

## **SO, YOU'RE BUYING A HOUSE!**

*This information brochure has been written and compiled by **Lucie and Jacques Martel, Martels Real Estate Inc.** Maison de Courtage to help the public when purchasing a home. Note: All the legal information has been written and produced by the Canadian Bar Association-Ontario because of its concern for the quality of legal services and the Real Estate tips by Alan Silverstein's, compliments of the Royal Bank .*

For most people, buying a house is an exciting and major event, but it can also be a confusing and worrisome experience because of unknown real estate, legal and financing knowledge. Having a professional and experienced real estate sales representative to guide you through the process, a lawyer to do the legal work for you, a mortgage specialist and other professionals linked to the real estate are not only necessary, it is the only way you can be sure all details are handled properly and as required by provincial laws.

However, before you engage or even look for these professionals to do this, you should know what they are supposed to do for you in the process of buying your home, what questions to ask and how much you are likely be charged.

### **WHAT YOU SHOULD KNOW WITH YOUR LAWYER:**

#### ***BEFORE YOU SIGN (Unless there is a condition upon the lawyer to view the agreement):***

When you make an offer to purchase a house through a real estate agent, the agent will normally fill out and have you sign a standard Real Estate Board "Offer to Purchase" form. Whether your offer is made on that or some other form, it becomes a binding contract the moment the seller accepts your offer. Because it becomes binding on both you and the seller, you should check with your lawyer first if you have special concerns or questions that you think it should be included in the agreement of purchase and sale.

You and your lawyer should also discuss ways of financing your purchase, the extras to be included and the money you will have to pay for such things as search costs, land transfer tax, registration, survey, costs of mortgages, searches other than Registry Office searches as well as certain practical matters such as obligations which you would like the seller to carry out.

### **ONCE THE AGREEMENT IS MADE:**

As soon as the transaction becomes firm. Your lawyer will begin a thorough and complete series of investigations to check that you are really getting everything that is in your contract. All of the following things must be checked:

1. Title - this must be checked to see if the seller owns the house and whether anyone has filed a claim or debt on the property you want to buy, for which you might be liable;
2. Taxes, hydro and other utility accounts. IT IS VERY IMPORTANT, your lawyer call all the utility companies and request the arrears certificate of each to ensure they had been fully paid by the Sellers. Taxes are to be adjusted on closing;
3. Particular requirements such as getting a copy of building survey from the title office, any guarantees, permit concerning the swimming pool, extensions, deck, insulation, etc;
4. Property will be adequately insured;
5. Zoning by-laws;
6. Status of previous corporate owners;
7. Status of mortgages being assumed or discharged;
8. Compliance with agreements and restrictions;
9. Rights of creditors over things such as furniture, fixtures, stoves, fridges (chattels) which are included in the purchase price;
10. All arrangements necessary to ensure that your financing will be adequate and in place upon closing;
11. Papers prepared by the seller's lawyer.

If the land or lot on which the house is located has not been measured and its boundaries determined (surveyed), you should ask your lawyer to order a survey to be made. The results all local zoning by-laws. If anything is found wrong in any of this, your lawyer will have to do additional work to put everything should be examined when the drawing is received to check that the house is located entirely within the lot lines and that there are no fences, eaves or buildings belonging to someone else overlapping the land you are buying. As well, the building, as constructed, complies with in order.

### ***JUST BEFORE CLOSING:***

Your lawyer will prepare a written statement, required by provincial laws, which imposes tax on the purchase of land or other things **such as a stove, fridge, etc.**, which are called chattels. You will be required to confirm this document by taking an oath and by signing it. As well, you must sign any mortgage documents necessary to receive the money you need and have arranged to get. Your lawyer will then complete the purchase and you will confirm that enough money will be available to complete the purchase and the recording of all the papers with the government at its Land Registry Office.

Another group of papers, prepared by the seller's lawyer (among them a Statement of Adjustments), are sent to your lawyer who will check them. If these papers are correct, and if the seller's lawyer has answered all of your lawyer's requirements and questions, a final time on the closing date to complete the purchase and close the deal is arranged. If the mortgage lender requires post-dated cheques or any special papers, these will be completed before your purchase is closed. If the money is not paid directly to the person from whom you are buying the house, your lawyer must prepare the cheques in the amounts requested by the seller of the property from them money your lawyer has held in trust for you. NOTE: The cheques required are to be certified.

**Please note, your lawyer will most likely want to see you a day ahead of closing to sign papers and bring over two certified cheques. One for his fees and the other for closing costs. Please call him 1 to 2 weeks prior to closing to arrange that meeting.**

### ***ON CLOSING:***

On the specified day, once your purchase is completed and closed, your lawyer will:

1. Bring the search of title and the search for claims up to date;
2. Check all the documents received from the seller's lawyer;
3. Check all the documents offered in support of adjustments made on the Statement of Adjustments, such as municipal taxes, insurance, fuel oil, etc.
4. Ensure that the house is vacant, subject to any special arrangements;
5. Deliver the cheques to the seller's lawyer and, if included in the contract, give the mortgage back to the seller;
6. Get the keys and all necessary papers for completion of the contract, such as promises and instructions from the seller's lawyer;
7. Your lawyer will receive any service contracts to be transferred to your name;
8. In the case of homes covered by the Ontario New Homes Warranty (HUDAC), your lawyer will confirm that the builder has forwarded the Certificate of Completion of Possession (a list of items to be completed), completed by the buyers before closing;
9. Your lawyer will also make sure any money needed to clear mortgages on the property which are not being assumed by you are paid;
10. Guarantees from builders or contractors and service contracts which are transferred to you will be received when your deal closes and your purchase is completed;
11. If everything is correct, your lawyer will register your deed and at this time, pay the retails sales tax on the furnishings etc. you have purchased (chattels), the land transfer tax, and the registration fee.

***AFTER CLOSING:***

After your purchase is completed and the deal is closed, your lawyer will confirm with you that **the purchase has been completed and that the keys to your house are available. Note: Usually not before 1700 hrs.**

After closing, your lawyer will also:

1. Alert you of any tax payments or mortgage payments which will be due in the near future;
2. Discuss with you any special parts of the transaction;
3. Confirm the change of ownership to the Assessment Department, Tax Department and any person whose mortgages you have assumed and, where applicable, the Condominium Corporation;
4. Arrange to get and have registered the discharges of the mortgages which were paid from the funds due on closing;
5. Confirm the completion of any promises that you or your lawyer have given on closing;
6. Make sure that the seller's promises are completed.
7. All your documents will be compiled and mailed over to you weeks after you moved in.

When the Land Registry Office has finished its recording, your lawyer will send you copies of all registered documents and all other papers signed by you. Your lawyer will then give you a written report.

**If you have agreed to buy a condominium, your lawyer's job is even more complicated.**

In addition to checking all the items above, your lawyer will have to make additional inquiries because the home you have agreed to buy is part of a condominium. A condominium is subject to certain by-laws and rules which set out the way in which the condominium is governed and the rules which all owners must obey. In addition, a condominium project is governed by the Condominium Act of Ontario and your lawyer must know all about the provisions of that Act. For instance, as the owner of a condominium, you are a member in the corporation and you are expected to participate in governing the corporation by attending meetings of the owners, voting for the Board of Directors and voting on all major rules, regulations and proposals affecting the condominium and your home. The by-laws and rules are approximately one hundred pages in length and your lawyer must review them carefully so that you can be informed of any special circumstances with respect to the condominium project in which you have bought. For example, if you own a pet, you would certainly want to know if the by-laws allow you to keep it on the premises or not.

## **COST & DISBURSEMENTS:**

If it were possible to work out the average time spent by a lawyer on house purchase, it would probably come to a minimum of between eight and twelve hours. Depending on the purchase, five to seven of those hours would be spent by the lawyer and the balance would be spent by legal assistants, law students, title searchers and conveyancers. Each purchase is different and it is impossible to give accurate figures for charges based on time. Since real estate lawyers charge between \$60 and \$150 per hour for their services, based on their costs and expertise, the legal costs for purchasing a home will reflect this. Because of the additional work involved, lawyers charge a higher fee for the purchase of a condominium. Some County and District Law Associations, and many lawyers, have adopted a suggested schedule of fees based on a percentage of the purchase price of the home.

When you first call a lawyer, you should discuss with the lawyer the following expenses in relation to your purchase: First and foremost, do you have sufficient funds over and above your down payment for closing costs?

It is not possible for your lawyer to give you an exact figure for disbursements on your transaction since many disbursements depend on the city or town where the property being purchased is located. The City of Gloucester is perhaps the most expensive city when it comes to requesting zoning compliance reports, site of development compliance reports and work order certificates. Another factor which affects disbursements is the search of title for the property and what the search of title reveals by way of subdivision and site development agreements. It is very risky to close a transaction without checking with the applicable city or town as to the status of a developer's compliance with such agreements.

## ***ONE LAST POINT:***

After reviewing all that is required and the expertise needed, you will realize that lawyer's fees alone are not the only thing to be considered when choosing a lawyer. However, if you do not understand these fees, you should not hesitate to ask your lawyer about them. It is important to you that all essential work to complete the purchase of your home has been looked after by your lawyer. To make certain that a thorough job is done so that you will have no problems in any future dealing with your home, it is recommended that you instruct your lawyer to complete the purchase, on your behalf, involving all of the procedures covered here.

## COST AND DISBURSEMENTS:

1. Down payment. 5% minimum required on closing.	
2. Deposit on Purchase. \$3000 to \$5000. Cashed within 48 hrs after acceptance of an offer. Credited towards down payment.	<b>\$3,000.00</b>
The lawyer's fee plus HST. Payable on closing. Note: most lawyers has an extra charge to review a status certificate of \$ 150.00	<b>\$ 900.00+ HST</b>
3. The estimated disbursements for the transaction. Payable on closing.	<b>\$ 1000.00+ HST</b>
<b>ESTIMATION OF MANDATORY DISBURSEMENT EXPENSES</b>	
1. Parcel register abstract-sub-search of title	\$50.00
2. Search of title of the property fee	\$200.00
3. Sheriff's writ certificate (\$11 per person)	\$ 44.00
4. Registration fee for transfer deed	\$72.00
5. Registration fee for one mortgage deed	\$72.00
6. Title insurance premium - Average of	\$300.00
7. Survey copy, bank drafts & courier fees	\$40.00
8. Mortgage loan administration fee	\$95.00
9. Miscellaneous disbursement expenses up to	\$130.00
10. Condominium corporation status certificate	\$100.00
<u>(Applicable only for condominium purchases)</u>	
11. Notarization of first time home buyers affidavit	\$35.00
<u>(Applicable only for first time home buyers)</u>	
12. Provincial sales tax on CMHC insurance premium	\$1104.00
Tax Certificate	\$30.00 to \$65.00
Water Certificate	\$30.00 to \$40.00
Gas Search	\$15.00
Zoning By-Laws	\$150.00 to \$200.00
Building By-Laws	\$35.00 to \$146.00
Work Orders	\$18.00 to \$46.00
Law Society Transaction Levy	\$65.00
Registration of Deed	\$71.30
Registration of Mortgage	\$71.30
Fire Retrofit	\$74.25
4. The Land Transfer Tax which is based on the purchase price of the property Land Transfer Tax: 0.5 % OF THE FIRST & 55,000.00 Purchase Price Plus 1.0% of the Amount in excess of \$ 55,001.00 up to \$ 250,000.00 Plus 1.5% of the Amount in excess of \$ 250,001.00 to \$ 400,000.00 Plus 2.0% of the Amount in excess of \$ 400,000.00. First time Home Purchasers may qualify for a Rebate in Ontario Land Transfer Tax up to \$ 2000.00. Payable on closing. Ex: \$325,000=	<b>\$2,975.00</b> <b>For 1<sup>st</sup> buyer:</b> <b>(-)</b> <b>\$2,000 rebate=</b> <b>\$975.00</b>
5. Whether or not a building location survey is required – approx. \$900-\$1200. Please note, it is no longer required to have a survey done as it is covered under the title insurance. It is recommended if possible to get a survey for your file to know where your property lines are.	
6. The adjustments on the Statement of Adjustments usually to cover taxes already paid by seller \$1000 OR Municipal tax adjustment, if the down payment is less than 20%, the lender will likely insist on paying taxes on your behalf. Depending on your possession date, there will probably be a tax adjustment where taxes will have to be paid up to the next tax bill. Please ask your mortgage specialist for details. Payable on closing.	<b>\$ 1000.00</b>
7. Building Inspection fees \$450 + HST	<b>\$ 477.00</b>
8. Bank appraisal (for conventional loan), cost is normally \$275 to \$325 depending on the location of the property. CMHC application fee, if the down payment is less than 20%, then the mortgage is high ratio and must be insured by Canada Mortgage and Housing. The cost is \$375 and this also covers the cost of the appraisal. This amount can be higher for out of town properties;	<b>Some can be negotiate w/banker</b>
9. HST on CMHC insurance premium, 8% of total CMHC insurance. This amount is to be paid on closing. E.g. On \$325,000 w/5% down= \$308,750 X 2.75% = \$8,491	<b>\$679.28</b>
10. Mortgage Interest Adjustment – if close earlier than the official date chosen for payment date Ex: if wants to pay every 1 <sup>st</sup> of the month and the closing happen on the 20 <sup>th</sup> – interest will be charged from the 20 <sup>th</sup> to the 1 <sup>st</sup> and paid on closing date then regular payment will start 15 or 30 days later	
11. Miscellaneous, home insurance, bridge financing cost, water test, septic tank inspection, furnace inspection, renovation or repairs, moving cost, condominium fees, service connection fees, appliances, gardening equipment, snow-clearing equipment, decorating materials, window treatments, changing the locks...	

## EXPLANATION OF EXPENSES RELATED TO PURCHASING A HOME:

### 1. **Building inspection**

*Should you have a home inspection?* Your Agreement of Purchase and Sale can give you the option of having an inspection done. The inspection includes electrical, plumbing, heating, air conditioning, roof, foundation, and any particular items requested. Many components of a dwelling cannot be adequately checked during your initial walk through inspection. Major problems that are found by the inspector can usually be corrected at the seller's expense prior to closing, although the inspection itself cannot offer a guarantee of continuing performance. Typically, with the large number of new homes in our area and today's fairly strict building code, the need for a home inspection is lessened, but still recommended to detect any construction faults. However, when an older home is contemplated, a home inspection can remove any lingering doubts.

### 2. **Home insurance coverage,**

Approximately \$450 to \$700 plus applicable taxes.

*Why should you have home insurance coverage?* There are two basic areas of coverage that reimburse you in the event of a loss;

a. **Dwelling:** The insurance company will appraise the value of your home at the time of your loss. So the necessity to carry insurance is extremely important because the under insured loss is out of **YOUR** pocket. Once you have 100% insurance to value, make sure your protection is upgraded annually; the effect of double digit inflation is devastating. It makes good sense to insure your house for full replacement costs;

b. **Contents:** We recommend **REPLACEMENT COST** coverage for the contents of your home. With it, you would be able to replace any loss with one of equal quality, rather than settle for a depreciated value. The cost of this added protection will usually increase your premium by about 15% per year when added to a regular home owner's policy.

### 3. **What is a Mortgage?**

For most people, buying a home means taking out a mortgage. All mortgages are of two basic types; conventional and high ratio. A **conventional mortgage** is when a buyer borrows up to 75% of the purchase price or appraised value of the property, whichever is less. A **high ratio mortgage** or insured mortgage is when a buyer borrows up to 90% (95% if this is a first time buyer) of the purchase price. Therefore, the down payment can be as low as 5%. Over the past decade, mortgages have become very diverse. Purchasers no longer have to settle for a basic three or five year mortgage term. In the 90's, consumers have numerous innovative mortgages to choose from whereby you can tailor make your mortgage financing to meet your personal goals. Some examples of these unique products are Adjustable Rate Mortgages, Convertible Mortgages and Auto Plus Mortgages. These mortgages are for those who believe rates will decrease over the next six to twelve months, therefore allowing the consumer to trigger into longer term mortgages when they think rates have reached their lowest point, thus saving interest dollars. For the consumer who does not want to gamble on interest rates and instead wishes to lock in their housing costs, lenders have responded by offering longer term mortgages such as seven, ten, fifteen and twenty five year products.

## WHAT DO YOU NEED TO BRING TO YOUR MORTGAGE APPLICATION?

### FOR COVENANT LENDER (CREDIT SENSITIVE LENDER)

- ✓ **Agreement of Purchase and Sale** executed by all parties, and a copy of Real Estate Listing of Property;
- ✓ **Social insurance numbers** for each borrower and addresses where borrowers have resided for at least two years;
- ✓ **Two years employment history** for each borrower, supported with a proof letter from the employer confirming salary (last pay stub may also be helpful). Self employed borrowers may need to furnish income verification (ask your mortgage lender). Processing time is usually reduced if applicants bring addresses and postal codes of employers, mortgage companies, banks and saving and loans. This is especially helpful if these addresses are out of town;
- ✓ **Chequing and savings account numbers**, approximate balances, installment debt and credit card references including account numbers, monthly payment and approximate balance owing. Present mortgage loan reference with account number, monthly payment, and approximate balance. Details on assets such as stocks and bonds, cash value of life insurance etc. Details on any real estate investments owned, including market value, gross rental income, loan balance and monthly payments. If a borrower wishes to furnish previous credit references such as a paid mortgage loan, furnish name and address of lender, account number, original balance and date of payoff;
- ✓ **Appraisal and credit report** fees will usually need to be collected upon application.

## QUESTIONS TO ASK YOUR MORTGAGE LENDER WHEN YOU ARE SHOPPING FOR A MORTGAGE

1. **PENALTY** - *What would be the worst case scenario if you had to sell your home in the first three months after you have moved in? LOOK FOR: Three months penalty only. The most common is three months penalty or an interest differential for the remainder of the term, whichever is greater. Some institutions charge a maximum of 3% the original loan amount. Stay away from the five year terms that are closed for the first two years. Example: If you had to pay out your mortgage before the end of the term, two years of full interest will be collected.*
2. **PREPAYMENT PRIVILEGE** - *LOOK FOR: 10 to 15% prepayment without penalty at anytime during the calendar year from the original amount and at the same time be able to increase your monthly payments to a double up payment option. Most lenders allow you to make an annual lump sum payment of between 10% to 20% of your original mortgage loan amount on the anniversary date without penalty, this is an excellent way to immediately reduce your principle balance and work in saving those interest dollars. If you take advantage of one double up payment a year in addition to bi weekly payments, your mortgage will be paid off in 17.5 years. This option will save you from paying approximately, \$82,023 in interest.*
3. **PORTABLE** - *Can you bring your mortgage anywhere with you? Can you decrease the balance or increase it without penalty or administration fees? Do they blend interest rates for higher loan amounts required or use the present interest rate? What does it mean?*
4. **ASSUMABLE** - *WITH OR WITHOUT QUALIFICATIONS? In Ontario, the original mortgager who first signed the loan will always be responsible for the loan until the end of the term. So if a default occurs, the mortgage bank can decide to go either after the first party that took the mortgage or the second one that assumed it, even if the new applicant was qualified.*
5. **ACCELERATED PAYMENTS** - *It could be weekly, bi weekly or monthly payments of approximately 10% of original payment. Make sure it totals 13 months. A mortgage amortized over 25 years is paid in full in approximately 19 years. This could save you up to \$63,000 in interest charges. Not to be confused with convenient monthly payments which are weekly or bi weekly and do not necessarily reduce the mortgage, it must be accelerated.*

6. **RENEWAL** - *Is there a renewal fee? Another bank appraisal fee? Is there a lawyer fee involved? Make sure you renew with fewer years remaining for amortization. For example, if the mortgage was originally for 25 years and you had a five year term, renew it at 20 years only. Otherwise it will be amortized for 25 years again.*
  
7. **BRIDGE FINANCING** - (FOR FUTURE USE) *Allows you to move into your next home before the set closing date of the present one because all of your money is locked in the present one. The bank will lend you the sum required and charge interest only until closing. Is there an administration cost to bridge? Then what? Some banks charge \$50.00 and some \$350.00 administration fee. It is up to you to find out.*
  
8. **AMORTIZATION** - *When arranging a mortgage, most consumers tend to automatically take a 25 year amortization. Instead, look at your budget, assess the payment you can handle comfortably and tailor your amortization to match that payment. For example, if you decide your budget could handle payments based on a 20 year amortization, you would save five years of mortgage payments totaling \$41,204.*
  
9. **MORTGAGE PROTECTION** - *Upon your death, the balance of your mortgage is paid in full and your family can remain in their home. If you become disabled, the insurance company will pay the premiums. A life term insurance is often a good alternative (based on the premium and the age when you purchase). Monthly payments remain the same for a longer period of time and can be carried over to the next home. In the event that you must use it, you would have a choice of either paying the mortgage in full or keeping the insurance money. Discuss the difference with your bank.*

*If you choose to lock at a 25 year amortization, remember you can save thousands on a mortgage without really trying. For instance, a homeowner who decided to put aside \$0.89 a day could save in excess of \$22,000 during the lifetime of his mortgage. Sound impossible?*

*Let's assume that you, a homeowner, borrows \$50,000 at 11% which is amortized over 25 years. Your monthly payment would be \$481.27. If you shorten the amortization to 20 years, your monthly payments increase by \$26.55 per month amounting to \$6,372 over 20 years. However, you've saved five years of mortgage payments totaling \$28,876.20 for a net saving of \$22,504.20!*

*Keep in mind that the increased payment to shorten the amortization amounts to only \$0.89 a day. As you can see, a small outlay in pennies on a daily basis can make an awfully big difference in the long run.*

*If you so choose, the equity that has built up on your house is now available as collateral for future loans for investment or for other purposes which may allow you a tax deduction. By careful planning, you should be able to increase your net worth at a faster rate than someone saddled with mortgage payments for 25 years, simply because they'll have more liquid (available) cash at an earlier date.*

*If you can exercise any one or a combination of these options, you are well on your way to becoming mortgage free! As consumers in the 1990s you now have diverse mortgage products to choose from. Please make sure you know and understand all of our options. Seek a specialist! There are the mortgage consultants that can help you select the mortgage that is right for you.*

10. **CMHC INSURANCE PREMIUM**, The CMHC mortgage loan insurance premium is calculated as a percentage of the loan and is based on the size of your down payment. The higher the percentage of the total house price/value that you borrow, the higher percentage you will pay in insurance premiums. The cost for mortgage loan insurance premiums is usually offset by the savings you get from lower interest rates.

Up to and including 65% 0.50

Up to and including 75% 0.65

Up to and including 80% 1.00

Up to and including 85% 1.75

Up to and including 90% 2.00

**Up to and including 95%**

Traditional Down Payment 2.75

Non-traditional Down Payment 2.90

**Extended Amortization Surcharges**

Add 0.20% for every 5 years of amortization beyond the 25 year mortgage amortization period.

Note: The amortization cannot exceed 30 years for mortgage loan-to-value ratios > 80%.

*\* Premiums in Ontario are subject to provincial sales tax. The provincial sales tax cannot be added to the loan amount. This table gives you an idea of the maximum home price you can afford.*

Alan Silverstein's

**40 PLUS ONE REAL ESTATE TIPS**  
Compliments of the ROYAL BANK

*How often have you heard the real estate lament: "How I wish I'd known at the beginning what I know at the end?" **40 Plus One Real Estate Tips** is designed to give buyers, borrowers and homeowners the basics on buying a home and booking a mortgage in Canada today. In many ways it is the outgrowth of almost two decades as a real estate lawyer dealing with client problems, plus the many years I taught a community college first-time home buyers day course. The concerns expressed, and the topics discussed, form the foundation of this booklet. Besides the forty real estate tips, one bonus tip has been included - what buyers should do after an offer is signed but before closing, an often ignored period of time. Armed with the information in **40 Plus One Real Estate Tips**, buyers and borrowers really will know what other people have only learned through experience.*

**Homeownership. A Great Investment!!**

According to a Canada Mortgage and Housing Corporation study, resale house prices rose faster than inflation in 23 of 27 major Canadian cities between 1971 and 1994 - years when inflation ran rampant throughout Canada. The principal residence tax exemption makes the capital gains from that increase in prices tax-free, too. And the power of leverage magnifies that return even more, since you've earned those gains on your down payment, not on the purchase price. If you buy a \$150,000 house and five years later it's up 5%, you've made 1% a year; but that assumes you paid all cash for your house. With a 20% down payment, you've really earned 4% a year tax-free on the money you invested. And if you buy a house with only 10% down, over five years your annual tax-free return is 10%. Of course, if you can avoid it, never buy a house with the smallest possible down payment, as mortgage interest is not tax deductible. But when tax-free capital gains are added to the power of leverage, real estate remains a good investment.

**Pre-Approval - A Powerful Tool for Home Buyers**

Most people buying a home need a mortgage. Too often, in the past, arranging a mortgage was left to the very end, sometimes even after a house was bought, forcing borrowers to scramble for financing. How things have changed! Today it's important to shop for a mortgage before you purchase a home, since most lenders will "pre-approve" buyers for a mortgage. Some lenders will even do it over the phone. It's a no-cost, no-obligation deal that lets you know before you go house hunting or sign an offer to purchase, how much you can afford to buy based on how much you can afford to borrow. When getting pre-approved for a mortgage, see how long the rate commitment is good for; it differs from lender to lender. With a pre-approved mortgage, you can confidently negotiate the purchase of a home, knowing the mortgage financing is arranged, subject to final property appraisal.

**Designing a Home Buying Strategy**

Before shopping for a home, every buyer needs a home buying strategy - a game plan - that reflects his or her unique needs and wants. That means developing a pre-determined shopping list of what a house must provide (the needs) and the "would-like-to-haves" (the wants). To properly prepare a home buying strategy, homebuyers must first examine their lifestyles and budgeting priorities. Then do their homework - asking questions, demanding answers, researching everything from closing costs to mortgage financing, and making all the major decisions - before an offer to purchase is ever signed. In fact, signing an offer is the climax to the home buying process, not the first step. When buying a home, preparation and planning are the key to success. With a home buying strategy, the house you buy should satisfy all of your needs and as many wants as possible, and be one you can afford to buy and carry each month.

**The Advantages of A Resale Home**

While many buyers shy away from used cars, that's not the case with "used" or resale homes. As a resale home exists, you don't have to visualize what it will look like - you see what you get, and get what you see. Also, resale homes are usually sold in more established communities and neighborhoods. That means recreational facilities, transportation links, support services, schools and shopping centers are already in place. Many people believe they get better value buying a resale home, since appliances, light fixtures, floor and window coverings can be negotiated into the deal. Improvements like fences, paved driveways and landscaping automatically go with the house, too. The survey needed by both you and the lender often is available from the seller, but make sure it's up-to-date. And you can reduce the risk of being saddled with hidden defects, by having a home inspector examine a resale home before the offer becomes firm. For buyers on a tight budget, a resale home in move-in condition is always an appealing choice - you even avoid the GST!

## **Why Buy A Brand New Home?**

Newly-built homes have enormous appeal. Buyers are captivated by the enchanting thoughts of a home that's bright, fresh, clean, modern and, of course, new. Buyers can customize it to taste - interior colors, decor and finishes. Often you can choose from a variety of models and styles, instead of having to simply buy "what's there". Unlike resale homes, many brand new homes have a warranty covering defects in materials and workmanship, and leaky basements. And a new survey is almost always available. Buyers can get good value buying from a builder - by including extras, options and upgrades in the price, plus deep discount mortgage financing. But before you purchase a brand new home, be sold on the builder; investigate its reputation, its background, and the quality of its work. Check with the local home builders association or provincial warranty program for information. And don't be afraid to bang on doors and ask other buyers what they think of their builder.

## **Buy First Or Sell First?**

Which comes first - the purchase or the sale - is the greatest dilemma facing homeowners planning to move-up. If you choose to buy first, make sure the offer to purchase is conditional on selling your current house. That way, if you sell your house, both deals proceed; if not, the deal is off, and you won't be stuck with two homes. Selling first, though, will give you considerable peace of mind. Knowing how much money you'll get on the sale will help you establish a price range for the new home. And selling first allows you to negotiate the purchase more vigorously, too, since unconditional offers carry a lot more weight with sellers. Market conditions are another important consideration in deciding which route to follow. In a seller's market, you'll probably do better selling after you've bought. But in a buyer's market, it makes more sense to sell first, and then buy.

## **Free Money For First-Time Home Buyers!**

The key to that fabulous house warming gift from the federal government: The Home Buyers' Plan (better known as the "RRSP Program"). It lets first-time buyers (including anyone who hasn't owned a home in the last 5 years) borrow up to \$20,000 per spouse from their RRSP interest-free to buy a home (to be repaid over the next 17 years). But only funds that have been in your RRSP at least 90 days can be withdrawn. To get that free cash, take advantage of your unused RRSP limit. Say you've got \$3,000 in unused RRSP contributions, and plan to buy a home in the next few months.

THE PLAN: Borrow \$3,000 (possibly from family), and deposit it to your RRSP.

Keep it on deposit at least 90 days, remove it when you buy your house, and repay the loan.

If you're in the 40% tax bracket, you'll get a \$1,200 income tax refund when filing your next tax return!

WHAT A STRATEGY!

## **Choosing The Right Real Estate Agent**

Real estate agents are matchmakers, bringing buyers, sellers and home together. So buyers need the "Right" real estate agent working for them. Agents must be on top of the market - in terms of sales, listings and house prices in the area. They must be up on the latest developments in mortgage financing. And they must be skillful negotiators. Most important, real estate agents need "People Skills" - the ability to make buyer clients feel at ease. As a service industry, referrals are the lifeblood of a real estate agent's business. To find a good agent, ask friends, relatives, neighbours and co-workers for the names and phone numbers of agents they've dealt with in the past. Then talk with those agents, to see if you'll be comfortable working with them, if they know your preferred markets well, and if they're good listeners. REMEMBER: To find the right house, at the right price, you first have to find the right agent.

## **Buyer-Brokerage - A New Idea in Canadian Real Estate**

For years, though buyers would use a real estate agent, that agent was legally working for the seller. Why? The outdated idea that loyalty could only be owed to the person paying the commission - the seller. That left buyers very exposed and totally confused. All that changed in January 1995, when buyer brokerage (also known as agent disclosure) came to Canada. Now agents must disclose to buyers, seller and other agents exactly who they represent, and get a written acknowledgment of disclosure. That means buyers will finally be owed the same "Fiduciary Duties" by an agent that sellers have enjoyed - loyalty, confidentiality, full disclosure and accountability. How will brokers be paid? Buyers can pay them directly, though it's more likely they will be paid by the seller from the sale proceeds, as was done in the past. While growing pains can be expected, buyers will benefit from having their real estate agent working only for them.

## **Home Inspectors - What Every Buyer Needs To Know**

If you're buying a resale home and don't want to inherit the seller's headaches, a home inspection is a must. Usually the offer to purchase is conditional on the buyer being satisfied with the inspection - so if the house fails the grade, there's no deal. Home inspectors examine the major systems in the house - plumbing, electrical, heating - plus the roof, foundation and insulation - and give the buyer a written report. The cost? Several hundred dollars, a small price to pay for the information provided. But there's on problem with the home inspection industry; it's unlicensed, unregulated, and unregulated. Anyone can establish a home inspection business with absolutely no training or credentials. So before hiring a home inspector, check out his or her background and expertise as carefully as the inspector will check out the house. Ask friends, family or your Realtor for a referral. And make sure the inspector has liability insurance just in case a mistake is made; such as a hole in the roof or a leaky basement being overlooked.

## **Lawyers - Not Just Anyone Will Do**

Buying and selling real estate has become very specialized the last few years. So when looking for a lawyer/notary, make sure it's a real estate lawyer/notary - one who spends most of the time closing real estate deals. And don't wait until after the deal is struck before choosing a lawyer; then you lose the valuable input he or she can provide scrutinizing the offer before your pen hits the paper. Since a lawyer's role is part advisor, part confidant and part nursemaid, a good rapport with your lawyer is a must. How can you find a good real estate lawyer? Ask friends, family, neighbors and co-workers who they've used in the past, and get several names from your Realtor or banker, too. Never choose a real estate lawyer/notary just because their fees are the lowest. As with any other professional, quality and experience is the key, not just the price.

## **Chattels And Fixtures - What's The Difference?**

Chattels are items of personal property in a home "by their own weight alone", though they might be connected by pipes and wires. Examples: fridge, stove, washer and dryer. Fixtures are items that have been attached to the property, becoming part of the home itself. Examples: built-in shelving, broom closet and light-fixtures. In an offer, buyers must list which chattels the seller will leave behind, while sellers must state which fixtures they can remove. But there's a vast grey area between chattels and fixtures. How do you classify an electronic garage opener plus the handheld units? A central vacuum system and its accessories? Whether you're a buyer or seller - leave nothing to chance. If in doubt, spell it out in the offer. Clearly say if a particular item stays with the house, or goes with the seller. Because a mistake classifying chattels and fixtures can prove very costly.

## **Making Your Offer To Purchase "Conditional"**

When buyers and sellers strike a deal, loose ends often need tidying up before the buyer will proceed. Typical examples: financing, a home inspection, and selling the buyer's home. When that's the case, a conditional offer should be signed - one made "Subject To" these conditions. If the buyer satisfies them within the allotted time, the offer becomes "Firm and Binding". If not, the deal is off, and the buyer gets the deposit back. As a buyer, make sure you understand how to keep the contract alive, or kill the deal. As a seller, if you face a lengthy period of legal limbo with an outstanding condition, add an escape clause to the offer. If another acceptable offer is presented, it's "Put Up or Shut Up" time for the first buyer - waive the condition and close the sale or lose the deal. Buyers, remember: conditional offers give you flexibility, but unconditional offers always get a better reception with sellers.

## **Deposits - A Vital Part Of Every Deal**

Deposits serve two purposes - part payment of the purchase price, plus an assurance the buyer will close the deal. Usually an uncertified cheque accompanies the offer; when a deal is finally struck, the cheque is certified and the funds held by the listing agent. If buying privately, be sure the deposit is paid to the seller's lawyer in trust; otherwise, if the deal collapses, recouping your money from the seller is no easy task. How large should the deposit be? Buyers like to pay the smallest amount possible, to avoid tying up too much money; but sellers want a large deposit, as a sign of the buyer's good faith. Real estate agents prefer big deposits, also, since the larger the deposit, the easier for them to get paid after closing. While there's no "legal answer" as to what's a proper deposit, 5% of the purchase price is not uncommon today.

## **Getting Interest on Your Deposit**

Despite what many buyers of resale homes and condos believe, interest isn't automatically paid on a deposit in a real estate transaction. They only get interest on their deposits if a clause saying that appears in the offer to purchase. Then three criteria must be met - the deposit is at least \$5,000; closing is at least 30 days away; and the buyer provides his or her Social Insurance Number. A \$5,000 deposit and a thirty-day closing aren't legal requirements, but they're the minimums to buy a term deposit. And your Social Insurance Number is needed so you can be sent a T5 slip after closing, since the interest earned on a deposit is taxable. Builders don't often pay interest on deposits when buying a brand new home - but it can be negotiated into the contract. When it comes to interest on deposits, remember - if it's not in the offer, it's not in the deal.

## **What Are "The Usual Adjustments?"**

In every resale offer, the purchase price is payable "Subject To the Usual Adjustments". Adjustments fine-tune the income and expenses of a deal as of the day of closing - exactly what buyers and sellers want. Municipal Property and School taxes are items always adjusted; so if the seller has paid too much, the buyer pays the excess back to the seller; and vice versa. The principal amount of any mortgage assumed from the seller must be adjusted - together with interest since the last payment, plus any money in a tax account. The monthly condominium maintenance fee is adjusted on closing, as are first and last month's rent for rental properties. Utilities, fuel oil (plus GST) and fire insurance may need adjusting, too, depending on the property. While these out-of-pocket closing expenses can be hefty, they are legitimate charges. After all - the buyer is simply reimbursing the seller for items the buyer will benefit from after closing.

## **"Hidden" Closing Costs When Buying A Home**

"How Much Money is Needed to Close?" is a question high on every buyer's list. Besides the basic purchase price, buyers face legal fees (plus GST) and disbursements (plus GST), the out-of-pocket expenses a lawyer/notary incurs. Then there are closing adjustments with the seller - taxes, rental income, condominium maintenance, and some utility charges. And don't forget about the costs of arranging a new mortgage - including application and appraisal fees. On top of that, in some provinces a provincial transfer or "Welcome" tax is levied - another hefty closing expense. For a resale home, these "extras" can easily add 1 1/2% to 2% onto the basic purchase price. For brand new homes, that figure can easily reach 2 1/2% - especially if the home is enrolled in a provincial new home warranty program. The time to check out these charges is before the offer is signed, not afterwards. Because surprises are for birthdays, not real estate deals.

## **Important Dates In Every Real Estate Deal**

Every real estate transaction has three key dates. Each must be clearly spelled out in the offer and adhered to - or the deal is off.

The First: the irrevocable date, how long the seller has to accept a buyer's offer.

The Second: is the requisition date - when any issues arising from the title search must be reported to the buyer's lawyer.

The Last: is important to both buyers and sellers - the closing date - when money, title and keys change hands.

Agreeing on it may be the hardest part of the negotiations. Whenever possible, avoid closing on Fridays, the end of the month, and before long weekends. Buyers who close then often face delays getting keys, and a higher moving bill. Sellers discharging mortgages can face a financial drain, too. If the funds reach the lender late after a Friday closing, three extra days' interest is payable - four on a long weekend. So whenever possible, steer clear of rush hour in the registry office when choosing a closing date.

## **The GST And Real Estate**

One of the most confusing areas of real estate is the GST. Most resale homes are exempt from GST, but buyers should still ask the appropriate question and deal with it in their offer to purchase, to be safe. For brand new homes and condos, the offer should say whether the purchase price is "Plus GST" or "GST Included", and who gets the GST new home rebate. Buying a vacant cottage/chalet lot or a hobby farm is even more confusing.

- If an individual is selling, the sale is GST-exempt.
- But if the seller is a corporation, 7% GST is payable.

Residential rents are exempt from GST, as are condo maintenance fees. But GST is payable on real estate commissions, legal fees, some disbursements, and the cost of a new survey or a home inspection. If in doubt about the GST, check it out before signing an offer. Because if you're wrong, it's a 7% mistake.

## **An After-Closing Check List**

You've just closed your house purchase - now what? Buyers have lots to do, besides unpacking and making minor repairs. They include; getting names and addresses, payment dates, account numbers and amounts to pay for the mortgage, taxes, condo maintenance and utility charges. Notifying everyone about your change of address - from the post office to credit card companies to the provincial health insurer. And don't forget the provincial driver's license and motor vehicle branch; failing to do so could lead to a fine. Where "911" doesn't exist, obtain the emergency numbers of police, fire, ambulance, hospital and poison information centers. Learn when is garbage and recycling day. Arrange to get the interest on your deposit, if your offer provides for it. And most importantly, change the locks, or at least the tumblers, on all doors. Who knows how many keys still remain in circulation. Even consider upgrading the locks to deadbolts, for greater home security.

## **Qualifying For a Mortgage**

When approving borrowers for a mortgage, lenders look at two factors - down payment and income. If the down payment is 20% or more, it's a conventional mortgage. If not, it's a high-ratio mortgage requiring insurance from Canada Mortgage and Housing Corporation or a new insurer, GE Capital Corporation. As for income, lenders look at two ratios. One is the "GDS" or Gross Debt Service ratio. No more than 30% to 32% of a borrower's gross annual income should go to "mortgage expenses" - principal, interest, property taxes and heating costs (and maintenance fees for condo mortgages). The "TDS" or Total Debt Service ratio looks at the gross annual income needed for all debt payments - house, credit cards, personal loans and car loan. Depending on the lender, TDS payments should not exceed 37% to 40% of gross annual income. The combined incomes of both spouses are usually considered, but not rental income. Armed with this information, borrowers can crunch their own numbers before applying for a mortgage. Or your lender can do it for you when you get a pre-approved mortgage.

## How To Calculate GDS/TDS Ratios

### **Gross Debt Service Ratios**

<b>MONTHLY HOUSING COSTS</b>	<b>EXAMPLE</b>	<b>YOU</b>
Principal and Interest	\$ 660	\$
Property Taxes	\$ 200	\$
Heating Costs	<u>\$ 160</u>	<u>\$</u>
	\$ 1,020	\$
Gross Monthly Income	<b>\$ 4,000</b>	\$

**GDS =  $\frac{\$ 1,020}{\$ 4,000} \times 100 = 25.5\%$**

***GROSS DEBT SERVICE RATIO SHOULD NOT EXCEED 32%***

### **Total Debt Service Ratio**

<b>TOTAL MONTHLY DEBTS</b>	<b>EXAMPLE</b>	<b>YOU</b>
Monthly Housing Costs	\$ 1,020	\$
Other Monthly Liabilities (car loan, credit cards, etc.)	<u>\$ 450</u>	<u>\$</u>
	\$ 1,470	\$
Gross Monthly Income	<b>\$ 4,000</b>	\$

**TDS =  $\frac{\$ 1,470}{\$ 4,000} \times 100 = 36.8\%$**

***TOTAL DEBT SERVICE RATIO SHOULD NOT EXCEED 40%***

## Get An Interest Rate Break Today!

One of the best kept secrets in Canada is that below market interest rates are available for mortgages. First, with what's called "Relationship Pricing", the posted rate isn't the only rate anymore. Depending on the business you bring a lender, or already have with it - RRSP; car loan; credit card; line of credit; GIC or term deposits - and the length of term you choose, 1/4 to 1/2% can be knocked off the posted mortgage rate.

Another way to get a discounted interest rate: by assuming an existing mortgage;

- many mortgages booked the last few years carry rates that are lower than today's rates
- if you take over the mortgage on closing, you get that reduced rate
- if it isn't big enough for your needs, you can assume it, and increase the amount owing
- the rate payable will be a blend of old money and new money; but combined, it will be less than today's going rate

## Interest Rate Buy downs - A Bargain For Buyers

Thinking of buying a house and looking for a lower interest rate? Then ask the vendor for an interest rate buy down. Here, to help market a house more quickly, a seller subsidizes part of the interest rate on the buyer's mortgage. A clause outlining the terms of the buy down must appear in the offer to purchase. But the cost to a seller is not all that high. For example, the cost to "buy down" a \$100,000 mortgage by 2 percent for 6 months is under \$1,000. Buying down a \$100,000 mortgage by 1 percent for a full year is also less than \$1,000. With an interest rate buy down, everyone is a winner. The lender earns the going rate on its mortgage, while the home buyers pay the reduced rate. To make up the difference, the seller pays under \$1,000 - but that could be a lot less than letting the house sit unsold, and carrying it while the market is quiet.

## "Calculated Half-Yearly, Not In Advance" - What Does It Mean?

Rent is paid "In Advance", for the month to come. But Canadian mortgages are paid "Not In Advance", at the end of the month, for the period just concluded. That gives borrowers the use of the money during that time. "Calculated Semi-Annually" is a very complex and uniquely Canadian idea, which has nothing to do with how often the mortgage is paid. For an 8% mortgage, it means 4% is collected every six months. If the mortgage is paid monthly, weekly, bi-weekly or semi-monthly, an interest factor is needed to product 4% after six months. Some Canadian interest rates are also calculated monthly - and that costs borrowers even more. 8% calculated half-yearly means borrowers pay 8.16% annually; but 8% calculated monthly costs 8.30% for the year. When mortgage shopping, see how your interest rate is calculated; and remember: calculated monthly is more expensive than calculated half-yearly.

## **Interest Adjustment Dates - A Cash Flow Killer**

Interest adjustment dates can throw the best-planned closing budget totally out of whack. Say you close your home purchase on June 16, and book a mortgage with monthly payments. With some lenders, your first mortgage payment will be due one month later - on July 16. At other lenders, the mortgage will run from the first of the month after closing - July 1 - what's known as the "interest adjustment date". That means the first payment will be due August 1, for the month of July. What about interest for the broken period - the second half of June? Some lenders will bill for it on July 1 - when it's due. Others, though, will deduct the interest to the interest adjustment date from the mortgage advance. When that happens, it's being paid on June 16 - 15 days early. Weekly and bi-weekly mortgages aren't immune from this problem, either. So when arranging a mortgage, see how interest is collected to the interest adjustment date. By asking the right questions, you can avoid a cash flow crisis on closing.

## **What Is CMHC Insurance?**

If your mortgage is "high-ratio" (exceeding 75% of a property's value), it must be insured. The most well known insurer is CMHC - Canada Mortgage and Housing Corporation - although a new firm (GE Capital Corporation) is now on the scene. CMHC insurance protects lenders, by guaranteeing them the payment if you default; but you're still responsible for the debt. And it doesn't come cheap. Borrowers must pay 1.25% of the mortgage amount as the CMHC insurance premium when the loan-to-value ratio is between 75% and 80%; 2% between 80% and 85%; and 2.5% between 85% and 90%. Also, the most CMHC will insure is 90% of the first \$180,000 of a property's appraised value, and 80% of the balance. For first-time buyers, CMHC offers insurance coverage up to 95% of the purchase price - with a premium of 2.5% of the amount borrowed. But that hikes the overall cost of the mortgage, as you're paying interest on the insurance premium.

## **A Little-Known Benefit of CMHC-Insured Mortgages**

When interest rates fall, many borrowers want to renegotiate their mortgages. Few have the right to do so, unless their mortgages are fully open. But if you booked a long-term mortgage insured by Canada Mortgage and Housing Corporation (probably because it was high-ratio - for more than 75% of the purchase price), then you can prepay or renegotiate it after 3 years, on payment of 3 months bonus interest. CMHC-insured mortgages are open after 3 years, by paying a penalty of 3 months interest (and that usually is cheaper than any interest rate differential - the difference between the mortgage rate and current rates, on the outstanding balance, for the rest of the mortgage term). It's one of the advantages of having your mortgage insured by Canada Mortgage and Housing Corporation. Unsure whether your mortgage qualifies? Then go back to your lawyer, notary or lender and check if your long-term mortgage is CMHC-insured. If so, you might be able to break it, and profit from a drop in interest rates.

## **Is A Convertible (Mortgage) In Your Future?**

Everybody knows about convertible cars; so what's a convertible mortgage? It's always been tough to choose between short-term open and closed mortgages. "Closed" is cheaper, but "Open" gives you more flexibility before the mortgage matures. The 6 month convertible mortgage solves the dilemma, by offering the best of both worlds. The rate is the same as a short-term closed mortgage; but it also lets you lock-in (or "convert") to a longer-term mortgage (usually a minimum of one year); and that's important if rates look like they might rise mid-term. What do you sacrifice with a convertible mortgage? The right to change lenders before the mortgage comes due - a small price to pay. But be careful; there's no standard definition for a convertible mortgage; so it's important to know exactly what it says, how it works and what fees are involved. And make sure the convertible clause is in writing, too.

## **Portability - A Must For Long-Term Mortgages**

Many people are "move-up buyers", selling one house and buying another before their long-term mortgage matures. To avoid a costly prepayment penalty if you move-up mid-term, make sure your mortgage is portable - a feature offered by some, but not all lenders. Then you can pack up your mortgage just like your furniture, and move it to your new house. But no penalty is payable, as you're not breaking the mortgage, just shifting it from one property to another. If the existing mortgage is too large, you can pay it down, possibly subject to a penalty. And if the current mortgage is too small, you can borrow extra money (assuming the income and property value criteria are satisfied) and blend together your existing rate with the current rate on the additional funds. For portability to work, you must be a committed homeowner for the entire mortgage term, though not necessarily committed to any one house. Portability makes the long-term mortgage a viable option.

## **Not All Weekly Mortgages Save Borrowers Money**

Borrowers don't benefit just because a mortgage is paid faster than monthly - weekly, bi-weekly or semi-monthly; the key is how the amount payable is calculated. For a fast-pay mortgage to save money, one quarter of the regular monthly payment should be paid each week, or one half every two weeks. This "accelerated" weekly/bi-weekly payment reduces the normal 25-year amortization by 5 years or more. Some mortgages, though, take the total amount payable each year, and break it into 52 or 26 pieces; less is paid each week/every two weeks, but it does little to cut the amortization. How can you be sure you'll get "the real thing" - an accelerated weekly or bi-weekly mortgage payment? Ignore the idea at the outset; shop for a mortgage with monthly payments amortized over 25 years. But before booking it, divide that payment by 4 or 2, depending if payments are weekly or bi-weekly. What pops out of your calculator is the correct accelerated payment, the one that will save you tens of thousands of dollars in mortgage interest.

## **Payment Frequency - How It Can Affect Interest Costs**

*The following example is based on an \$80,000 mortgage at 8% and assumes a constant rate throughout the amortization period.*

PAYMENT FREQUENCY	AMOUNT OF PAYMENT	AMORTIZATION (YEARS)	TOTAL INTEREST COST*
Monthly	\$ 610.58	25.0	\$ 103,165
Semi-Monthly	\$ 305.29	24.9	\$ 102,238
Bi-Weekly	\$ 281.81	24.7	\$ 100,870
Weekly**	\$ 140.91	24.6	\$ 100,443
Accelerated Bi-Weekly	\$ 305.29	19.9	\$ 78,015
Accelerated Weekly***	\$ 152.65	19.9	\$ 77,723

\* Assumes a constant interest rate throughout the amortization period.  
\*\* \$610.58 x 12 / 52  
\*\*\* \$610.58 x 12 / 48 (results in an extra month's payments each year)

## **Boosting Your Mortgage Payment**

Not so long ago, borrowers couldn't increase their mortgage payment over time. So the hardest payment to make was always the first. Today, most lenders will let borrowers permanently hike their payment by up to 10% once each year, on a payment date. That's an effective way to prepay your mortgage, and cut the high cost of homeownership. Say you booked a conventional \$100,000 mortgage at 8%; your monthly payment: \$763.21. If you boosted that payment by \$5 next year (to \$768.21), and by another \$5 each year after that, your mortgage would be paid off more than 3 years faster, while you'd save over \$15,500 in interest. All by simply adding \$5 more than what you were paying the previous year to your monthly payment, each year. Another way is with the Double-Up option: making an extra payment equal to your regular payment once a month. The extra payment goes directly to paying down your principal, cutting your total interest cost.

## **How Open Is Your Mortgage?**

One of the most confusing areas of mortgages involves prepayment privileges. Virtually all mortgages have some "Open" feature, allowing them to be prepaid early. The majorities are "Limited Open"; part of the mortgage (just 10% or 15%) can be prepaid each year, with the rest remaining "Closed". With a "Fully Open" mortgage, the whole amount can be prepaid at any time without penalty. Fully open fixed-rate mortgages are only available for very short terms (a year or less) and carry higher interest rates. Most variable-rate mortgages are fully open. Other mortgages are "Open", but not fully open; that means they can be fully prepaid at any time, but only if a predetermined penalty is paid. Usually it's the greater of 3 months bonus interest and the interest rate differential (the difference between your mortgage rate and current rates, on the outstanding balance, for the rest of your mortgage term). With so many variations, "Open" clauses are a key area to investigate when mortgage shopping.

## **Property Tax Accounts Can Be "Taxing" For Homeowners"**

Having to pay property taxes with each mortgage payment irks a lot of borrowers. So why do some lenders insist on collecting them? Because unpaid property taxes are a special lien that ranks higher than a first mortgage. By collecting the taxes and paying them, the lender ensures the taxes are always up-to-date. While paying the taxes and mortgage together may be convenient for borrowers, it's also more costly. Property tax accounts put a real crimp in a borrower's cash flow, as they can wind up paying property taxes up to six months ahead of time. And little, if any, interest is earned on the money on deposit, too. Not all lenders insist on a tax account. Many others will let you pay your own property taxes, if you've got good equity in your home and a decent credit rating. So ask about property taxes when shopping for a mortgage.

## **If Interest Rates Are Down, And Your Mortgage Is Up For Renewal, What Should You Do?**

People who booked long-term mortgages several years ago will find their interest rate lower on maturity. So here's a strategy to save you money. Instead of reducing your payment to reflect the lower rate, make the same payment as before - or pay something in between. If your payment was \$800 a month, and it now should be \$700 (because interest rates have dropped), still pay \$800 despite the lower rate, or as close to it as possible. Why? Every dollar paid over \$700 a month will reduce the balance owing. That will slash years off the time needed to retire the mortgage, while saving you thousands of dollars in interest costs. And since interest is a non-deductible expense, the savings in terms of gross income are even higher. Keeping the same payment after a cut in interest rates is an effective way to prepay your mortgage.

## **What Can You Do When Your Mortgage Comes Due?**

When a mortgage matures, borrowers have always had three options - the 3 Rs - Retire, Renegotiate and Renew. In the past, changing lenders was expensive, so most borrowers renewed their mortgages with the same lender on maturity. Today, borrowers have a fourth option - the switch or transfer-in. It lets them change lenders for nearly the same cost as renewing. Instead of registering a new mortgage and de-registering the old one, the existing mortgage is transferred from the old to new lender. As that's done without involving a lawyer, switching is much cheaper than refinancing. However you may be charged a "switch-out" fee (up to \$250), and require a new appraisal when you "switch-in". Not every mortgage can be switched, though; it's limited to owner-occupied homes, and mortgages held by institutional lenders. Switching is also possible when the amount owing is to be increased; however, you'll have to pay additional legal and appraisal costs.

## **Should You Go Short-Term Or Long-Term On Your Mortgage?**

That's one of the toughest decisions borrowers face. Much depends on your unique needs and circumstances, your character and personality. Are you a first-time buyer anxious for the security a long-term mortgage offers? Or are you a homeowner with equity, who can afford to take a chance going short-term? Are you a risk-taker, prepared to face the interest rate merry-go-round every six months? And how long do you plan to own the house? A lot depends on market conditions, too. If rates are falling, you might opt for a short-term or variable-rate mortgage. If they are climbing, long-term may hold more appeal. And if the rate spread between long and short-term mortgages is small, does it make more sense to go long-term? When choosing a term, there's no "right" or "wrong" answer - it all depends on you.

## **Insuring Your Mortgage?**

What if you die while your mortgage is outstanding or if you take sick? Then how will your mortgage be paid? By arranging life insurance, either directly or through your lender, the necessary funds will be available to fully retire the mortgage on death. But before booking it, carefully assess whether the amount of insurance coverage you currently carry is adequate to cover your mortgage and your family's ongoing day-to-day and investment needs. Disability insurance will help cover your mortgage payments if you become sick or disabled. Again, first see if your present level of disability insurance is satisfactory; if not, seriously consider arranging it, or hiking the amount, to protect your family. Many lenders offer both life and disability insurance as options, but few absolutely require it. Since a mortgage is one of the largest financial commitments you'll ever make, it's the ideal time to review your insurance needs and coverage - and to make any necessary changes.

## **Home Insurance**

Everybody needs to insure their home - but some people actually over insure it. As the land on which a home sits won't burn, only the building must be insured. If the amount outstanding on your mortgage is less than the value of the building, there's no problem. But if the balance owing on your mortgage exceeds the value of your home, insuring the mortgage amount means you're over insuring the building. Insurance coverage should be determined by the value of the building - not the size of the mortgage. One way to avoid this dilemma is by having a "replacement cost endorsement" for the building appear in your insurance policy. Replacement cost coverage guarantees that the insurer will pay the full cost of rebuilding the home, even if the loss is greater than its insured value. This endorsement is available at nominal - and sometimes at no additional - cost. But it's limited to owner-occupied homes, not income-producing properties. And don't forget - your fire insurance must be in place at the time of closing.

## **Making Your Mortgage Interest A Deductible Expense**

Most people can't write off the interest paid on home mortgages, as the money is borrowed to pay for the house. But that's not the case if money is borrowed for a business or investment purpose - to buy stocks, mutual funds or income-producing real estate. Then the interest is deductible, even if a mortgage is registered against your home to secure the loan. The fact your house is pledged as collateral for the mortgage is immaterial; how the borrowed money is used determines whether or not the interest can be written off. A 9% mortgage is actually cheaper than an 8% mortgage, if the interest on that 9% mortgage is deductible. That's why Canadians should strive to pay down their mortgages as quickly as possible. With more equity in your home, you've got a terrific opportunity to book a new mortgage, use the funds to earn income, and write off the interest.

## **Put Your Tax Refund To Good Use**

In 1995 the estimated average tax refund for Canadians was \$1,000. A great way homeowners can save money on their mortgages is by applying their tax refund to their mortgage. Say you booked a \$100,000 3-year mortgage with a 25-year amortization one year ago, at 8.75%. If you put your \$1,000 tax refund towards your mortgage this year, you'll cut the interest cost by nearly \$6,600. And because mortgage interest generally is a non-deductible expense (paid in after-tax dollars), the savings in earning capacity are even greater. If you're in the 40% tax bracket, you must earn almost \$11,000 more at work, and pay tax of nearly \$4,400, to be left with the same \$6,600 savings that you get from prepaying one year's tax refund towards your mortgage. Looked at another way, unless you can earn over 14.5% pre-tax, choosing another investment over prepaying your 8.75% mortgage doesn't make good financial sense. Crunch the numbers, and you'll see why your mortgage is a good place to park your income tax refund.

## **From Contract To Closing**

First-time buyers often complain: "How I wish I'd known at the beginning what I know at the end!" To avoid that, here's a practical check list of 10 things buyers should do between signing an Agreement of Purchase and Sale and the closing.

- 1) Choose a lawyer/notary (if not already done) and arrange for the signed offer to be delivered to him/her as soon as possible. Review the fees and disbursements (and GST on both), anticipated adjustments, provincial transfer tax, mortgage deductions and other closing costs. Depending on the province and the property, these items can total 2% of your purchase price - even more for a newly-built home. Also review with your lawyer/notary how you want to be registered on title.
- 2) Satisfy any outstanding conditions (such as financing or a home inspection) within the time frame set by the offer. Be sure you fully understand how to keep the contract alive, or cancel it if the conditions can't be satisfied.
- 3) Once your mortgage application has been approved, have the mortgage commitment sent to your lawyer/notary.
- 4) Only funds on deposit for at least 90 days can be withdrawn under the Home Buyers' Plan - the RRSP program. So make the maximum contribution to your RRSP as early as possible.
- 5) Tenants must either cancel their lease or sublease their current premises, if permitted. How much prior written notice is needed will vary from province to province, so check it out with your lawyer/notary.
- 6) Arrange insurance coverage to take effect on closing. Be sure the insurance agent provides your lawyer/notary with a "binder letter" before closing, showing the name of the insuring company, the amount of coverage, its expiration date, and the name of any lenders in the loss payable clause. Coverage should be for the full insurable value of the building only (not the land), on a replacement cost basis.
- 7) Normally your lawyer/notary contacts the water, hydro and gas departments to have the meters read on closing, new accounts set up in your name, and final bills sent to the seller. Many buyers do a "double-check" a few days before closing, just to be sure. Contacting the telephone and cable tv companies is your responsibility.
- 8) Arrange for your move as early as possible, whether you are hiring a mover or renting a van. And remember - packing will take more time than you think.
- 9) Organize who to notify about your change of address - from the post office to magazine subscriptions. And don't forget about the provincial driver's license and motor vehicle department. Failing to do so could mean a fine.
- 10) Plan to meet your lawyer/notary a day or two before closing to review and sign all closing documents - not the actual closing date, when so many other things must be done. At that time you should deliver the money needed for closing, in certified funds, payable to your lawyer/notary in trust. Be sure to get information about any payments due right after closing - the mortgage, property taxes, or condominium maintenance.

## **Bonus Tips**

What questions do first-time home buyers ask most often? "When and where will the keys be ready for pick up?" For resale homes, normally the keys change hands on closing at the registry office. To avoid having the keys make the long trek back, see if they can be left near the house - with a neighbor or the real estate agent - or if they can be obtained directly from the vendor. Imagine what time that will save when your family is anxious to move into their new home. Getting keys for a newly-build home is much easier - usually they are released from the site office once the deal closes. "When can we move in?" Many resale offers now let buyers state by what time the deal must close and the seller vacate the house. Otherwise you risk paying extra hours for your mover while you wait for the seller to move out.