PERSONAL FINANCE

An innovative new company will pay up to 75% of the down payment on your home — but there’s a big catch

Ourboro will contribute up to 15 per cent of a home’s purchase price in return for a chunk of home equity. It’s an interesting idea, with some hefty trade-offs.

By Clarrie FeinsteinBusiness Reporter
Mon., April 3, 2023

A new real estate financing company called Ourboro has an offer to help first-time home buyers enter the market, but it comes with a big catch: it will help finance your down payment — in exchange for a sizable chunk of your home’s appreciation in value.

The offer helps to bring home ownership within reach for those struggling to get into Toronto’s unaffordable market, where the average home price is now $1.09 million, requiring a 20 per cent down payment of $218,000.

Rather than paying back the down payment loan over time at a given interest rate, Toronto-based Ourboro is repaid by home buyers when the owner eventually sells — and when that happens, it can take up to a 75 per cent stake in the home’s appreciation.

It is an innovative co-ownership program, but there are also some big trade-offs, say experts.

The percentage of net home value appreciation Ourboro gets when you sell is dictated by the percentage of the down payment Ourboro contributes up front

— with a minimum of 25 per cent and maximum of 75 per cent. In effect, the company becomes more of a co-owner rather than a lender like a bank.

Take, for example, a purchase price of $1 million, with a $200,000 down payment split 60/40 between Ourboro ($120,000) and the owner ($80,000). If the home later sells for $1.5 million, the company gets 60 per cent of the net appreciation — the amount left after the mortgage is paid off and whatever amount the homeowner paid in mortgage principle is returned to them (let's say $100,000). That leaves $700,000, out of which Ourboro would get $420,000.

Ourboro doesn't make any contributions to the mortgage payments and any principal is given back to the co-owner.

Since the company launched it has received more than 1,000 applications and has contributed $5 million in capital to households across the GTA, said Alex Kjorven, Ourboro's chief product officer.

In February 2023 the company expanded, launching in Hamilton, London, Kitchener-Waterloo and Guelph. The latest funding round reached $50 million to "keep pace with our pipeline of interested buyers as we expand to new regions outside of the GTA," she said.

The demand is no doubt fuelled by the high cost of housing in Toronto combined with elevated interest rates that make home ownership feel further out of reach.

So, is it worth looking into Ourboro to break into the housing market?

The risks of co-ownership

The point of home ownership is building equity, but the home isn't fully yours — the majority of the home's equity could be Ourboro's, said Mary Sialtsis, a mortgage broker.

Plus, if you make any upgrades and repairs that add to the home appreciation, the company benefits.

Kjorven noted Ourboro has a renovation policy which allows homeowners to qualify for "renovation credits" that are paid out when the property is sold, giving homeowners a larger share of the sale proceeds.

"The amount of credits homeowners may qualify to receive is a function of the actual cost of the renovation itself versus the impact the renovation had on property appreciation," she said.

But renovations can significantly add to a home's value and should be fully awarded to the homeowner, experts say.

Another area of concern is if you decide to buy out Ourboro.

The home can be co-owned for up to 30 years with the first-time homebuyer able to sell the home, or make an offer to buy the company's share at any time. But this could prove difficult said Sialtsis.

"If you want to buy them out after 10 years, do you have that kind of money? You might need to refinance, and then do you qualify for that new mortgage? There's a lot you need to think about here," she added.

The company says the co-ownership model is ideal for those looking to sell within the first 10 years, to not share "decades worth" of appreciation.

Ourboro mandates that prior to closing on the property, the homeowner receive independent legal advice, Kjorven said.

"Ourboro makes it sound like they're doing this for your benefit, to ensure you don't give too much of your home appreciation away," said John Zinati, a Toronto-based real estate lawyer. "But they probably have an interest in getting their money and reprocessing it through another purchase."

One final factor to consider is the lender. Ourboro has partnered with Equitable Bank, a private lender, which requires less paperwork from the buyers but has additional fees and higher interest rates than a typical bank.

Any of the Big Six banks won't agree to finance these kinds of mortgages, said Sialtsis.

"Getting private lenders should be a loan of last resort," she said. "Always try financing a home on your own first."

The program allows homeowners to get into the market using an innovative strategy, some experts say.

Tim Hudak, CEO of the Ontario Real Estate Association, wouldn't comment on Ourboro's business model specifically but said co-ownership makes housing more affordable and gives people more choice.

Because many Canadians highly value home ownership, making the process accessible is a benefit, said Karen Yolevski, chief operating officer at Royal LePage.

“We know that the down payment is a challenging aspect of the home buying process and options are good with the ability to help with your down payment,” she said.

Ourboro could also be helpful if someone wants a slight top up to reach a 20 per cent down payment.

Sialtsis said if a buyer has 15 per cent of the down payment, then getting five per cent from the company isn’t a bad idea — if a down payment is less than 20 per cent the homebuyer is restricted to a 25-year amortization and mortgage insurance. Therefore, putting at least 20 per cent can stretch your dollar, she said. But the buyer should save as quickly as possible to buy out the company which will have a 25 per cent share (the minimum under the terms of the agreement) in the home equity.

The Government of Canada already offers a co-ownership program with the First-Time Home Buyer Incentive that was introduced in 2019. The government offers five or 10 per cent of the purchase on a newly constructed home and five per cent for a resale, or existing home. However, in Toronto, that assistance doesn’t go far, said Sialtsis.

The government could do more to help homeowners, especially in the country’s most expensive markets, she added. Rent-to-own homes are also an option that Sialtsis would explore with her clients before choosing Ourboro.

Co-ownership with a company is different than co-owning with a family member, Zinati said. “Remember, they are in it to make money.”

Clarrie Feinstein *is a Toronto-based business reporter for the Star. Reach Clarrie via email: clarriefeinstein@torstar.ca*