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No stigma attached to nothing-down deal

Old negative images don't apply to new CMHC scheme

Borrowers must demonstrate ability to carry payments

In real estate circles, the term "nothing down" used to conjure up images of American hucksters whose infomercials and travelling seminars promised get-rich-quick results with investments.

Recent market developments in Canada, however, have brought the "nothing down" concept out of the closet and into the realm of government-sanctioned respectability.

In the early 1980s, Robert Allen wrote a book called *Nothing Down* and heavily promoted his ideas on the lecture circuit.

His success spawned a number of American imitators, most notably a Vietnamese immigrant named Tom Vu, who became the first big infomercial celebrity.

In the late 1980s and early 1990s, Vu would appear on his over-the-top TV infomercials, standing in front of one of his mansions or surrounded by bikini-clad women on a luxury yacht.

He urged viewers to attend a free seminar, where they would be encouraged to sign up for expensive courses and learning materials.

Allen, Vu and their U.S. imitators would promote buying distressed, tax sales, or foreclosure properties, with little or no money down, at a fraction of their market value and then flipping them before closing at huge profits.

For Canadian investors, these American-oriented schemes never seemed to work.

Traditionally, there were three types of nothing-down deals.

A purchaser could borrow against other assets to raise funds for a down payment; a partner could put up all of the deposit money, or a bank would lend a borrower the entire purchase price.

Last month, the negative connotations of nothing-down schemes faded into the background when Canada Mortgage and Housing Corporation announced that it was abandoning its requirement for a minimum five per cent down payment, and would effectively allow Canadians to purchase homes without any up-front cash.

Last week, I was one of the speakers at a homebuyers' seminar sponsored by the Greater Toronto Home Builder's Association, the Toronto Star, TitlePLUS and others.

One of the speakers on the panel was Paul Bimm, senior manager for new home construction loans at the Royal Bank.

Bimm and I have frequently appeared on buyer seminar panels together. Bimm explained to the 250 attendees the details of two new nothing-down options now available.

Under the CMHC Flexdown Mortgage, a minimum of five per cent down payment is still required, but those funds can now come from:

- ☐ Lender cash-back program
- ☐ Borrowed funds not tied to the property
- ☐ Gifts or grants from a party at arm's length to the purchase transaction
- ☐ 100 per cent sweat equity from an arm's length party

Payments on the borrowed down payment funds must be included in the purchaser's total debt service ratio.

In other words, the borrower must demonstrate the ability to carry not only the mortgage payments, but payments on the down payment funds as well.

A CMHC insurance premium of 3.4 per cent applies to the Flexdown Mortgage.

Terms as low as six months are available, and interest rates can be fixed, adjustable or capped.

Royal Bank has introduced its RBC No Downpayment Mortgage, insured by GE Capital. Under this plan:

- ☐ The mortgage cash-back covers the five per cent down payment
- ☐ Interest rates for a five-year term are the bank's posted rates. In order to cover the cash-back, the interest rates can be about one per cent higher than non-cash back mortgages.
- ☐ The maximum purchase price is \$400,000 with a mortgage ceiling of \$380,000. (The \$400,000-cap is a significant increase from the previous \$300,000 CMHC maximum.)
- ☐ Mortgage insurance is provided by GE Capital with a 3.4 per cent premium added to the mortgage amount.
- ☐ Purchasers must have 1.5 per cent of the purchase price in liquid assets to cover closing costs.

The Bank of Nova Scotia also has a down payment-free mortgage, funded with the mortgage cash-back, and I expect the other banks will also follow suit.

As long as a purchaser can afford the payments, there is now no stigma at all to a nothing-down deal.