

AU6.3 Attachment 1



Strengthening Accountability and Outcomes for Affordable Housing:

Understanding the Impact of the Affordable Home Ownership Program

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TORONTO

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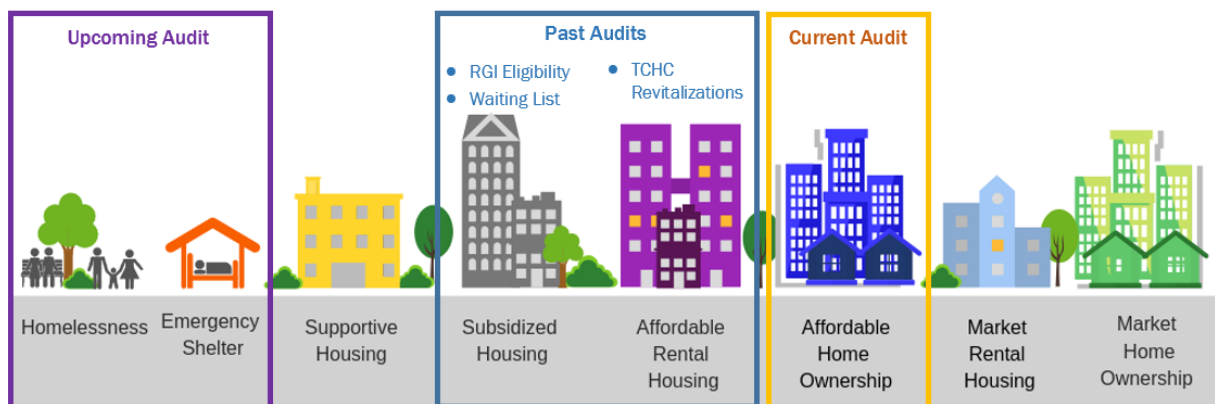
Executive Summary

Operational review of affordable ownership housing

The Auditor General's Annual Work Plan includes a series of audits along the housing continuum. Figure 1 illustrates the areas that have been included in prior audits¹ and the current focus of this audit (affordable home ownership).

This audit assesses the extent to which the City's affordable home ownership program (the "Program") is achieving the City's housing objectives.

Figure 1: Housing Continuum



For many in Toronto, housing is not affordable

Housing costs in Toronto are amongst the most expensive in the country. For many in Toronto, housing is not affordable.

The City's HousingTO 2020-2030 Action Plan ("HousingTO Action Plan") is its blueprint for action across the full housing spectrum – from homelessness to rental and ownership housing, to long-term care for seniors. A strategic goal of the HousingTO Action Plan is to help people buy, stay in and improve their homes. It notes that, *"the key to a healthy housing market is the flow along the housing spectrum with the ability for residents to own their own homes if they so choose."*

¹ Audit reports can be accessed here: [Opportunities to Address Broader City Priorities in TCHC Revitalizations](#), [Opening Doors to Stable Housing](#), [Safeguarding Rent-Geared-to-Income Assistance](#)

Why this audit is important

The City administers its Program to help provide affordable home ownership opportunities for residents. With limited funding available to address its housing priorities, the City should ensure that the Program is having the desired positive impact on people's lives and accomplishing its housing objectives.

What we found and recommend

Key themes and recommendations

The issues and recommendations discussed in this report can be categorized into three broad themes:

1. Assessing the Extent to which the Program is Achieving Housing Objectives and Outcomes
2. Supporting Program Intent by Strengthening Program Design
3. Promoting Consistent and Impactful Outcomes through Enhanced City Oversight

The following are our key observations related to these themes.

1. Assessing the Extent to which the Program is Achieving Housing Objectives and Outcomes

Measuring Program impact is key to ensuring benefits are realized

Over the last decade, the Program's goals have included assisting low and moderate-income renters in Toronto to purchase affordable homes and realize the benefits of home ownership.

Beyond the number of affordable home ownership opportunities created, the City has not regularly evaluated the broader effectiveness and impact of its Program. The Housing Secretariat last released a formal study of the Program's impact in 2012. Key recommendations from that study remain outstanding.

Approximately 1,280 affordable home ownership opportunities created since 2010

The City's primary measure of the Program's success is the number of affordable home ownership opportunities created. The Program is not fully meeting this target². Over the past decade, the Housing Secretariat reported that it had met approximately 65 per cent of its affordable home ownership goal.

We identified indicators that the Program may not always be achieving desired outcomes

Moreover, we identified indicators that raise the issue of whether people benefiting from these opportunities are eligible households purchasing modest homes that are actually affordable to them – a key factor contributing to the extent to which the City is achieving its intended outcomes and objectives. For example:

² The City's Housing Opportunities Toronto Affordable Housing Action Plan for 2010-2020 targeted the creation of 2,000 affordable home ownership opportunities over ten years.

- a) Shelter costs sometimes appeared to be outside the range of what would be considered “affordable”

City can better define desired level of affordability for loan recipients

The City does not require households participating in the Program to achieve a specific level of housing affordability. Program requirements only limit eligibility based on criteria including maximum income and unit purchase price. Eligible purchasers must also agree to obtain their own primary financing (see Exhibit 1 for a list of purchaser and unit eligibility criteria).

Households spending more than 30% of their income on housing may experience affordability challenges

According to the Canada Mortgage and Housing Corporation (CMHC), households spending more than 30 per cent of their before-tax income on housing (including mortgage payments, property taxes and condominium fees, along with the costs of electricity, heat, water and other municipal services) are likely to experience affordability challenges.

Some approved households appeared to be buying homes significantly outside of their means based on this definition of affordability, their reported income and expected shelter costs. In some cases, their mortgage payments alone would likely account for more than their reported household income.

Some loan recipients may not be fully disclosing all income and asset sources

These households received (pre-)approval for mortgages by lending institutions even though they appeared to have high debt service levels³. This raises the issue of whether they have fully disclosed all income and asset sources available to support their monthly shelter costs and meet the eligibility requirements of the Program.

³ Mortgage professionals use two main ratios to decide if borrowers can afford to buy a home: Gross Debt Service (GDS) and Total Debt Service (TDS). GDS is the percentage of monthly household income that covers housing costs. TDS is the percentage of monthly household income that covers housing costs and any other debts. CMHC restricts debt service ratios to 35% (GDS) and 42% (TDS). Source: [Link to CMHC Debt Ratio Explanations](#)

b) Alignment of purchase price requirements to better support affordability

Households are generally only required to purchase units below the average resale price in Toronto

Most delivery agreements we reviewed generally only required households to purchase units at or below the average resale price in Toronto, and did not consider the unit type (e.g. condo, townhouse, detached, etc.) or size (e.g. bachelor, one bedroom, etc.) For the samples we reviewed, the purchase price per square foot varied significantly⁴. While within eligibility thresholds, some households purchased homes that appeared to be above the estimated average selling prices⁵ for the unit type and size.

Purchase price limits can be better aligned with the incomes required to sustain them

Keeping home prices as low as possible is one tool to address affordability challenges. While some proponents⁶ offered additional support to households beyond the City's loan assistance, given the continually rising housing prices in Toronto, the City should consider additional measures to deepen affordability. This could include capping purchase prices by unit type / size based on the level of affordability it aims to provide, and / or increasing collaboration with proponents that offer additional incentives.

c) Households discharging loans within short time periods

Many loans are discharged within a short period of time

Over 40 percent⁷ of loan recipients have discharged their loans since 2010 – in many cases, within five years. In most cases, it was difficult to determine if recipients repaid loans early or if they sold their homes, and the reasons why they discharged the loans.

Understanding why loans are repaid will help ensure funds are used for their intended purpose

We recognize that there are legitimate reasons for repaying loans in a relatively short period (for example, moving due to changes in family composition). However, without knowing why loan recipients discharged loans, the City cannot assess if they actually needed assistance in the first place, were unable to achieve affordability, or planned for the home to be their principal residence for an extended period. This information would assist in evaluating if the Program is operating as intended.

⁴ Square footage information was not available for all files in our sample. We also did not include proponents that offered additional assistance/ incentives to purchasers beyond the City loans that would make purchase prices more affordable.

⁵ Estimated using data published by the Toronto Real Estate Board Condo Market Report for the quarter and year the units were sold.

⁶ Proponents are private and non-profit developers responsible for administering the Program on behalf of the City.

⁷ Based on data provided by the Housing Secretariat and its proponents for the approximately 920 Program loans provided since 2010 where title has transferred to the purchaser.

Once loans are discharged, individual units are no longer available as affordable housing

Additionally, in almost all cases, even though recipients must repay the loan funding, individual units sold through the Program are no longer available as affordable housing.

Most recently in 2018, the City requested that the Province amend legislation to allow municipalities to impose positive covenants to maintain ongoing affordability on the resale of affordable units⁸. Regardless, there are other non-legislative tools that the City can use to support ongoing affordability.

Keeping units affordable after resale supports achieving long-term affordability

The City should consider measures to keep units affordable beyond the point of resale. This could include working with proponents to buy back or transfer units to other eligible households when purchasers wish to resell.

Assessing Program impact can help identify areas for changes

The City needs additional mechanisms to assess if the Program is achieving its intended outcomes and the extent to which funding is having an impact on households in need. This, in turn, will help the City identify changes or improvements to make the Program more effective.

2. Supporting Program Intent by Strengthening Program Design

Access to affordable home ownership assistance is through one of several proponents

There is no central access point to new affordable home ownership housing units created across the City. People seeking affordable home ownership assistance must purchase a home and apply for assistance directly through one of several proponents.

Loans are often granted on a first-come, first serve basis

Many proponents offered Program loans on a first-come, first serve basis to applicants meeting the Program's eligibility requirements. Proponents are not required to assess need beyond adhering to the Program's eligibility requirements, or ensure that people who require financial support the most receive prioritized access to funding.

Sliding scale for allocating assistance can support prioritizing households in greater need

We recognize that individual loan limits are a tool to help ensure the City can assist as many households as possible. However, by considering using a sliding scale (i.e. allocating funding based on income or other criteria), the City can better tailor loan amounts and help prioritize households who need assistance the most.

Enhancing program requirements to better ensure recipients meet the spirit of the Program

Some approved applicants of Program loans met the City's eligibility requirements, but certain factors suggest these files were not aligned with the spirit of the Program. For example, in some files we reviewed, we noted applicants that:

⁸ This request was included in the City's comments to the Province on the proposed changes to inclusionary zoning legislation.

- appeared to have significant assets. In some cases, they used these assets to fund large down payments of 20 per cent or more of the unit purchase price and/or to cover unit upgrades. While other jurisdictions have included asset limits as part of the eligibility criteria for their affordable home ownership programs, currently, the City does not restrict household assets other than that the applicant or applicant's spouse cannot own a home / have an ownership interest in a home.
- met income criteria when they applied for loans (e.g. students, those in trainee positions) but their income was expected to increase before or shortly after unit closing, possibly putting them above the income eligibility threshold.
- listed their current address outside of Toronto. Consequently, in these instances the Program is not contributing to the creation of rental opportunities within Toronto. Other jurisdictions have adopted residency requirements.

3. Promoting Consistent and Impactful Outcomes through Enhanced City Oversight

City is accountable for ensuring the Program is meeting its objectives

Although the City has delegated responsibility for administering its Program to third-party proponents, the Housing Secretariat is still accountable for ensuring compliance with Program and funding requirements. As such, the City should provide sufficient guidance and oversight so that proponents deliver the Program in the manner intended.

Not all proponents are meeting their contracted Program targets

Several developments in our sample either did not meet, or were at risk of not meeting their Program targets. Proponents that are unable to provide the agreed upon number of affordable home ownership opportunities impact the City's ability to reach its affordable home ownership target.

Unallocated loan funding could be used towards other City priorities on a more timely basis

Some delivery agreements allowed proponents to receive municipal funding early in the development process. Management indicated that this was typically to support non-profit proponents with up-front development costs. In some cases, proponents were unable to meet their targets and allocate all Program funding towards loans. Any unused funds should be returned to the City and redirected towards other housing opportunities and priorities in a timely manner.

Stronger oversight of proponent activities is needed

We also identified some instances of proponents not complying with some delivery and funding agreement terms, and applying inconsistent practices to verify applicant eligibility. This included opportunities for improvement in income and occupancy verification and maintaining adequate documentation. The City needs to more actively oversee proponents and provide enhanced guidance to reinforce consistent and practical application of delivery agreement requirements.

Conclusion

Affordable home ownership can have benefits but City should ensure they are being realized

The City, as service manager, has the flexibility to select how to allocate provincial / federal funding for housing based on local needs and priorities. The City should do this with the view of prioritizing programs that will have the greatest positive impact on the housing needs of its residents.

City should consider the optimal allocation for limited funding

The City's Program is part of its response to addressing the housing needs in Toronto. The City should evaluate the extent to which the Program is achieving its intended benefits. Where the Program in its current form is not fully realizing its objectives, the City should adjust the Program. Alternatively or additionally, City Council should consider if changing the Program presents opportunities to better prioritize and allocate funding to support the City's initiatives across the housing continuum.

Our audit makes eleven recommendations that position the Housing Secretariat to be able to refresh how it manages the Program to achieve the results intended by City Council. It identifies ways they can strengthen accountability and deliver on their objectives and expected outcomes for providing quality, safe, affordable housing to households in need.

We would like to express our appreciation for the co-operation and assistance we received from the following groups in completing our audit:

- Housing Secretariat
- Build Toronto/CreateTO
- Legal Services
- Proponents delivering the City's Program

Background

Housing Secretariat works to create and maintain affordable housing in Toronto

The Housing Secretariat (formerly the Affordable Housing Office) works to create and maintain safe, affordable, rental and ownership housing for lower-income residents. The Division, together with the Shelter, Support, and Housing Administration (SSHA) division and other City divisions and agencies, works with private and non-profit developers to create and maintain affordable rental and ownership housing in Toronto.

The primary responsibility of the Housing Secretariat is to strategically plan and monitor the delivery of housing programs and related services. This includes:

- facilitating the effective delivery of new housing supply;
- preserving and maintaining Toronto's current housing stock;
- leading the development of city-wide housing policy and programs;
- leading the development and implementation of the HousingTO 2020-2030 Action Plan ("HousingTO Action Plan") and the overall monitoring of targets and reporting to City Council.

As of 2019, the Housing Secretariat reported overseeing the delivery of over \$847 million in government investments leveraging approximately \$3.4 billion in private/non-profit investments.

Action Plan for improving housing outcomes for Torontonians

The HousingTO Action Plan is the City's blueprint for action across the full housing spectrum. The plan updates and builds on the City's Housing Opportunities Toronto Affordable Housing Action Plan for 2010-2020. Its purpose is to help promote better access to good quality, safe, affordable housing for households in need and improve housing stability for residents struggling to maintain their existing homes.

Limited funding is available for achieving housing priorities

There is only a limited amount of funding available to help make housing affordable for Torontonians. In September 2020, the City reported having only secured enough funding to cover about 30 per cent of the total costs of the HousingTO Action Plan.

4,000 affordable home ownership opportunities are targeted over the next ten years

A strategic goal included in the HousingTO Action Plan is to help people buy, stay in and improve their homes. The plan notes that, *"the key to a healthy housing market is the flow along the housing spectrum with the ability for residents to own their own homes if they so choose."* It aims to create 4,000 new non-profit affordable ownership opportunities for residents over the next ten years.

City provides affordable home ownership opportunities through interest-free loans

Through the City's affordable home ownership program (the "Program"), homes are made more affordable by providing interest-free loans. To be eligible, applicants must be vacating a residential tenancy and their total annual household income cannot exceed the lesser of the 60th percentile of income for the City of Toronto, or the Province of Ontario in the year they apply (approximately \$96,000 in 2019). Exhibit 1 includes further details on some of the key eligibility criteria.

Loans, along with a percentage of the home's capital appreciation, must be repaid when the unit is resold, or if the purchaser defaults on the loan terms. Loan recipients may also choose to pay back their loans at any time, without selling their homes, as long as they remit the full loan amount and the percentage of capital appreciation at the time of repayment. While earlier loans were forgivable after 20 years if the purchaser met all loan agreement conditions, in 2016, City Council changed the Program so that all new loans are repayable upon sale of the home. Loans issued under the original Program terms remain forgivable.

Over \$50 million in Program funding has been committed since 2010

Since 2010, the Housing Secretariat and its proponents reported issuing approximately 920 loans, totalling over \$26.9 million in municipal, provincial and federal funding. In addition, they had approved about 360 loans totalling over \$25.7 million where the associated real estate transactions had not yet closed at the time of our audit⁹. The average total loan amount was approximately \$40,000 per household, and loans ranged from \$1,000 to over \$200,000¹⁰.

⁹ This was the number reported by Housing Secretariat and its proponents at the commencement of our audit. We also noted instances of approved applicants declining loan funding at the time of unit closing. Resultantly, the final number of issued loans may differ from what was reported here.

¹⁰ Some loans amounts also include the value of land contributions and/or additional loan funding facilitated through Build Toronto, the City corporation responsible for developing and marketing surplus municipal land. In addition, some proponents offered financial support in addition to City assistance.

Loans are jointly funded by the City, provincial, and federal governments

The City, provincial and federal governments jointly fund loans. In 2018, City Council directed that the City fund its contribution to the Program through the deferral of development charges. Prior to that, the Program was funded primarily through allocations from a development charges reserve fund.

The loans we reviewed as part of this audit followed the pre-2018 funding model. Management advised that at the time of our audit the City had not yet approved or issued any loans funded through the deferral of development charges.

City delegates Program administration to proponents

The City delegates administration of its Program to private or non-profit developers, otherwise known as proponents. They are generally selected through an open call for proposals / expressions of interest targeted at non-profit proponents, or through negotiated planning proposals and/or the sale of City lands.

Proponents are generally responsible for administering most Program responsibilities, including ensuring purchasers meet eligibility criteria, entering into loan agreements with eligible purchasers and verifying ongoing occupancy.

The City enters into delivery agreements with proponents that specify proponent responsibilities and eligibility requirements for funding recipients. Delivery agreement terms have evolved over time as the Housing Secretariat has made changes to strengthen the Program.

City is accountable for Program performance and use of funding

This City is accountable to the provincial and federal governments for the funding it receives through administration or transfer payment agreements. The City remains directly responsible to the Province for the use of funding and Program performance even though it delegates its responsibilities to contracted third parties.

Audit Results

This section of the report contains the findings from our audit work followed by specific recommendations.

A. Assessing the Extent to which the Program is Achieving Housing Objectives and Outcomes

Measuring Program impact is key to ensuring benefits are realized

The affordable home ownership program (the "Program") has been a long-standing initiative in the City's affordable housing strategy. Over the last decade, the Program's goals have included assisting low and moderate-income renters in Toronto to purchase affordable homes and realize the benefits of home ownership.

Beyond the number of affordable home ownership opportunities created for eligible households, the City has not regularly evaluated the broader effectiveness and impact of its Program.

Indicators suggest the Program may not always be achieving its desired outcomes

During our audit, we identified indicators that raise the issue of whether all people benefiting from these opportunities are eligible households purchasing modest homes that are actually affordable to them – a key factor contributing to the extent to which the City is achieving its intended outcomes and objectives.

With limited funding available to address its housing priorities, the City should ensure that the Program is having the desired positive impact on people's lives and achieving its intended objectives.

A. 1. More Effectively Evaluating Program Outcomes will Support the Achievement of City Housing Objectives

Effective mechanisms are needed to assess Program impact

Although the City has set out high-level, strategic objectives and intended benefits for its Program, it has not developed mechanisms to assess the extent to which it has achieved these broader outcomes.

While the Housing Secretariat relies on the number of affordable home ownership opportunities created as the primary measure of success, this measure alone does not confirm whether the assistance provided has had the desired positive impact and outcomes.

2010-2020 housing plan outlined intended Program benefits

For the ten-year period covered by the Housing Opportunities Toronto Affordable Housing Action Plan for 2010-2020, the Housing Secretariat has not assessed the extent to which it has improved the affordability of homes for low and moderate-income home buyers, and:

- helped loan recipients build equity to escape the cycle of poverty;
- contributed to neighbourhoods' income and social mix;
- enabled people to live closer to their jobs, reducing commuting times and reliance on motor vehicles;
- helped attract and retain a skilled labour force, which in turn makes the City more attractive to employers; and,
- freed up rental stock for others.

The need to measure Program impact is not a new concept

In February 2012, the Housing Secretariat released a study examining the impact of the Program from 2006 to 2011. Since that time, the City has not conducted any further formal evaluation. More notably, the City has not adopted some of the study's recommendations, including one aimed at continuing to measure the Program's impact through client surveys at least every five years.

As noted in the HousingTO 2020-2030 Action Plan:

"Given the importance of having access to safe, secure and affordable housing, residents expect that governments will have programs and systems which work effectively and efficiently in addressing their needs. The City of Toronto acknowledges this public expectation. As such, it has taken a number of actions to streamline the way it plans and delivers housing services across the spectrum and has made a number of changes to its governance structure to improve transparency, accountability and the way it operates."

While the HousingTO 2020-2030 Implementation Plan further defines the outcomes and measures for each of the plan's key strategic goals, the number of opportunities created continues to be the main measure for evaluating the Program's success.

Assessing Program impact can help identify areas for changes

The City needs additional mechanisms to assess if the Program is achieving its intended outcomes and the extent to which funding is having an impact on households in need. This, in turn, will help the City identify changes or improvements to make the Program more effective.

A. 2. Opportunities Exist to Better Define and Measure the Level of Affordability Achieved by Households

Households spending more than 30% of their income on housing may experience affordability challenges

According to the Canada Mortgage and Housing Corporation (CMHC), households spending more than 30 per cent of their before-tax income on housing (including mortgage payments, property taxes and condominium fees, along with the costs of electricity, heat, water and other municipal services) are likely to experience affordability challenges. Both the City and Province use variations of this guideline to define affordable home ownership in their planning policies / policy statement. These definitions can be found in Exhibit 2.

Program only uses a high level definition of what is considered "affordable"

The Program does not require households to achieve affordability within a specific ratio of shelter costs to income. Program requirements only limit eligibility on the basis of (see Exhibit 1 for a complete listing of the main eligibility criteria):

- **Maximum income** - at or below the 60th percentile of income for the lesser of the City of Toronto or the Province of Ontario as defined by the Ministry of Municipal Affairs and Housing on an annual basis. For the files we reviewed, the maximum income limits ranged from \$78,200 to \$96,000. There is no minimum income requirement to be eligible for the Program.
- **Maximum purchase price** - at or below the average price of a resale home in Toronto as defined by the Ministry of Municipal Affairs and Housing, quarterly. For the files we reviewed, the maximum purchase price limit ranged from \$480,127 to \$866,122 over a period of almost ten years. Households are generally not restricted to any particular purchase price, as long as it is below the maximum.
- **The applicant agreeing to obtain their own source of primary financing for the unit.**

Being eligible for assistance does not necessarily mean a household can achieve housing affordability

Even if someone meets the eligibility requirements of the City's Program and receives assistance from the City, this does not necessarily mean that they would have the income needed to support typical purchase prices and meet affordability thresholds (as shown in Figure 2 below).

Figure 2: Condo Prices and Income Needed to Support Them

Table 1: Income Needed to Support Typical Prices (2019)*

	Resale Condo Prices	Income Needed	New Condo Prices	Income Needed
Bachelor	\$440,535	\$102,109	\$413,505	\$95,844
One-Bedroom	\$544,830	\$126,283	\$459,450	\$106,493
Two-Bedroom	\$674,798	\$156,407	\$689,175	\$159,740
Three-Bedroom	\$654,289	\$151,654	\$872,955	\$202,337
Total	\$600,521	\$139,191	\$809,935	\$187,730

* Income needed for ownership housing prices based on:

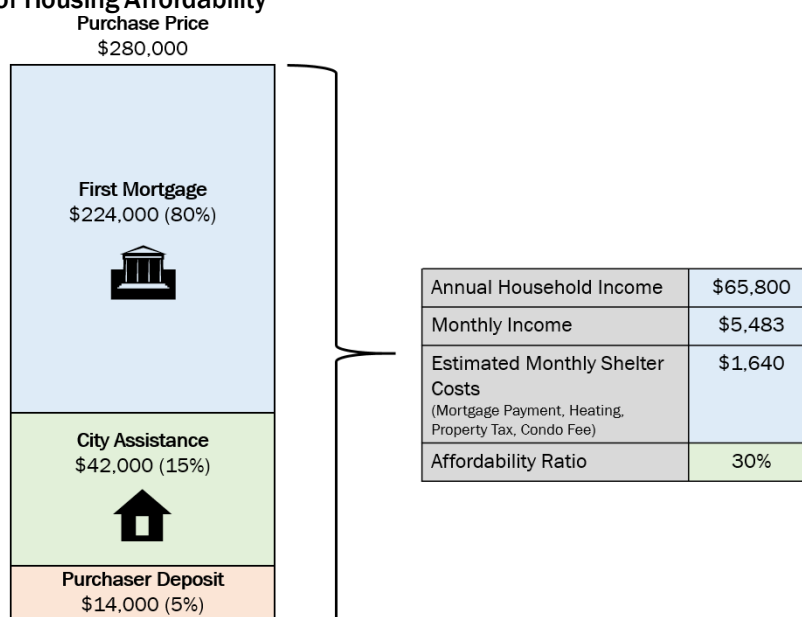
- Spending maximum of 30% of gross income on housing costs (the housing affordability threshold)
- Standard inputs for amortization period, down payment, interest rate and taxes

Source: "Inclusionary Zoning Draft Official Plan Amendment and Zoning By-law Amendment" staff report (September 2020)
[Link to Full Report](#)

Example of housing affordability

For example, as demonstrated in Figure 3 below, an affordable price for a household earning \$65,800 would be approximately \$280,000. This is based on the household being able to make a five per cent down payment, being provided City loan assistance of an additional 15 per cent of the purchase price¹¹, and qualifying for a primary mortgage for the balance. Any price significantly above \$280,000 would likely not be considered affordable without further assistance, as the household would be spending more than 30 per cent of their income on shelter costs.

Figure 3: Example of Housing Affordability



¹¹ Based on the home buying calculators provided by the CMHC using the Bank of Canada conventional 5-year mortgage rate of 4.79 per cent and a 25 year amortization. The affordable price will vary as interest rates and other variables change. [Link to CMHC Calculator](#)

Assessing the Impact of Program Funding on Housing Affordability

Proponents are not required to assess if homes are affordable

Historically, the Housing Secretariat has not provided benchmark guidance on affordability thresholds. For example, thresholds based on purchase price as a multiplier of household income or gross debt ratios. Moreover, it does not require proponents to assess if households participating in the Program can carry the costs associated with home ownership prior to approving a loan. Several proponents indicated that they relied on the loan applicant's primary mortgage lender to assess their capacity to afford their home purchases.

Some households had affordability ratios that appeared to exceed 40%

During our audit, we reviewed information retained for a sample of Program loan files. To assess the affordability of units purchased, we compared each household's estimated shelter costs to their reported household income.

We found that in nearly 20 per cent of affordable home ownership files we reviewed, the estimated affordability ratio exceeded 40 per cent of their reported income at the time they applied for assistance. This is a strong indicator that even after being approved to receive loans on average totalling almost \$90,000 from the proponent and/or the City, households may be buying outside of their means.

In some cases, their mortgage payments alone would likely account for more than their reported household income.

Example: Household's Shelter Expenses Appear to Significantly Exceed their Income

The City provided one applicant a loan of over \$80,000 towards the purchase of a unit priced at approximately \$416,000. In consideration of their reported household income of less than \$20,000 at the time they applied, their monthly shelter costs would likely exceed 150 per cent of their income. The applicant's primary mortgage lender, a non-Schedule I lender¹², charged an interest rate of 7.5 per cent per year at the time the mortgage was issued and, according to the mortgage pre-approval document, a lender's fee of over \$9,000.

Another applicant was approved for a loan of \$50,000 towards the purchase of a unit priced at approximately \$679,000. The applicant was pre-approved for a mortgage by a Schedule I lender. In consideration of the household income they reported to the City of approximately \$36,000, their estimated mortgage payments alone would likely exceed their income.

These households far exceeded the typically acceptable affordability thresholds, and their associated shelter costs would likely be unaffordable at their reported incomes.

¹² A Schedule 1 lender is a Canadian financial institution that is regulated under the Federal Bank Act.

Some loan recipients may not be fully disclosing all income and asset sources

Given that all households were (pre-)approved for mortgages by lending institutions, even though they appeared to have high debt service levels¹³, it is possible that, in order to meet the eligibility requirements of the Program, some households may not be fully disclosing all income and asset sources available to support their shelter costs.

Purchase Price Requirements can Better Support Affordability

Households are generally only required to purchase units below the average resale price in Toronto

Keeping home prices as low as possible is one tool to promote greater affordability. While the City focuses on Program delivery through non-profit proponents that aim to build lower-cost homes, most delivery agreements we reviewed only required households to purchase units at or below the average resale price in Toronto. Agreements did not have thresholds based on the unit type (e.g. condo, townhouse, detached, etc.) or size (e.g. bachelor, one bedroom, etc.).

For the samples we reviewed, the purchase price per square foot varied significantly¹⁴. Also, while within the eligibility thresholds, some households purchased homes that appeared to be above the estimated average selling prices for the unit type / size¹⁵.

Purchase price limits can be better aligned with the income required to sustain them

We generally did not observe any requirements in delivery agreements for proponents to offer modest units that are more affordably priced or discounted below the average market purchase prices for the unit type / size. We recognize that real estate prices can fluctuate based a variety of factors including location and size of the unit. However, the Program can provide deeper affordability and more low and moderate-income households can benefit from the Program where units are modestly priced and better aligned with the required household income to support the associated shelter costs.

¹³ Mortgage professionals use two main ratios to decide if borrowers can afford to buy a home: Gross Debt Service (GDS) and Total Debt Service (TDS). GDS is the percentage of monthly household income that covers housing costs. TDS is the percentage of monthly household income that covers housing costs and any other debts. CMHC restricts debt service ratios to 35% (GDS) and 42% (TDS). Source: [Link to CMHC Debt Ratio Explanations](#)

¹⁴ Square footage information was not available for all files in our sample. We also did not include proponents that offered additional assistance/ incentives to purchasers beyond the City loans that would make purchase prices more affordable.

¹⁵ Estimated using data published by the Toronto Real Estate Board Condo Market Report for the quarter and year the units were sold.

Going forward, the City should consider establishing maximum purchase price thresholds that will support the level of affordability it aims to achieve for participating households¹⁶. For example, if the City aims to provide opportunities for low and moderate-income households, purchase prices should reflect the shelter costs these households would be expected to be able to carry.

Housing Secretariat is in the process of making changes

Management has made changes to achieve this outcome. We reviewed a recent draft delivery agreement that established lower maximum purchase prices based on unit size. For example, the agreement stated that an eligible bachelor unit could only cost 75 per cent of the average price of a Toronto resale home.

Measures to Deepen Affordability

HousingTO Action Plan highlights the benefits of home ownership

The HousingTO Action Plan highlights that renters are being increasingly shut out of the benefits of home ownership including security of tenure and the ability to build equity. Consequently, additional pressure is placed on the City's rental market.

Deeper affordability may require additional governmental funding or financial assistance from proponents

Some proponents appeared to deepen affordability for households by offering additional support beyond the City's Program. This essentially lowered unit purchase prices. By continuing to collaborate with non-profit proponents that are able to offer additional assistance, the City is generally better able to help low and moderate-income households purchase more affordable homes.

Some proponents offer additional support

For example, one non-profit proponent we reviewed covered the majority of the purchaser's home value by providing an additional no-interest mortgage financed by the proponent. The purchaser is still required to obtain part of the mortgage from a traditional lender at market interest rates; however, repayments on the proponent-funded mortgage do not begin until they finish paying the lender mortgage. The proponent sets minimum income requirements based on the mortgage required for the value of the unit to ensure the household can afford the mortgage and calculates mortgage payments so that households spend no more than 32 per cent of their income on housing costs.

¹⁶ Provincial guidelines allow service managers to establish maximum house prices provided they are lower than the average resale price in the service manager's area.

A. 3. Understanding Reasons for Loan Repayment Will Help Strengthen Program

Over 40% of affordable loans issued since 2010 have been discharged

Of the program loans provided since 2010 where title had been transferred to the purchaser, over 40 per cent have been reported as discharged (i.e. either units have been resold or loans have been repaid but the units continue to be owned by the purchasers). As summarized in Table 1, in over 35 per cent of those cases, purchasers discharged the loans within three years of the unit closing date, and almost 65 per cent were discharged within five years.

Table 1: Length of Time Loans Have Been Held Since 2010

Number of Years	Total Loans	%
0.00 to less than 1.00	29	7%
1.00 to less than 3.00	118	30%
3.00 to less than 5.00	106	27%
5.00 to less than 10.00	139	36%
Loans repaid	392	43%
Loans still outstanding	527	57%
Total loans where title has transferred	919	100%

Source: Data provided by the Housing Secretariat and its proponents

The need to better understand why loans are discharged in order to improve the program is not a new concept

A 2012 study conducted by the Housing Secretariat recommended that the City capture resale data to better understand loan recipients' reasons for repayment and if moving, the type, location and reason for purchasing/renting their next residence. This information can give the City insights to improve the Program and how funding is administered.

Based on reporting provided by the Housing Secretariat, we noted that the reason for sale/repayment was only available for a small number of loans. In most cases, it was difficult to determine if recipients repaid loans early or if they sold their homes and the reasons why the loans were discharged.

Better support required for loan repayment calculations

Also, for the sample of files we reviewed where loan discharge occurred, we were not always able to confirm that the amount of capital appreciation calculated was appropriate and / or that the recipient had repaid the City and / or proponent their required share of capital appreciation. This is because proponents did not always provide supporting documentation to support the fair market value of the home at the time of discharge or demonstrate how the capital appreciation amount was calculated.

Understanding why loans are repaid will help ensure funding is used for its intended purpose

When homes are sold or the loans are repaid within a short time frame after closing, it raises questions as to:

- whether the recipients needed government-funded assistance to be able to afford home ownership;
- whether the home ended up being unaffordable for the loan recipient;
- whether the recipients intended for the home to be their principal residence for an extended period.

By understanding why loans are discharged, the City can better ensure that Program funding is used for its intended purpose.

Pursuing Ways to Keep Homes Affordable After Resale

Creating ongoing affordability has been a housing objective for over a decade

In almost all cases, once a purchaser sells a home acquired with assistance from the Program, the individual unit is no longer available as affordable housing.

In its Housing Opportunities Toronto Affordable Housing Action Plan for 2010-2020, the City considered preserving ongoing affordability for ownership homes by seeking provincial authority to use a covenant that would keep these homes perpetually affordable from one eligible purchaser to the next. Additionally, in 2016, City Council requested that the Housing Secretariat initiate a conversation with affordable home ownership providers to explore opportunities to expand long-term affordability.

City should explore mechanisms to support ongoing affordability

Most recently in 2018, through its comments on the proposed changes to inclusionary zoning legislation, the City requested that the Province amend the legislation to allow municipalities to impose positive covenants to maintain ongoing affordability on resale.

Regardless, there are other non-legislative tools that the City can use to support ongoing affordability. Only one proponent reported that they provide ongoing affordability after resale. They facilitate this by placing restrictions on resale that give the proponent the right to require owners to sell to other eligible purchasers. When owners repay their Program loans, these funds are used to provide loans for subsequent eligible purchasers of the same unit.

Resale price restricting covenants can support keeping a stock of perpetually affordable housing

“A Guide for Canadian Municipalities for the Development of a Housing Action Plan” prepared for the CMHC¹⁷, highlighted that resale price restrictions on non-market homes are a way to ensure that the prices of units retain affordability over time. The guide suggested housing organizations or local governments can register price restricting covenants on the title of units at the time of first sale to qualified buyers.

Buyers are selected from the top of a wait-list generated from pre-qualified individuals and families who meet the eligibility criteria of the Program. Purchasers agree to sell their homes for a specific amount below market value or to realize appreciation in value tied to a set rate. Some local governments or housing organizations facilitate the purchase and sale of all units within the pool of price-restricted housing.

Some jurisdictions use resale restrictions to promote long-term affordability

Some American jurisdictions have implemented resale price restrictions on affordable ownership housing for a set period of time. For example the Hawaii Housing Finance and Development Corporation's (HHFDC) program allows eligible and qualified applicants to purchase homes at below market pricing. Applicants are required to occupy the unit as their primary residence for at least ten years. The buyback program allows the HHFDC the first right to purchase the unit back in the event the owner can no longer occupy the unit or chooses to sell or transfer the unit in the first ten years of ownership. If the purchaser decides to sell the property within the first ten years, they will only get one per cent appreciation plus any improvements they have made to the property.

Recommendations:

- 1. City Council request the Executive Director, Housing Secretariat, in collaboration with the General Manager, Shelter Support and Housing Administration Division to:**
 - a. develop mechanisms to assess the outcomes of the affordable home ownership program, including the extent to which the program is effectively contributing towards the City's housing priorities.**

In doing so, the Housing Secretariat should also review and implement the relevant outstanding recommendations from its 2012 study.

¹⁷ “A Guide for Canadian Municipalities for the Development of a Housing Action Plan” prepared for the CMHC. [Link to CMHC Guide](#)

- b. consider and recommend enhancements or adjustments to the affordable home ownership program and / or level of funding, if outcomes are not being effectively achieved through the program in its current form.
- 2. City Council request the Executive Director, Housing Secretariat to define the targeted level of housing affordability it aims to provide through its affordable home ownership program and give consideration to:
 - a. aligning the definition with other municipal / provincial definitions;
 - b. setting limits on gross debt service ratios for eligibility;
 - c. establishing maximum purchase price limits, that are at or below the average market values for that unit type / size and that will support the City's desired level of affordability.
- 3. City Council request the Executive Director, Housing Secretariat to analyze the extent to which the affordable home ownership program has helped households in purchasing homes that are affordable to them (i.e. whether or not loan recipients meet the targeted level of housing affordability). This analysis should, in turn, be considered when assessing the overall impact of funding on the achievement of housing objectives and outcomes.
- 4. City Council request the Executive Director, Housing Secretariat to confirm that the information households provide for loan eligibility purposes is consistent with what they submit to their third-party lenders, who assess whether the purchasers can carry the cost of ownership when approving them for a primary mortgage.

This will help better assess if they have included all income and asset sources, particularly where they appear to have exceeded the targeted level of housing affordability.

5. City Council request the Executive Director, Housing Secretariat to pursue measures related to ongoing affordability that the City should implement. This could include:
 - a. pursuing legislative changes for ongoing affordability, outside of the Planning Act (i.e. to allow the City to enter into housing agreements with ongoing affordability conditions like tenure of housing and resale price restrictions that can be registered on title).
 - b. considering other non-legislative options to offer ongoing affordability, including exercising option to purchase terms on resale.
6. City Council request the Executive Director, Housing Secretariat to:
 - a. require proponents to track and report the reasons why loan discharges and / or unit resales have occurred. This information should be used when assessing the overall impact of funding.
 - b. obtain and review calculations and supporting documents for loan and capital appreciation repayments to the City to ensure amounts calculated by proponents and repaid to the City are accurate and reasonable.

B. Supporting Program Intent by Strengthening Program Design

Eligibility criteria can be better aligned with Program goals

Although the City's HousingTO Action Plan aims to encourage low and moderate-income renters to become homeowners, the Program's design and eligibility criteria do not always appear to reinforce these desired outcomes.

In light of limited funding for initiatives that create, preserve, and maintain housing affordability, the City should ensure that the Program's design supports the City's objectives to prioritize lower-income households and others who are in most need of stable, good quality, safe, affordable housing.

B. 1. Prioritizing Affordable Home Ownership Based on Need

Access to affordable home ownership assistance is through one of several private or non-profit developers.

There is no central access point to new affordable home ownership housing units created across the City. People seeking affordable home ownership assistance must purchase a home and apply for assistance directly through one of several proponents. Affordable homeownership opportunities are not always available on an ongoing basis, only when the City partners with proponents to offer opportunities at specific developments.

Loans are often granted on a first-come, first serve basis

Although provincial guidelines for affordable home ownership funding encourage service managers to address groups including seniors, persons with disabilities, first-time homebuyers, new immigrants, single parent households, and households with dependents, the City has generally not included these in its Program requirements. Many proponents offered Program loans on a first-come, first serve basis instead of housing necessity or financial need.

Where demand exceeds supply, the City should determine how to prioritize households

Purchaser demand for opportunities in specific developments can vary. However, in cases where the demand amongst eligible purchasers exceeds supply, the City should determine how to best prioritize the selection of households. Collecting applicant data relating to specific developments, (i.e. how many households applied for /expressed interest in opportunities at that development, and if they belonged to any of the City's priority groups) will help the City in setting these priorities for future developments.

In the delivery agreements we reviewed, the City provided proponents with a set amount of funding for their developments. Proponents were generally only required to issue loans based on the limits set out in their delivery agreements¹⁸ and not with the view of achieving a certain level of affordability based on the household's income or need.

Guidelines on how to allocate funding based on need or prioritization will help support Program objectives

We noted that there were no formal guidelines on how to allocate funding amongst applicants based on need or prioritization. For example, one household who reported income of less than \$20,000 was approved for over \$80,000 in loan funding; another household who reported earning approximately \$88,000 was approved for a slightly higher loan amount. Both loan recipients purchased similar sized units and reported having the same household composition.

¹⁸ Individual loans are funded from municipal, provincial and/or federal sources. While funding guidelines restrict the amount of provincial / federal funding that can be loaned to each household, the City can decide how much municipal funding it allocates per loan.

Sliding scale for allocating assistance can support prioritizing households in greater need

We recognize that individual loan limits are a tool to help ensure the City can help as many households as possible. However, by considering the use of a sliding scale (i.e. allocating funding based on income or other criteria), the City can better tailor loan amounts and help prioritize households who need assistance the most.

B. 2. Strengthening Eligibility Requirements for Affordable Home Ownership Opportunities

Enhancing program requirements to better ensure recipients meet the spirit of the Program

Some approved applicants of Program loans met the City's eligibility requirements set out in delivery agreements (see Exhibit 1 for a summary of key requirements), but certain factors suggest these files were not aligned with the spirit of the Program. Table 2 below describes the indicators we observed in our review of loan files and their impact on the Program.

Table 2: Indicators That Program Intent May Not Always Be Met

Indicator	Impact on Program	Examples
Significant Assets	<p>Some loan applicants appeared to have significant assets. In some cases, they used these assets to fund large down payments of 20 per cent or more of the unit purchase price and /or to cover unit upgrades.</p> <p>There are currently no restrictions on household assets, other than that the applicant and / or their spouse cannot own / have an ownership interest in a home. Several other jurisdictions in Ontario limit the value of assets that eligible purchasers can hold, including the receipt of gifts.</p>	<p>One applicant who reported an annual income of over \$52,000 received over \$70,000 in loan funding (\$25,000 from the City and approximately \$45,000 from the proponent) towards the purchase of a home priced at almost \$375,000. This applicant was able to make a down payment of almost \$159,000 (approximately 42% of the unit purchase price) in addition to the loan funding they received.</p>
Incomes That May Increase After Applying	<p>The Program only considers income at the time when the household is applying for the loan. Yet loan recipients include students and those in trainee positions with future earning potential.</p> <p>In these circumstances, the City's assistance may just bring forward purchases for those who would have become home owners anyway, assuming their incomes increase.</p>	<p>A household reported their total household income was approximately \$79,000 at the time of application. One household member reported being employed in a short-term summer student position.</p> <p>We conducted an open source search which indicated that the loan recipient graduated from a post-secondary institution the same year they applied for assistance, and is working what appears to be a full-time position. Their combined household income shortly after purchase, but before the unit closed, may have exceeded the income eligibility thresholds for the Program.</p>

Indicator	Impact on Program	Examples
Non-Toronto resident applicants	<p>Some applicants reported they were not residents of Toronto. The HousingTO Action Plan indicates that a Program goal is to create affordable housing opportunities for <i>residents [of Toronto]</i>. When non-resident applicants purchase affordable units, the City is not meeting its objective of freeing up rental housing within Toronto.</p> <p>Several jurisdictions in Ontario and Canada require applicants to have lived in the jurisdiction for a period of time prior to applying.</p>	Applicants reported living in Mississauga, Richmond Hill, London and other regions outside Toronto.

Strengthened Program guidelines are needed

Strengthening Program guidelines will help the City prioritize funding for those households in most need of assistance and support housing objectives for the Program.

Recommendations:

7. City Council request the Executive Director, Housing Secretariat to pursue changes to affordable home ownership program requirements that will support prioritization of affordable home ownership opportunities and funding based on local needs and City priorities. In setting priorities, the City should consider collecting data on the types of applicants who applied to / expressed interest in opportunities at affordable home ownership developments.

In doing so, the Housing Secretariat should consult with key stakeholders, including proponents, and consider best practices from other jurisdictions to ensure any changes support intended program outcomes.

8. City Council request the Executive Director, Housing Secretariat to implement enhanced program guidelines to ensure loan recipients meet the spirit of the affordable home ownership program. This may include:
 - a. limits on assets. This should consider purchasers' bank and investment balances and the amount of personal funds available to pay for deposits, down payments and /or upgrades.

- b. a minimum number of years where applicants must demonstrate they meet income requirements. Income documentation should be as current as possible to reflect applicants' true financial pictures at the time of application.

Income requirements should also consider and address circumstances where there are changes to household composition or income after the time of application.

- c. restrictions on residency, whereby applicants who are currently living in Toronto prior to applying are prioritized.

In enhancing guidelines, the Housing Secretariat should consult with key stakeholders, including proponents, and consider best practices from other jurisdictions to ensure any changes best support intended program outcomes.

C. Promoting Consistent and Impactful Outcomes through Enhanced City Oversight

City is accountable for ensuring the Program is meeting its objectives

The City has delegated responsibility for administering its Program to third-party proponents. They are responsible for administering the Program in accordance with the terms of their delivery agreements. Despite this, the City ultimately remains accountable for any responsibilities it has delegated, even if it does not perform these functions itself. Historically, the Program has received significant funding from the provincial / federal governments. As a condition of this funding, the City retains all responsibility for the delivery of the Program, even if it engages third party delivery agencies or providers.

To ensure the Program is meeting its intended objectives, the City needs to demonstrate strong oversight and clear and effective guidance.

C. 1. Enhancing Monitoring to Support Achievement of Program Targets

City's affordable ownership housing target for 2010-2020 has not been met

As described in Section A of this report, the Housing Secretariat's primary measure of the Program's success is the number of affordable home ownership opportunities created. Using this measure, the Program is not fully meeting its target. The City's Housing Opportunities Toronto Affordable Housing Action Plan for 2010-2020 targeted enabling 2,000 new affordable home ownership opportunities over ten years. During this same period, the Housing Secretariat reported the creation of approximately 1,280 opportunities, about 65 per cent of its target.

Proponents not always achieving targets

Many delivery agreements noted that proponents were required to deliver "up to" a certain amount of loans, but did not specify an exact number. We found that proponents were not always achieving those targets. For example, a proponent was allocated funding for up to 61 affordable ownership housing units at one development. Ultimately, the proponent only reported providing 33 loans using Program funding, approximately 55 per cent of its target.

Of the ten developments in our sample where legal closing had occurred at the time of our audit, data provided by the Housing Secretariat indicated that five had not issued the expected number of loans¹⁹, achieving on average, 70 per cent of their targets.

Unused and declined funding could be used to help other households in need

While the remaining developments we reviewed as part of our audit had not yet sold all units and/or legal closing had not yet occurred, it appeared that some proponents were facing challenges in reaching their targets.

For example, one proponent indicated that 16 of 50 purchasers who had applied and been deemed eligible for Program loans in 2016, subsequently decided to drop out of the Program and declined funding. Almost all of these purchasers declined the funding in 2020 when the proponent reached out to them to confirm their continued interest in the program. Proponents are not required to track and report the reasons why approved applicants decline loan funding. The City could use this information to assess if Program changes are needed (i.e. to strengthen eligibility guidelines).

More timely intervention from City could help ensure funding is better used

Proponents that are unable to provide the agreed upon number of affordable home ownership opportunities impact the City's ability to reach its affordable home ownership target. Most proponents were required to submit quarterly reports outlining sales activity and progress to the Housing Secretariat. We found that some proponents did not submit the reports as required. With more timely intervention, the City could better ensure that proponents are on track to meet Program targets.

Proactive monitoring can help optimize the timing of when funding is returned to the City

Furthermore, unallocated loan funding can effectively amount to an interest-free loan to the proponent. Some delivery agreements allowed proponents to receive municipal funding early in the development process. Management indicated that this was typically to support non-profit proponents with up-front development costs.

¹⁹ Based on either delivery agreement terms or the City Council approved staff report.

While proponents were still required to use these funds for issuing loans, in some cases, they were not able to reach their targets and use all the funding for this purpose. Given that proponents were not required to return the funds to the City until, in some cases, several years after receipt, this impacted the timeliness with which the City could have redirected those funds to other housing opportunities and priorities.

We recognize that some non-profit proponents may require support during the development stage. However, the City should better monitor to ensure the timely return and reallocation of funds.

Example: Unallocated Loan Funding Remains Unused

One proponent was advanced over \$4.1 million in municipal funding in 2017. The development target was up to 102 Program loans. As of May 2020, the proponent indicated that it had only reached 87 loans and would not be able to issue any additional loans with the remaining Program funding. According to their delivery agreement, unallocated loan funding of almost \$400,000 does not need to be returned until 30 days after all loans for the development have been registered on title. This is estimated to occur in 2021.

A similar sized loan, issued by a commercial lender over the same term, would likely incur over \$20,000 in interest. By way of contrast, the City's Shelter, Support and Housing Administration Division could provide 20 households a portable housing allowance of \$500/month for the same period of time using that amount of unallocated loan funding and interest.

Setting and monitoring reasonable targets will help ensure optimal use of Program funding

To ensure the optimal use of Program funding, the City needs to ensure that it is setting reasonable targets and sufficiently monitoring proponent's actions. The City should take timely action to address any potential shortfalls or challenges in delivering the expected number of affordable home ownership opportunities.

Achieving targets should be balanced with other Program outcomes

The City should also balance achieving targets with other Program outcomes – primarily the level of affordability it wants to provide for households. In many of the delivery agreements that we reviewed, targets were based on the number of loans issued and did not contemplate providing a targeted level of affordability.

Resultantly, even if proponents are able to achieve their contracted targets, this does not necessarily mean all participating households will be able to achieve affordability. In setting Program targets, the City should consider the level of affordability it aims to provide and the loan amounts that households will require to achieve this outcome.

Recommendation:

9. City Council request the Executive Director, Housing Secretariat to:

- a. ensure future affordable home ownership program delivery agreements are clear on the number of modest units at affordable prices proponents are expected to provide. Targets should reflect the level of affordability the City intends to create and the amount of loan funding allocated to the development should support this objective.
- b. improve monitoring of proponent sales of affordable units and issuance of loans in order to more proactively address challenges in creating the expected number of affordable home ownership opportunities. Where proponents do not achieve targets, the City should assess the root causes and determine if program adjustments are required as part of its overall program evaluation.
- c. improve the timeliness with which unused funding for affordable home ownership loans is returned to the City so that it can be made available to better support other housing opportunities and priorities.

C. 2. Enhancing City Guidance and Review of Loan Files Would Support More Consistent Outcomes

Stronger oversight of proponent activities will help strengthen the Program

In the loan files we reviewed, we identified some files that were not compliant with delivery and funding agreement requirements. This included instances where documentation was missing or incomplete. For example, annual occupancy checks were not consistently performed to ensure loan recipients continued to occupy their units as their primary residences, and home ownership education requirements were not always met.

While the City receives copies of each loan application and supporting documents used to determine eligibility, these issues emphasize the need for more active City oversight of proponents administering the Program.

**Good quality information
will support more effective
Program evaluation**

We also observed that while some proponents are required to provide semi-annual reports on the status and details of all loans issued (e.g. loan amounts, purchase prices, names of purchasers, etc.), there were many cases where the information was inaccurate or inconsistent with other source documents. Reports also did not capture the value of additional loans / support provided by some proponents in addition to City assistance. The Housing Secretariat relies on proponents to keep reporting up-to-date and accurate.

To conduct an effective and fulsome Program evaluation as highlighted in Section A of this report, the Housing Secretariat should ensure that proponents are providing accurate and good quality information.

**Enhancing guidance
would promote more
consistent proponent loan
administration**

Furthermore, the City can support more effective and consistent performance of delivery agreement requirements by enhancing guidelines around how proponents assess eligibility and carry out Program responsibilities. For example, while delivery agreements list basic eligibility and unit criteria, in some cases, criteria are broad and the City does not provide application guidance beyond the terms of the delivery agreement. There is also no guidance on what actions proponents should take if they note discrepancies between documents submitted to support eligibility.

In the absence of additional, clear and practical guidance, proponents are inconsistently interpreting and applying Program and delivery agreement requirements. The City should provide enhanced guidance to proponents so that they are better equipped to fulfill their obligations and ensure that they provide assistance to eligible households.

We identified areas where the City can enhance and clarify delivery agreement terms. The Auditor General will issue a separate letter to management providing more details and recommendations regarding these instances, along with other less significant issues relating to the Program that came to our attention during this audit.

Recommendations:

10. City Council request the Executive Director, Housing Secretariat to implement a formally documented review process to ensure that:

- a. all applicant, unit eligibility, ongoing occupancy and other delivery agreement requirements for the affordable home ownership program have been met. Loan files should be reviewed for any discrepancies between documents (i.e. to ensure information reported between documents is consistent) and appropriate follow-up action, in collaboration with proponents, should be taken to ensure eligibility requirements have been met.**
- b. information provided by proponents on semi-annual reports is accurate and consistent with loan files submitted. To allow for effective program evaluation, reports should capture all loan sources, including amounts provided directly by proponents.**

11. City Council request the Executive Director, Housing Secretariat to:

- a. provide enhanced guidance on how proponents should validate and document that income, legal status, residential tenancy and other delivery agreement requirements for the affordable home ownership program have been met (i.e. what documents to obtain and review).**
- b. provide guidance on what proponents should be looking for when reviewing eligibility documentation and how to properly document and follow-up on any discrepancies noted.**

Conclusion

Affordable home ownership can have benefits but City should ensure they are being realized

The City, as service manager, has the flexibility to select how to allocate provincial / federal funding for housing based on local needs and priorities. The City should do this with the view of prioritizing programs and services that will have the greatest positive impact on the housing needs of its residents.

City should consider the optimal allocation of limited funding

The City's affordable home ownership program (the "Program") is part of its response to addressing housing needs in Toronto. The City should evaluate the extent to which it is achieving its intended benefits. Where the Program in its current form is not fully realizing its objectives, the City should adjust the Program. Alternatively or additionally, City Council should consider if changing the Program presents opportunities to better prioritize and allocate funding to support the City's initiatives across the housing spectrum.

Our audit makes eleven recommendations that position the Housing Secretariat to be able to refresh how it manages the Program to achieve the results intended by City Council. It identifies ways they can strengthen accountability and deliver on their objectives and expected outcomes for providing good quality, safe, affordable housing to households in need.

Audit Objectives, Scope and Methodology

Auditor General's Fraud and Waste Hotline received a complaint

In 2019, the Auditor General's Fraud and Waste Hotline received a complaint about a development that was included in the City's affordable home ownership program (the "Program"). The complainant alleged that the proponent issued loans to recipients ineligible for funding, including employees of the proponent and other non-arm's length parties. In addition, the complainant alleged that some applications concealed total household income and other financial information to obtain loan funding.

In response to this complaint, the Auditor General's Office conducted a review of a sample of Program loans, the majority of which were issued in 2010, in order to assess compliance with Program requirements at that time. We discuss the results of that review in Exhibit 3.

Audit included in the 2020 work plan

Subsequently, a review of the City's administration of affordable housing programs was included in the Auditor General's 2020 Work Plan. This review may be comprised of multiple phases or audits focused on different affordable housing programs and services that the Housing Secretariat oversees. This first audit focused on the administration and delivery of the affordable home ownership program.

Audit focuses on the value of the Program

The objective of this audit was to determine whether the Housing Secretariat has put in place appropriate practices and controls to oversee the Program and ensure the City is effective in achieving its goals and outcomes for the Program.

In our audit, we looked to answer the following questions:

- Was the Program structured in a way that effectively moved the City forward in achieving the outcomes expected for the Program?
- Was the Housing Secretariat monitoring the allocation and use of funding by proponents to make sure funding was being distributed in accordance with Program requirements?
- Were recipients of affordable home ownership loans eligible and did they meet the intended Program objectives?
- Was Program guidance and administration sufficient to allow proponents and the City to effectively and efficiently execute Program responsibilities?

Scope	<p>This audit focused on the period from 2010 to 2020. Not all real estate transactions for the units we reviewed had closed at the time the audit was completed. Where relevant to our audit, we examined certain records and data outside of this period.</p>
Audit methodology	<p>Our audit work included the following:</p> <ul style="list-style-type: none"> • Review of City by-laws and relevant legislation • Review of provincial / federal program guidelines and transfer / payment agreements • Interviews with staff from: <ul style="list-style-type: none"> ○ Housing Secretariat ○ Build Toronto/CreateTO ○ Legal Services ○ Proponents administering the Program • Analysis of Program loan data provided by the Housing Secretariat and its proponents • Review of delivery agreements as well other documentation retained by the City and its proponents relating to approved and issued loan files. For units where the real estate transactions had closed, this generally occurred between 2014 and 2020 • Research and benchmarking with other jurisdictions, including review of their affordable home ownership policies and procedures
Limitations to our audit	<p>Our findings and conclusions were based on the loan information and data provided by the Housing Secretariat and its proponents at the time the audit was completed. Although our report includes information provided by the Housing Secretariat, in some cases, we were unable to verify the accuracy and completeness of reported information because of weaknesses in the Housing Secretariat's validation and oversight of proponent reporting.</p> <p>In particular, we are unable to provide assurance on the overall statistical information such as total number of loans issued, total dollar value of loans provided, loan recipient information as reported by the Housing Secretariat and its proponents. Our conclusions are also based on information available in the City and proponents' loan files which in some cases may be incomplete.</p>
Compliance with generally accepted government auditing standards	<p>We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.</p>

Exhibit 1: Purchaser and Unit Eligibility Criteria

The following are the main purchaser and unit eligibility criteria contained within delivery agreements. Given the evolution of delivery agreements over the last ten years, not all delivery agreements contain the same criteria.

Purchaser Eligibility

- Must be 18 years of age and a legal, permanent resident of Canada
- Purchaser cannot own / have an ownership interest in a home or be living in a spousal relationship with someone who owns / has an ownership interest in a home
- Must be vacating a residential tenancy
- Must agree to occupy the unit as their principal residence while purchaser owns unit
- Total household annual income of all members of the individual's household cannot exceed, at the time of application, the lesser of the 60th percentile of income for the City of Toronto or the Province of Ontario. For the files we reviewed, the maximum income limits ranged from \$78,200 to \$96,000
- Must be purchasing an eligible unit (see "Unit Eligibility" below)
- Individual agrees to obtain their own primary financing for the purchase of the eligible unit

Unit Eligibility

- Must be a detached, semi-detached, town (condominium and freehold), a stacked home, a row house or an apartment
- Must not have been previously occupied and the Ontario New Home Warranties Plan Act must apply to it
- Original purchase price must be at or below the average price of a resale home in the City of Toronto as defined by the Ministry of Municipal Affairs and Housing. For the files we reviewed, the maximum purchase price limit ranged from \$480,127 to \$866,122 over a period of almost ten years

Exhibit 2: Definitions of Affordable Home Ownership

Source	Definition
Current City Official Plan	<p>The current City of Toronto Official Plan defines affordable ownership as housing that is priced at or below an amount where the total monthly shelter cost equals the average City of Toronto rent, by unit type as reported annually by the Canada Mortgage and Housing Corporation.</p> <p>Shelter costs include mortgage principal and interest – based on a 25-year amortization, ten per cent down payment and the chartered bank administered mortgage rate for a conventional five-year mortgage as reported by the Bank of Canada at the time of application – plus property taxes calculated on a monthly basis.</p>
Draft City Official Plan Amendment	<p>The City has developed the following revised definition of affordable home ownership to be included as part of proposed amendments to the Official Plan:</p> <p><i>Affordable ownership housing is housing which is priced at or below an amount where the total monthly shelter cost (see Current City Official Plan above) does not exceed 30 percent of gross annual income for households within the moderate income range, defined as the 30th to 60th income percentiles, depending on unit size. More specifically:</i></p> <p><i>(1) bachelor units must be affordable to households with incomes no higher than the 30th percentile;</i> <i>(2) one bedroom units must be affordable to households with incomes no higher than the 40th percentile;</i> <i>(3) two bedroom units must be affordable to households with incomes no higher than the 50th percentile; and</i> <i>(4) three bedroom units must be affordable to households with incomes no higher than the 60th percentile.</i></p>
2020 Provincial Policy Statement	<p>Defines affordable ownership as the least expensive of:</p> <ul style="list-style-type: none"> • housing for which the purchase price results in annual accommodation costs which do not exceed 30 percent of gross annual household income for low and moderate income households; or, • housing for which the purchase price is at least ten percent below the average purchase price of a resale unit in the regional market area.

Exhibit 3: Preliminary Review of Loans Based on Fraud and Waste Hotline Complaint

In 2019, the Auditor General's Fraud and Waste Hotline received a complaint about a development that was included in the City's affordable home ownership program (the "Program"). The complainant alleged that the proponent issued loans to recipients ineligible for funding, including employees of the proponent and other non-arm's length parties. In addition, the complainant alleged that some applications concealed total household income and other financial information to obtain loan funding.

In response to this complaint, the Auditor General's Office conducted a review of a sample of Program loans, the majority of which were issued in 2010. These were granted at a time when Program loans were forgivable after 20 years. Given the age of the files in question, there was limited documentation available for us to review. This work was completed prior to initiating our audit and provided preliminary insights that assisted with audit planning and fieldwork.

Although we performed a significant amount of work and engaged a forensic firm to conduct a review of the files, we were unable to conclude as to whether there was wrongdoing because of the age of the files and challenges in obtaining historical information. However, we will be issuing a separate letter to management identifying concerns with specific loan files for further review and action, if needed. We performed sufficient work to conclude that some observations we noted in the review of these old files were also evident in the more current sample of loan files we reviewed as part of our current audit. These ongoing issues highlight a need for greater and continuing oversight and/or additional guidance to ensure that the Program is more effectively designed to provide loans for those households in need. This was the focus of our audit.

Table 3: Summary of Issues Noted

Observation	Issue Noted During Current Audit
Some loan files did not have complete income documentation on file or there were inconsistencies with the documentation provided	✓
Student applicants/recent graduates who met income eligibility criteria at the time of loan approval, but may soon exceed these income limits	✓
Lack of documentation to support units were being used as the loan recipients' primary residences. In some cases, loan recipients purchased a second property after receiving Program funding which drew into question which property was their primary residence	✓
Units sold or loans discharged less than five years after purchase	✓
Power of attorney used which may indicate that the applicant may not actually be the true purchaser	
Applicants who provided down payments over 20 percent of purchase price, suggesting they had access to significant personal assets	✓
Applicant where there appeared to be a potential conflict of interest. For example, one purchaser appeared to be the child of a proponent's director	
Applicant who had ownership interest in properties prior to receiving a loan	

The work performed in relation to the complaint does not constitute an audit conducted in accordance with generally accepted government auditing standards. However, we believe we have performed sufficient work that the evidence obtained provides a reasonable basis for our findings on the loan files as summarized in Table 3 above.

Appendix 1: Strengthening Accountability and Outcomes for Affordable Housing: Understanding the Impact of the Affordable Home Ownership Program

Recommendation 1: City Council request the Executive Director, Housing Secretariat, in collaboration with the General Manager, Shelter Support and Housing Administration Division to:

- a. develop mechanisms to assess the outcomes of the affordable home ownership program, including the extent to which the program is effectively contributing towards the City's housing priorities.

In doing so, the Housing Secretariat should also review and implement the relevant outstanding recommendations from its 2012 study.

- b. consider and recommend enhancements or adjustments to the affordable home ownership program and / or level of funding, if outcomes are not being effectively achieved through the program in its current form.

Management Response: <input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree
Comments/Action Plan/Time Frame: Program assessments are critical public policy exercises and will be incorporated in future affordable home ownership program delivery. The City is in the process of reviewing its organizational structure and the way it plans and delivers housing programs and services. Under the new HousingTO 2020-2030 Implementation Plan the City will identify opportunities for efficiencies, enhance service delivery and ultimately, improve service to the public. The Implementation Plan provides the Housing Secretariat with a timely opportunity to review and assess the affordable ownership program. Over the coming year the Housing Secretariat will review the current affordable ownership program's effectiveness vis-à-vis City housing priorities. The review will include collaboration and consultation with the City's program delivery partners in the non-profit and private housing sectors, the federal and provincial governments and other affordable housing stakeholders. Revisiting the recommendations of the 2012 study is also supported. The Housing Secretariat, in partnership with the proponents delivering the Program on behalf of the City, have implemented on-going Program refinements and improvements to gradually evolve the Program over more than a dozen years. The City audit process, and the HousingTO 2020-2030 Implementation Plan, provide the opportunity to take another major step forward in developing the Program with a spirit of continuous improvement. The HousingTO Implementation Plan includes annual update reports to Council. These reports will provide the opportunity to "change course" on the affordable ownership program, and if necessary, redesign the Program, adjust funding levels and/or make reallocations to other City priorities across the housing spectrum.

Recommendation 2: City Council request the Executive Director, Housing Secretariat to define the targeted level of housing affordability it aims to provide through its affordable home ownership program and give consideration to:

- a. aligning the definition with other municipal / provincial definitions;
- b. setting limits on gross debt service ratios for eligibility;
- c. establishing maximum purchase price limits, that are at or below the average market values for that unit type / size and that will support the City's desired level of affordability.

Management Response: <input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree
Comments/Action Plan/Time Frame: Exploring affordability measures such as a maximum gross debt service ratio, minimum incomes for Program loan recipients and further refinements to home price limits are supported. These factors represent potential opportunities for improved consumer protections to ensure that lower-income households receiving loan funding are not financially over-extended or at risk of default on their home payments. It is noteworthy that maximum home price and income limits were adjusted based on unit and household size in the most recent iteration of the City's Program. The City will soon be consulting the public and stakeholders on the Official Plan definition of affordable ownership housing. This consultation is being managed by City Planning under the proposed inclusionary zoning framework. The future Official Plan definition will be considered vis-à-vis Program implementation. Program guidelines to address the above will be considered in the Program review under the HousingTO 2020-2030 Implementation Plan.

Recommendation 3: City Council request the Executive Director, Housing Secretariat to analyze the extent to which the affordable home ownership program has helped households in purchasing homes that are affordable to them (i.e. whether or not loan recipients meet the targeted level of housing affordability). This analysis should, in turn, be considered when assessing the overall impact of funding on the achievement of housing objectives and outcomes.

Management Response: <input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree
Comments/Action Plan/Time Frame: In collaboration with the City's Program delivery partners, the Housing Secretariat will analyze the effectiveness of the Program in assisting those who could not otherwise afford to purchase a home, and whether the carrying cost of the home is affordable to them. The Program assessment during the coming year under the HousingTO Implementation Plan will also review measures to determine whether the Program is meeting the City's broader housing objectives.

Recommendation 4: City Council request the Executive Director, Housing Secretariat to confirm that the information households provide for loan eligibility purposes is consistent with what they submit to their third-party lenders, who assess whether the purchasers can carry the cost of ownership when approving them for a primary mortgage.

This will help better assess if they have included all income and asset sources, particularly where they appear to have exceeded the targeted level of housing affordability.

Management Response: <input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree
Comments/Action Plan/Time Frame: The Housing Secretariat supports the recommendation that loan applicants should fully disclose all sources of income and concurs that high debt service ratios may represent a financial risk to loan recipients or indicate that not all household income has been accounted for. The Secretariat will review the proposed Program modification in consultation with the proponents delivering the Program on behalf of the City, under the HousingTO Implementation Plan during 2020/21.

Recommendation 5: City Council request the Executive Director, Housing Secretariat to pursue measures related to ongoing affordability that the City should implement. This could include:

- a. pursuing legislative changes for ongoing affordability, outside of the Planning Act (i.e. to allow the City to enter into housing agreements with ongoing affordability conditions like tenure of housing and resale price restrictions that can be registered on title).
- b. considering other non-legislative options to offer ongoing affordability, including exercising option to purchase terms on resale.

Management Response: <input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree
Comments/Action Plan/Time Frame: Long-term affordability that is attached to an individual housing unit and passes from one home owner to the next over time is a long-standing City policy goal that has been challenging to implement under Ontario real estate law. Through the proposed review of the affordable ownership program, the Housing Secretariat will explore options for both legislative changes to enable legal mechanisms for on-going affordability and Program delivery approaches administered by proponents that manage the resale of units to maintain their affordability.

Recommendation 6: City Council request the Executive Director, Housing Secretariat to:

- a. require proponents to track and report the reasons why loan discharges and/or unit resales have occurred. This information should be used when assessing the overall impact of funding.
- b. obtain and review calculations and supporting documents for loan and capital appreciation repayments to the City to ensure amounts calculated by proponents and repaid to the City are accurate and reasonable.

Management Response: <input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree
Comments/Action Plan/Time Frame: Data collection on reasons for home sales and loan pre-payments (loan discharges prior to the sale of the home) have begun in recent years through updates to Program reporting requirements. The Housing Secretariat supports collecting additional and more qualitative information for improved program evaluation purposes. Loan and capital appreciation calculations are performed by the non-profit loan administrators under contract to the City and verified by Housing Secretariat and Social Development, Finance and Administration, Accounts Receivable staff. The Housing Secretariat supports any improvements to the collection, standardized review and verification of calculations and all associated documentation. The above will be considered during the proposed Program review over the following year.

Recommendation 7: City Council request the Executive Director, Housing Secretariat to pursue changes to affordable home ownership program requirements that will support prioritization of affordable home ownership opportunities and funding based on local needs and City priorities. In setting priorities, the City should consider collecting data on the types of applicants who applied to / expressed interest in opportunities at affordable home ownership developments.

In doing so, the Housing Secretariat should consult with key stakeholders, including proponents, and consider best practices from other jurisdictions to ensure any changes support intended program outcomes.

Management Response: <input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree
Comments/Action Plan/Time Frame: The Housing Secretariat will review additional potential eligibility criteria based on City priority population groups and housing priorities. This will be undertaken in consultation with affordable home ownership proponents and stakeholders during the proposed HousingTO Implementation Plan Program review during 2020/21.

Recommendation 8: City Council request the Executive Director, Housing Secretariat to implement enhanced program guidelines to ensure loan recipients meet the spirit of the affordable home ownership program. This may include:

- a. limits on assets. This should consider purchasers' bank and investment balances and the amount of personal funds available to pay for deposits, down payments and /or upgrades.
- b. a minimum number of years where applicants must demonstrate they meet income requirements. Income documentation should be as current as possible to reflect applicants' true financial pictures at the time of application.

Income requirements should also consider and address circumstances where there are changes to household composition or income after the time of application.

- c. restrictions on residency, whereby applicants who are currently living in Toronto prior to applying are prioritized.

In enhancing guidelines, the Housing Secretariat should consult with key stakeholders, including proponents, and consider best practices from other jurisdictions to ensure any changes best support intended program outcomes.

Management Response: <input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree
Comments/Action Plan/Time Frame: Asset and deposit limits are supported as a reasonable extension of Program income limits and will be considered during the proposed Program review over the following year. The feasibility of implementing household income limits over multiple years will also be analyzed and consulted on. Program procedures have been clarified so that any household composition changes that result in an increase in total household income prior to the closing of a sale involving loan funding now require a re-evaluation of the application under the Program's maximum household income limits. Prioritizing or restricting Program eligibility to current residents of Toronto is supported in the interests of both focusing Program support on Torontonians and freeing up rental housing in the City.

Recommendation 9: City Council request the Executive Director, Housing Secretariat to:

- a. ensure future affordable home ownership program delivery agreements are clear on the number of modest units at affordable prices proponents are expected to provide. Targets should reflect the level of affordability the City intends to create and the amount of loan funding allocated to the development should support this objective.
- b. improve monitoring of proponent sales of affordable units and issuance of loans in order to more proactively address challenges in creating the expected number of affordable home ownership opportunities. Where proponents do not achieve targets, the City should assess the root causes and determine if program adjustments are required as part of its overall program evaluation.
- c. improve the timeliness with which unused funding for affordable home ownership loans is returned to the City so that it can be made available to better support other housing opportunities and priorities.

Management Response: ☒ Agree ☐ Disagree

Comments/Action Plan/Time Frame:

Improved targeting on the level of affordability the City intends to create for purchasers, with commensurate guidance on individual loan amounts, are supported. All Program Delivery Agreements currently provide a target number of loans to be delivered, as well as a maximum funding allocation, however, improved monitoring of effective loan delivery during the sales process is supported, along with improved data collection and Program analysis and modifications should proponents not successfully meet targets. It is worth noting that to better align the affordability of the home with household size, the maximum home price and household income limits were adjusted based on unit and household size in the most recent iteration of the City's Program.

The Housing Secretariat supports the principle that all government Program funding should be effectively and efficiently delivered and utilized in a timely manner. Program improvements that return unutilized funds to the City promptly for redeployment will be pursued.

The above will be considered during the proposed 2020/21 Program review.

Recommendation 10: City Council request the Executive Director, Housing Secretariat to implement a formally documented review process to ensure that:

- a. all applicant, unit eligibility, ongoing occupancy and other delivery agreement requirements for the affordable home ownership program have been met. Loan files should be reviewed for any discrepancies between documents (i.e. to ensure information reported between documents is consistent) and appropriate follow-up action, in collaboration with proponents, should be taken to ensure eligibility requirements have been met.
- b. information provided by proponents on semi-annual reports is accurate and consistent with loan files submitted. To allow for effective program evaluation, reports should capture all loan sources, including amounts provided directly by proponents.

Management Response: <input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree
Comments/Action Plan/Time Frame: Program improvements to more thoroughly document and verify Program activities and reporting requirements on a unit by unit basis are supported and will be pursued as the Program is updated and refined over the coming year.

Recommendation 11: City Council request the Executive Director, Housing Secretariat to:

- a. provide enhanced guidance on how proponents should validate and document that income, legal status, residential tenancy and other delivery agreement requirements for the affordable home ownership program have been met (i.e. what documents to obtain and review).
- b. provide guidance on what proponents should be looking for when reviewing eligibility documentation and how to properly document and follow-up on any discrepancies noted.

Management Response: <input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree
Comments/Action Plan/Time Frame: Program improvements to provide better clarity and guidance to proponents on consistent Program implementation practices and procedures, including verification of income and renter status, homebuyer education, and documenting and following-up on discrepancies, are supported and will be pursued as the Program is updated and refined during the 2020/21 review.

**AUDITOR
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