Your RRSP can help make you a first-time homebuyer

Here's a nice thought for hopeful first-time homebuyers – if you've been tucking away money into your RRSP, you may have that elusive downpayment. Your RRSP can help you make your house dreams come true. Under the Home Buyers' Plan, you can tap your RRSP and borrow from yourself tax-free to help with your home purchase. You then pay yourself back later.

Of course, your RRSP savings are always accessible (it's your money after all), but when funds are withdrawn, they are taxable in the year of withdrawal unless you comply with certain rules – and being a first-time homebuyer is one of them. You can withdraw up to $25,000, and if your spouse qualifies as a first-time homebuyer, he or she will also be able to withdraw $25,000. Between the two of you – you could put together a hefty downpayment of $50,000.

Here's how it works: you enter into an agreement to buy or build a home before making a withdrawal. It must be for your principal residence (no rental properties), and to qualify as a "first-time homebuyer", you cannot have owned a home for four full calendar years. If your spouse did own a home within that period, you can still withdraw as long as the home was not your principal residence while you were married or living common law. In addition, you must withdraw no later than 30 days after the closing date.

After you make a withdrawal, you must close on your home by October 1 of the year that follows the withdrawal year, a requirement that can be extended under certain conditions. Almost any kind of home will qualify – single family, semi-detached, condo, under construction – as long as it's in Canada. Your mortgage planner can give you more details.

The Home Buyers' Plan is one of the most attractive federal programs available to Canadian homebuyers. After all, saving up for a downpayment takes time and can be a real challenge when you have so many other expenses. But the Home Buyers' Plan lets you mesh your RRSP strategy with your homebuying plans. And a solid downpayment can help you get a better mortgage – since downpayment is one factor lenders look for when assessing risk.

Keep in mind, of course, that – for your own good and to meet the program's requirements – you're expected to pay yourself back. Repayment begins the second year following the year of withdrawal. So if you withdraw in 2010, you have to make your first payment back to your RRSP starting in 2012, or in effect, by the RRSP deadline of that year (i.e. March 1, 2013). You have up to 15 years to repay, and each annual repayment must be at least one-fifteenth of the withdrawn amount.

If you want more detailed information on the program, get a copy of Canada Revenue Agency's booklet RC4135 – Home Buyers' Plan (HBP), which is available on their web site at www.cra-arc.gc.ca. Also look for Form T1036, the required form for requesting a withdrawal.

Starting to think about buying your first home? Find yourself a mortgage planner and start asking some questions. An independent planner deals with over 50 different lending institutions, and can help you compare mortgages from the banks as well as non-traditional lenders. An independent planner isn't working for the lender, their advice is free (oac), and there is no obligation. It's a great place for a new homebuyer to start!

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