three years, Nadda receives an inheritance from her family and would like to buy out the shared equity investment provider. Nadda and Sarah pay to have their home appraised and since the real estate market has cooled off slightly, the home is now valued at $575,000. Nadda and Sarah will need to pay $57,500 to the non-profit provider.

- $57,500 = $60,000 (the initial investment) – $2,500 (10% of the $25,000 depreciation of the home)

For-profit shared equity investment providers

In recent years, several private, for-profit organizations have started offering shared equity arrangements for potential home buyers. Because each organization offers its own unique service, the eligibility, terms and conditions of the arrangement and the amount that you can borrow may vary



significantly across companies and products. Some for-profit shared equity investment providers may take a higher portion of the home's increase in value than they provide towards the down payment. Some homebuilders may also offer shared equity investment options to new home purchasers.

Example: Kofi and Alora want to purchase a larger home to accommodate their family of four. The home that they would like to purchase costs $1,000,000. They expect to have approximately $200,000 in equity (cash) after they sell their current home, but they would like to use some of their equity to invest in a business opportunity instead of investing all of it in a new home. They approach a for-profit shared equity investment provider which provides $100,000 (10% of the home's purchase price) towards the down payment, in exchange for 35% of the future appreciation in value of the home. Kofi and Alora will contribute $100,000 towards a total down payment of $200,000, leaving them with $100,000 in cash to use for other purposes.

After seven years, Kofi and Alora decide to move to a different community and sell their home. The home's value has increased from $1,000,000 to $1,500,000. The for-profit provider will receive $275,000.

- $275,000 = $100,000 (the initial investment) + $175,000 (35% of the $500,000 appreciation of the home)

Individuals (person to person shared equity arrangements)

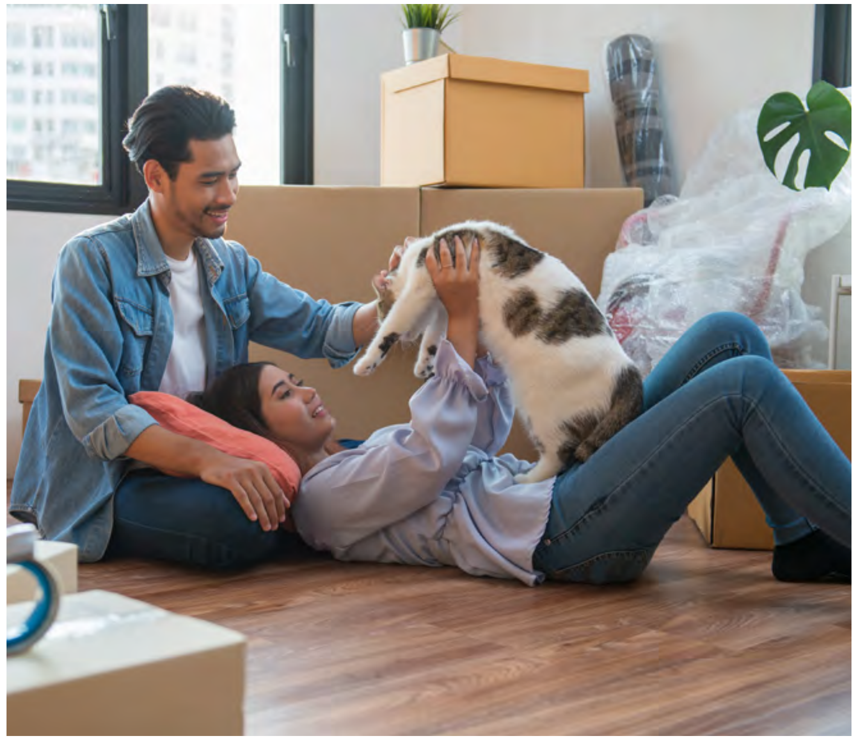
Some individuals may choose to offer a shared equity arrangement as an investment or to support friends or family. The eligibility, amount that you can borrow and terms and conditions will vary based on the arrangement agreed to with the individual who is making this shared equity investment.

Example: Tao and Shu have paid off their mortgage and are looking for a potential investment opportunity. They would also like to help their daughter, Mei, with the purchase of a small condominium unit. Mei can afford to pay the mortgage on a $400,000 home but she does not have sufficient savings to cover the down payment. Tao and Shu provide Mei with $40,000 (10% of the purchase price of the home) in return for a 10% stake in the future appreciation or depreciation of the home's value.

In six years, Mei moves in with Beto and they decide to sell Mei's home to purchase something larger. Mei's home sells for $500,000, and thus Tao and Shu are entitled to $50,000.

- $50,000 = $40,000 (the initial investment) + $10,000 (10% of the $100,000 appreciation of the home)

Since Mei and Beto are purchasing a larger home worth $800,000, they would like to boost their down payment. Tao and Shu decide to re-invest 10% or $80,000 with Mei and Beto and enter into a new shared equity arrangement.



Public sector

Both the governments of Canada and Ontario offer shared equity down payment assistance programs.

Canada

The federal government, through Canada Mortgage and Housing Corporation, offers a shared equity program called the First-Time Home Buyer Incentive. This program focuses on helping eligible first-time home buyers through down payment assistance.

The home buyer will need to have at least 5% of the down payment but the federal government may provide 5% (for resale or mobile/manufactured homes) or 10% (for new construction) of the purchase price of a home through a shared equity arrangement. The maximum qualifying income is $120,000 ($150,000 in the Toronto Census Metropolitan Area) and you can purchase a home that costs up to four times your income (four and a half times in the Toronto Census Metropolitan Area).

The home buyer must repay the Incentive based on the property's fair market value after 25 years, or when the property is sold, whichever comes first. The home buyer can also repay it in full any time without a pre-payment penalty, although the homeowner would need to pay for an appraisal to determine the home's fair market value at that time.

If a home buyer received 5% from the program, they would repay 5% of the home's value at repayment. If a home buyer received 10%, they would repay 10% of the home's value at repayment.

If you have any questions about the First-Time Home Buyer Incentive, you can contact Canada Mortgage and Housing Corporation by phone at 1-877-884-2642.

Ontario

The Ontario Priorities Housing Initiative is a joint federal-provincial housing program that includes funding for homeownership assistance to qualifying low-to-moderate-income renter households who are purchasing a modest home (subject to local conditions).

The Ontario Priorities Housing Initiative program is administered locally by municipalities designated as service managers and by Indigenous program administrators.

Homeownership assistance that may be offered through this program is subject to specific minimum eligibility requirements.

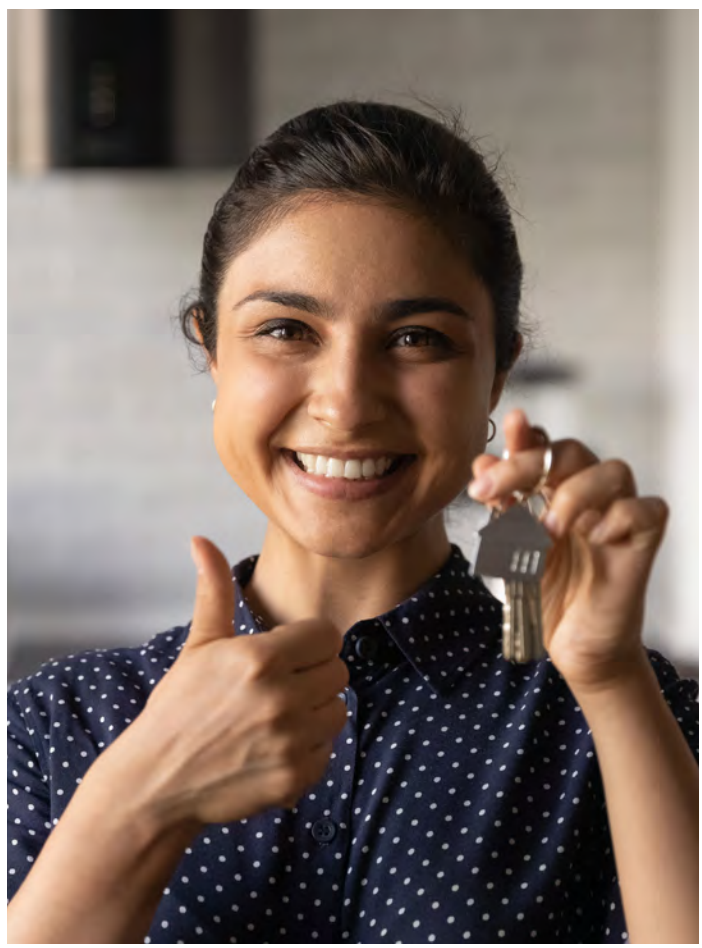
If you are interested in the program, you should contact your local service manager or Indigenous program administrator, Miziwe Biik Development Corporation (within the Greater Toronto Area) or Ontario Aboriginal Housing Services (outside of the Greater Toronto Area) to find out more about whether they offer this specific program and eligibility requirements.

Example: Malcolm and Amy are currently renting and are looking at buying a townhome. They plan to purchase a $500,000 home and have saved 5% of the down payment ($25,000). They borrow an additional 5% from a public sector shared equity investment provider.

After five years, Malcolm and Amy decide that they want to sell their townhome to purchase a larger home. In the meantime, the value of their property has increased to $600,000.

Sale of the property will trigger payment of the shared equity investment provider's share of the equity of the home. Malcolm and Amy will pay $30,000 to the shared equity investment provider.

- $30,000 = $25,000 (the initial investment) + $5,000 (5% of the $100,000 appreciation of the home)



The table below provides general information on similarities and differences between various shared equity arrangements.

Features	Non-profit	For-profit/ individuals	First-Time Home Buyer's Incentive	Ontario Priorities Housing Initiative
Restricted to 'first-time' home buyers	Sometimes	No	Yes	No
Program restricted to renters	No	No	No	Yes
Eligibility based on income limits	Yes	No	Yes	Yes
Limits on the purchase price of the home	Yes	Sometimes	Yes	Yes
Must be the homeowner's sole and principal residence	Yes	Usually	Yes	Yes
Eligibility restrictions based on immigration status	Usually	Sometimes	Yes	Yes

Shared equity arrangements can vary substantially between public, non-profit and for-profit shared equity investment providers. The examples set out above are only meant to be illustrative. Eligibility, income limits, limits on the purchase price of the home and other conditions and requirements will differ depending on the shared equity investment provider.

You should research potential shared equity investment providers and consult with qualified professionals (for example, a real estate lawyer) to fully understand the different eligibility requirements and terms and conditions so you can find one that fits your needs.

Entering and exiting shared equity arrangements

Qualifying for a shared equity arrangement

Requirements to qualify for shared equity arrangements may differ between shared equity arrangement types and the various providers.

Many public sector and non-profit providers restrict eligibility to some combination of the following population segments:

- first-time home buyers
- households with low to moderate incomes
- members of certain professions (for example, artists)
- Indigenous peoples
- citizens, permanent residents or refugees living in Canada
- renters transitioning to home ownership
- people who are on waiting lists for affordable housing or are escaping domestic violence

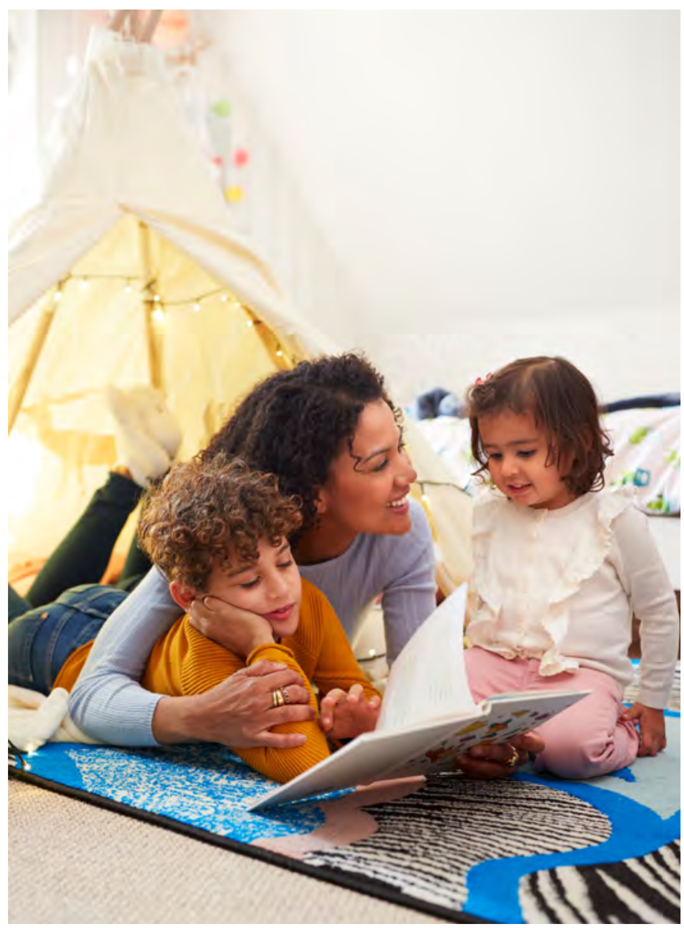
For-profit shared equity investment providers may instead have other eligibility criteria including a minimum income threshold.

Shared equity investment providers may also have restrictions specific to the type, size, layout and/or geographic region of the home being purchased.

In addition, if you are looking to purchase a home with shared equity down payment assistance, you will likely need to qualify for a mortgage on the remaining portion of the home's purchase price.

Getting a mortgage

Some financial institutions may not be willing to offer mortgages to homeowners who are providing their down payment through a shared equity arrangement.



To determine if you are eligible to get a mortgage, you should contact a financial institution and/or another qualified mortgage professional, such as an independent mortgage broker. The shared equity investment providers may also suggest specific institutions or brokers that they work with who will be willing to offer mortgages to homeowners who will also have a shared equity arrangement.

You should explore various mortgage options to ensure that you are able to secure the best interest rate and terms available. You should also be sure to understand whether you will need mortgage default insurance, and how this will influence the amount required to buy your home (if you choose to pay this amount upfront) or your monthly mortgage payments (if this amount is added to your mortgage principal balance).

Closing costs

There are various closing costs required to complete the purchase of any home. These can include home inspections, legal fees, appraisal fees and land-transfer taxes (both provincial and municipal for the City of Toronto).

If you are purchasing a newly constructed home, you may also need to factor in upgrades and pay the Harmonized Sales Tax (HST). These costs are typically paid by the home buyer, but you should check with the shared equity investment provider to find out if they will contribute to any of the closing costs.

Living in a shared equity home

There are various ongoing costs associated with homeownership, including mortgage payments, property taxes, utilities, maintenance and renovations, and home insurance premiums. Typically, homeowners are solely responsible for these costs.

Most shared equity investment providers require that the home is the principal residence of the homeowner and typically won't allow the home to be used as a vacation property/second home or to be rented out. There may be exceptions in some shared equity agreements, particularly for homes that have additional residential units such as basement apartments or laneway suites.

Certain providers may also place restrictions or registration requirements on other non-owner occupants. If you plan to rent all or a portion of your home, you should check with the shared equity investment provider first to make sure it is allowed.

If you decide to make improvements to your home, you may need to get permission from your shared equity investment provider first. Depending on the terms of your shared equity agreement, the shared equity investment provider may also share in the appreciation of your home's value resulting from improvements made to the home.

Exiting the shared equity arrangement

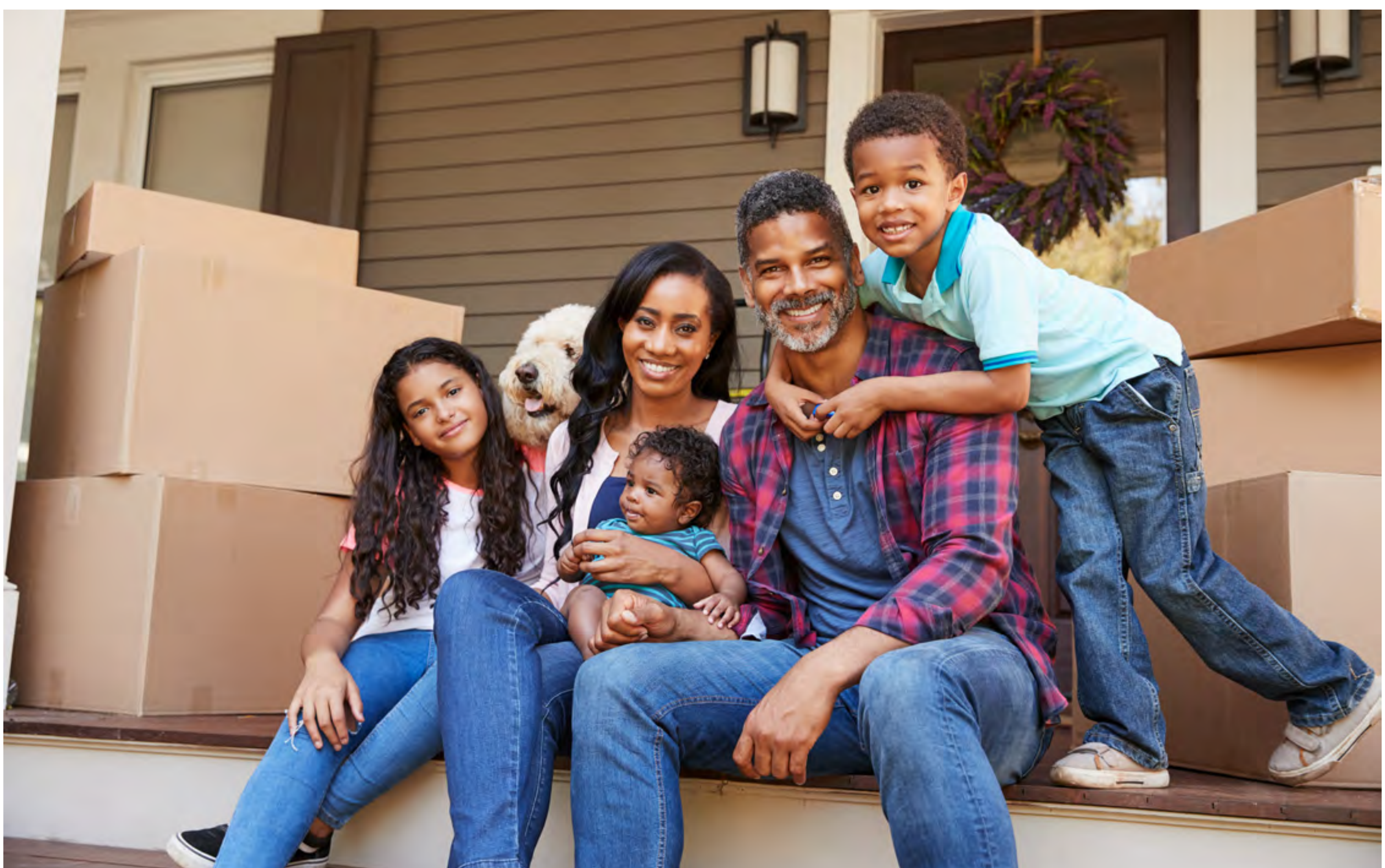
The terms to end a shared equity arrangement vary by program. Most shared equity arrangements will end under the following circumstances:

- the home is sold
- the shared equity agreement expires (usually ranges between five and 25 years)
- the homeowner buys out the shared equity investment provider (if allowable under the terms of the shared equity agreement)
- the homeowner has paid off the mortgage or, sometimes, when the homeowner refinances their home

If your home has increased in value when you decide to sell, the shared equity investment provider will be entitled to receive a portion of the appreciation of your home's value. Unless you enter into a new shared equity arrangement, this portion of the equity will not be available to you to use towards a down payment on your next home.

There may be penalties if you sell the home or buy out the shared equity investment provider within a shorter timeframe (typically three years or less), which could further reduce your equity.

If you still own the home when the term of the shared equity arrangement is up, you will be required to buy out the shared equity investment provider's share of the home. If you are unable to refinance or buy out the shared equity investment provider at the end of the agreement, you may be forced to sell your home to repay the shared equity investment provider.



Consumer protection

Before signing, be sure to consult with a lawyer and read and understand the shared equity arrangement agreement carefully, especially the fine print. This applies to all providers and programs, whether they are private, not-for-profit or public sector/ government.

Some providers:

- take a much larger share of the equity than they invested
- won't share in the depreciation if you choose to buy out the shared equity investment provider without selling the home and the home has declined in value
- have hidden fees or penalties (for example, **origination fees**, penalties for buying out the shared equity investment provider early, etc.)

You should also seek independent legal advice. The Law Society of Ontario provides a directory and a referral service that can provide the name of a lawyer who practices in the relevant legal area and who is located in your part of the province.

Finally, keep in mind that different shared equity arrangements have different structures, terms and conditions. The arrangements that are offered by shared equity investment providers may also change over time. Don't assume that advice pertaining to one shared equity investment provider applies to a different one, or that previously obtained advice still applies.

Glossary of terms

Down payment - The portion of the home's purchase price that is not financed by a mortgage loan. The buyer must pay the down payment from their own funds (or other eligible sources) before securing a mortgage

Equity – The cash value that a homeowner has in their home after subtracting the amount of the mortgage or other debts owed on the property. Equity usually increases over time as the mortgage loan is gradually paid (that is, as the mortgage/debt decreases). Changes in overall market values or improvements to a home can also affect the value of the equity.

Homeowner – In a shared equity arrangement the homeowner has legal title to the home and has the exclusive right to live in the home.

Mortgage – Security for a loan given by a lender to a buyer to help with the purchase of a home or property. The mortgage loan is usually repaid in regular payments that include both the principal and interest. Mortgage loans are secured against the home, meaning that the lender can take ownership of (foreclose) the home if the homeowner defaults on their mortgage obligations (that is, if they cease to make regular payments or to otherwise abide by the terms of the mortgage).

Mortgage default insurance – In Canada, lenders require mortgage default (or mortgage loan) insurance if a borrower has a down payment of less than 20% of the purchase price of the home. Mortgage default insurance protects lenders if a homeowner defaults on their mortgage obligations. The borrower (homeowner) typically pays the entire cost of the mortgage default insurance premium amount.

Origination fee – Also known as a loan fee or disbursement fee, the origination fee covers the administrative costs that a lender needs to incur to process the loan. Typical origination fees can vary from 0.5–8% of your total loan cost.

Shared equity investment provider – This is the institution or individual who is investing in the home along with the home buyer. A shared equity investment provider does not have the right to live in the home.

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