THE ULTIMATE GUIDE TO BUYING A HOME

In Canada

Introduction

Buying a home is a complicated multi-step process and a significant financial commitment. Whether you are buying your first home, looking for something larger for a growing family, seeking an investment opportunity, or right-sizing for an empty nest or retirement, it's important to know what to expect in the home-buying process.

This step-by-step Home Buyers Guide will prepare you for the essentials of buying a home and help you to navigate each step in order to make informed decisions. This guide will give you the information you need to design your personalized home buying strategic plan. Your plan will bring into focus your vision (needs and wants), your objectives (what, when, and how much), and your home buying team (buyer agent, lender, lawyer, home inspector, and other consultants).

When you are ready to find your home and make this life-changing purchase, we recommend you partner with a home buyer's agent—a seasoned and trained real estate professional. An agent has the local market knowledge and negotiating skills you need to save time, money, and hassle when purchasing your home.

Just a quick disclaimer.

Every residential and commercial real estate purchase is unique. This Ultimate Guide to Buying a Home in Canada ("Guide") is provided for general informational purposes only. Any reliance or action taken based on the information provided is the sole responsibility of the user. Readers are advised to consult appropriate professional resources to determine what is suitable in their particular case. It is recommended that professional resources also be consulted for the purchase of condominiums, vacant land, investment properties, vacation or second homes, commercial or industrial properties, or in-law suites. This Guide assumes no responsibility for any consequences arising from use of the information provided in this Guide.

So here’s what you need to know…

(And if you have any questions, it’s always good to chat with a realtor.)

Let's talk budget.

It doesn't have to be a dirty word.

If you are one of the fortunate few with cash available for the purchase of your home, you already know the maximum price you can spend on a home. In this situation, keep your purchasing power confidential in order to maintain your negotiating leverage.

If you require financing, your first step in buying a home is to calculate how much you can afford to spend each month on housing. Understanding your monthly budget will reveal how much mortgage you are eligible for and, consequently, how much you can afford to pay for a home.

Calculating affordability.

To determine if you are qualified to receive a mortgage and purchase a home, banks and lenders determine both your Gross Debt Service Ratio which is based on the ratio of your income to your housing costs and your Total Debt Service Ratio which is based on the ratio of your income to the total of your monthly expenses.

Housing Costs - Gross Debt Service (GDS) Ratio

The Gross Debt Service Ratio assumes that your housing costs (including mortgage, realty tax, heating, and 50% of condo fees [if applicable]) should not exceed 32% to 38% of your gross monthly income.

Debt Load - Total Debt Service (TDS) Ratio

In addition to calculating the monthly ratio for housing costs, banks and lenders also consider that your total monthly expenses should not exceed 40% to 48% of your gross monthly income. This is called the Total Debt Service Ratio. Total debt costs are based on your total monthly fixed payments

The maximum amount you can afford per month for a home is dependent upon your GDS and your TDS. If your monthly housing costs are above 32-38% or your total monthly debt exceeds 40-48%, you may find it difficult to qualify for a mortgage.

So, how much house can you afford?

Once you understand your monthly income against your monthly debt load, you can calculate the maximum monthly home payment you can comfortably afford which will help you determine your home price range.

Sample Mortgage Affordability Calculation

Annual	**Monthly (Annual / 12 months)**
Annual income: $150,000 Annual Heating costs: $2,400 Annual Realty tax: $3,600	Monthly income: $12,500 Monthly heating costs: $200 Monthly realty tax: $300

Monthly mortgage affordability formula

(monthly income x 32%) – heating costs – realty tax = monthly mortgage payment available

Sample: (12,500 x 32%) – 200 – 300 = $3,500 per month

Pro tip: Get mortgage pre-approval.

It's the best way to avoid surprises.

It is highly recommended that you get pre-approved for a mortgage loan from a bank or financial institute before you start your home search. Pre-approval will give you an accurate estimate of how much you can afford and will send a message to sellers that you are a motivated buyer. When the market is tight and demand for homes is high, pre-approval can give you an edge over other buyers in a multiple offer situation.

Bonus:

First-time home buyers may be entitled to a tax credit, aptly named the "First-Time Home Buyers Tax Credit". Visit the Canada Revenue Agency website to see if you qualify.

Mortgages.

Finding your best match.

You have several mortgage options to choose from when buying a home. Your mortgage lender or mortgage broker will provide you with details regarding options available to you.

On the following pages, we are going to summarize the key information you'll need in understanding your mortgage.

Mortgages Mortgages.

Interest Rates

Fixed Rate: The interest rate is locked-in and will not change for the term of the mortgage.

Variable Rate: The interest rate fluctuates with market rates (usually a percentage point above the prime rate of the lender) but the mortgage payment stays the same.

Projected Variable Rate: The interest rate fluctuates but not above a preset maximum amount.

Mortgage Term (Length)

The mortgage term is the length of time (anywhere from six months to ten years) during which the mortgage contract conditions, including interest rates, are fixed.

At the end of the term, you can renegotiate your mortgage. A longer term allows you to plan your expenses further into the future, but may limit your ability to take advantage of lower interest rates in the interim.

Conventional vs High Ratio

Conventional Mortgage:
The loan is equal to or less than 80% of the lending value of the home. This requires at least a 20% down payment.

High Ratio Mortgage:
The loan is greater than 80% of the lending value of the home. This is necessary when the down payment is less than 20% and usually requires mortgage loan insurance.

Mortgages Mortgages Mortgages.

Open vs Closed Mortgages

Open Mortgage:
An open mortgage allows you to pay the mortgage off at any time prior to the end of the term without penalty. This is a good option if you expect to sell your home in the near future or want to pay off large sums of your mortgage when available.

Closed Mortgage:
A closed mortgage offers limited or no options to pay off your mortgage early in full or in part. This option gives you a predictably fixed payment and usually has a lower interest rate than an open mortgage.

Terms to Your Advantage

Pre-payment Options:
Pre-pay amounts up to an annual percentage of the Principle monthly or in a lump sum at any time or times.

Portable Mortgage:
Portability allows you to transfer your mortgage to a new home purchase when you sell your existing home.

The price.

There are a few important things to consider.

Once you understand your budget and your mortgage options, determine the type of home you can afford. Figure out a comfortable monthly mortgage payment that you can easily maintain and which will allow you to continue to live a well-rounded life including hobbies and entertainment and stay prepared for unforeseen events and expenses.

Keep in mind that the amount of mortgage for which you qualify by your lender or bank may be higher than you can maintain and still lead a balanced life. The house you purchase now will affect your finances and lifestyle for many years.

Consider all of your costs.

Buying a home is a really big deal, just make sure you think it through.

Consider both upfront and long-term costs of owning your home. At the time of purchase, you must be prepared to make a down payment and pay closing costs, home inspection and appraisal fees, legal fees, and moving costs. Long-term you will be responsible for mortgage payments, homeowner's insurance, property taxes, association fees (if applicable), maintenance and repairs, and utilities.

Determine how much financial burden you are prepared to take on and fix a target price and maximum price you are willing to pay for your home. This will give you a price range you can use to begin your home search. Next review the sale options in your selected market area and get a sense of what your price range will buy you.

Be realistic about what and how much home you can afford in your price range. When reviewing listings in the area in which you intend to purchase a home, keep in mind that the same payment that would buy you a luxury home in Halifax will only get you a small condo in Vancouver.

Selecting an agent.

This is one of the largest purchases of your life. It's good to find help.

Your real estate agent is your partner in your home buying search and purchase. An agent will help you understand the local market, assist you in your search, and support you in negotiating your Offer and purchase.

Some agents specialize in representing buyers, others sellers, and many do both. When representing both the buyer and the seller in the same transaction it is known as a dual agency. Dual agency must immediately be disclosed to both parties. In some areas, dual agency is prohibited.

The advantage of using an agent.

It’s not impossible to do it yourself, but it’s an unnecessary disadvantage.

A buyer’s agent is an invaluable asset when looking to understand the local market. Your agent can provide insight into the neighbourhoods that best suit your lifestyle, advice on homes with the greatest resale potential, and analysis of a location’s advantages and drawbacks. Working with a veteran real estate agent can be the key to ensuring you get the best price and terms for your home purchase.

There are many advantages to working with an experienced real estate agent rather than going it alone.

- In-depth local market knowledge
- Insight into a broad pool of real estate opportunities
- Connections to a network of qualified professionals to recommend (i.e. lenders, lawyers, home inspectors, appraisers, insurance brokers, etc.)
- Experience in real estate negotiations and writing Offers

Agent commission structure.

Sometimes it’s “on the house”.

The seller usually pays the commission for both the buyer’s and the seller’s real estate agent, but you, as the buyer, may opt to pay your agent yourself, excluding that fee from the purchase price.

Just as sellers have a Listing Agreement with their agents, it is very important that you as the buyer have a Buyer Purchaser Agreement with your agent.

This Agreement will establish who is responsible for payment of your agent’s commission (buyer or seller) and will formalize the contract commitment between you and your agent.

Time to make an offer.

Make moves that matter.

When you have found the house you want to buy, it’s time to make an Offer. The offer process is market driven—is it a buyer’s market or a seller’s market. The market conditions will drive how quickly and aggressively you must act when submitting an Offer. Your real estate agent will help you with the elements of the Offer, Offer documentation, and the negotiation process.

The Offer is a legal agreement usually prepared by your agent and/or lawyer. The Offer will define your offer price, the expiration date for acceptance of your Offer, a good faith deposit (“earnest money”), inclusions to the sale (such as appliances), proposed dates for when you take possession of the property, and offer contingencies or “conditions.”

Conditional Offers.

Offers can be conditional subject to events such as: the buyer obtaining mortgage approval, a satisfactory home inspection report, a completed appraisal by the mortgage company or bank, or a sale of the buyer's current home.

If renovations have been made by the seller, you should ask for copies of the building permits and municipal inspections to confirm the work completed has been done to code and is permitted.

In the case of waterfront properties, you should request water test results within the past thirty days and information on whether the lake shore allowance is owned or leased from the government.

In the case of a condo purchase, the buyer needs assurance the Affairs of the Condo and Condo Board are in order. Offer should be conditional upon the seller providing a Status Certificate from the Condo Board. The status certificate is a document, as per Section 76 of the Ontario Condo Act, that provides basic and essential information concerning the financial status of a unit and of the condo corporation.

Closing a conditional offer.

Make moves that matter.

If conditions are not met or completed prior to expiration, the Offer will be cancelled unless both buyer and seller agree to an extension or amendment of conditions.

Once all conditions have been addressed, the parties agree in writing (verbal agreements are not valid) to waive or remove the conditions in the Offer and then, and only then, does the Offer become a binding agreement.

Get a home inspection.

Seriously.

You may be tempted to waive the home inspection condition particularly in a tight market. However, this is a risk rarely worth taking. A home inspection will review the condition and functionality of items such as the hot water tank, electrical, plumbing, appliances (if included in the purchase), and roof. An inspector will look for red flags such as visible wall cracks, leaking in the basement, foundation cracks, window leaks, mold, and pests.

A professional home inspection is usually a requirement from your bank or lender as a condition to receive a mortgage and from your insurance company. Secondly, the home inspection condition gives you a way out of the Offer if significant issues are found in the home. A home inspection can also reveal issues that you can negotiate with the seller to have repaired prior to purchase. It also gives you peace of mind that there will be no unforeseen issues with the home soon after Closing.

Offer acceptance.

The second-last step.

There are three possible outcomes in response to your Offer:

1. **The offer is accepted as is.**
2. **Counter Offer**: the seller makes changes to your offer, adjusting items such as the price, closing date or other conditions. You may then accept the counter offer or make another counter offer to the seller.
3. **Rejection of the offer**.

After submitting your Offer, be prepared to negotiate terms such as price, inclusions, deposit, possession date, and deadlines for condition removals. Once your Offer is accepted, you should visit your mortgage lender or broker to finalize your mortgage details. The contract will become final once the price is agreed to and all of the conditions have been met or waived.

Closing!

The final step.

Closing is when you obtain legal ownership of your new home. The final signing will complete the transfer of money (via cash or mortgage, as applicable) and transfer ownership. You will also pay required closing costs and the down payment.

Closing costs.

And then you're done!

Closing costs usually include:

Disbursement fees – Expenses pre-paid by the sellers including items such as real estate taxes, water bills, heating fuel, electric bill, etc.

Legal fees – Legal fees can include title search, preparation of the Offer, preparation of the deed, registration of title and deed, preparation and review of adjustments usually to resolve issues such as prepayment dates, receipts, etc.

Mortgage fees – Fees associated with obtaining your mortgage include appraisal fees, home inspection fees, credit report fees, mortgage default insurance fee (when the down payment is less than 20%), etc.

Government fees – Government fees can include a land transfer tax, HST, and other costs for your province or local government. Check with your lawyer regarding fees and taxes as well as potential rebates.

Additional costs - In addition to formal closing costs, you as the home buyer should anticipate possible costs such as municipal inspectors, water supply and safe drinking water tests, moving costs, storage costs, short term accommodation expenses if selling an existing home, new furniture and appliances, etc.

Congratulations & welcome home.

Now you can think about paint.

Fin!