FOR YOUR INFORMATION

BUYING A HOME

Compliments of

When Should I Buy?

In general, you should consider buying property as soon as you can afford it. But make sure that you can afford it. First figure out what kind of price, home and location you can afford.

Financing: How Can I Buy It?

Before you begin seriously looking for a house, ask the loans officer to pre-approve you for a mortgage. This will let you know the maximum amount you can borrow, the price range of houses you can afford and what you can expect for a mortgage payment. In addition the bank will lock in your interest rate for 60 days. If the rates increase, yours will remain the same. If the rates drop, you will get the lower interest rate. Then when you find the house you want to buy, you know you can afford it.

Mortgage Terminology

Banks, trust companies and credit unions will be jointly referred to in this brochure as "banks".

Conventional/High Ratio: A conventional mortgage is one where you borrow up to 75% of the purchase price or appraised value, whichever is less. A high ratio mortgage is where you borrow over 75% and there is an additional insurance cost in case you default on the mortgage. Ask your bank for details.

Amortization & Term: Amortization refers to how long it will take you to pay your mortgage. The most common amortization period is 25 years. The shorter the amortization, the higher your monthly payments and the quicker you will pay off your mortgage. Term refers to how long you want to fix the interest rate and the mortgage payments. You can choose a term between 6 months

and 5 years, or longer. Longer terms have lower interest rates and higher mortgage payments. You would choose a shorter term if you think interest rates will decrease. Choose a longer term if you are comfortable with the current rates and want the security of knowing that you won't risk an increase in mortgage payments.

Fixed/Floating Interest Rates: Mortgage interest rates can either be fixed (where they remain the same for the entire term of the mortgage) or floating (where they vary with the lender's prime rate). For floating rates, lenders will determine their base interest rate (called the prime rate) and adjust the loan as either above that rate (prime plus) or below (prime minus). As the lender's prime rate changes, the amount of interest you pay changes also.

The interest rate charged by a lender will depend upon things such as your credit rating, the length of term you choose and whether the mortgage will be open or closed. You will be offered a better interest rate on a 5 year closed mortgage than on a one year open mortgage. The more you commit to stay with the lender (closed, longer term mortgages) the lower the interest rate.

You would choose a fixed rate when you thought that mortgage rates might rise in the future, and a floating rate where you thought that rates will remain stable or decrease. Lender's will often allow you to change a floating rate to a fixed rate during the term, but you will have to accept the lender's then current rates.

Open/Closed: An open mortgage (generally 6 months or 1 year terms) allows you to pay down or pay out your mortgage before the end of the term without any penalty. A closed mortgage, in the strictest meaning, does not allow you to pay down or pay out your mortgage before the end of the term. However most closed mortgages will give you "prepayment rights" (see below). An open mortgage will have a higher interest rate than a closed mortgage of the same term.

Pre-Payment Rights: This gives you the ability to pay off your mortgage faster by increasing the amount or timing of your monthly payments or by paying a yearly lump sum. Call several lenders and compare the options.

Penalty: If you have a closed mortgage and you want to sell your house or pay more than your prepayment rights allow before the end of the term, the bank will normally charge you a penalty of 3 months interest or an "interest differential", whichever is higher.

An "interest differential" applies where current interest rates are lower than yours - the bank will charge an amount for the loss of interest to the end of the term. So if interest rates are 1% lower and you have two years left, they will charge you a penalty equal to 1% of the mortgage for two years. Some mortgages will not allow you to pay out at all, even with a penalty. Again, ask your bank for details.

Assumption: This allows someone to take over another person's mortgage. This could be an additional incentive to a purchaser when you sell if your interest rate is lower than current interest

rates. Be warned that if you allow a purchaser to assume your mortgage, your bank may still be able to sue you if the new purchaser doesn't make the payments. An assumption adds new people to the mortgage. It does not automatically release you. You must ensure that you will be released from the mortgage by your bank if it approves the new purchasers for an assumption.

Early Renewal: This allows you to renew your mortgage up to one year before the end of your term. This is a good option if interest rates are rising and you expect them to be even higher on your renewal date.

Portability: This allows you to get a replacement mortgage if you sell and move. You can get a mortgage identical to your current one (payments, interest rate and balance of term). If you need to borrow more money for the new house, you may be able to get a blended interest rate - a combination of your old rate and the current interest rate on the additional amount borrowed. If you have a closed mortgage with a penalty payable on the sale of your home, you may be able to reduce or avoid the penalty by giving the lender a mortgage on your new home a

Mortgage Brokers

Mortgage brokers compare benefits and costs of mortgages offered by different companies. They can sometimes get you a better deal on an interest rate than you could on your own. Be sure to ask about fees - most mortgage brokers are paid by the bank and some by you.

Beware of getting a mortgage from a small financial institution with either high interest rates, costly penalties or approval fees. Instead consider saving up your down payment and waiting until you can better afford and maintain a home.

You can also get information on options and rates yourself by calling several banks or credit unions.

Choosing A Realtor

The best way of choosing any service is word of mouth recommendation. Rely on your gut feelings also - do you like/trust that person. If the first realtor you choose is not doing the job, don't be afraid to let him go and get another. Remember, the buyer doesn't pay for the realtor, except through the purchase price when you buy.

If you are considering buying a home through a private sale, you might be able to get a good deal, but remember the seller has decided not to use realtor to increase his profit - not to give you a deal.

You can get a good deal using a realtor by looking for the "right deal" (ie. estate sale, someone who "has" to sell because moving). The realtor can do the looking for you, check the title and access information by using the Multiple Listing Service.

Some Warnings and Tips

- prepare a budget to ensure you can afford the house once you buy it.
- buying a fixer upper can mean spending a lot more money once you move in, especially if you don't have a background in the building trades.
- when saving to purchase, don't just put aside a downpayment. Ensure you have reserve money for expenses when you move in: replacing old appliances, paint and wallpaper, furniture, etc.
- consider having the house looked at by a friend in the building trades or by an building inspection service (listed in the yellow pages).

Costs of Buying

- contract price.
- GST if new or substantially renovated.
- financing costs: inspection/appraisal, survey certificate.
- Property Purchase Tax (1% on the first $200,000. and 2% on the balance).
- property tax and utilities adjustments.
- legal fees and disbursements (you can phone a lawyer for quotes).
- insurance, hydro/telephone hook up etc.

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