



HOMEBUYERS' ROAD MAP

CREA THE CANADIAN
REAL ESTATE ASSOCIATION



Financial Consumer
Agency of Canada

Agence de la consommation
en matière financière du Canada



Navigating



with a REALTOR®

REALTORS® are experienced in everything you need to know and do when buying a home.

Your REALTOR® can help you:

- Navigate the home buying process and paperwork from start to finish, ensuring everything flows smoothly without any surprises.
- Find the right home, in the neighbourhood you want, at a price you can afford.
- Compare your property with similar properties that have sold over the past year.
- Get a feel for the neighbourhood including schools, parks and other amenities.
- Find out if you are eligible for government homeownership incentive programs.
- Assess mortgage products and different types of lenders to see what fits your needs.
- Negotiate purchase price and contract terms, such as date of possession, required repairs, included furnishings or equipment.
- Direct you through complex contracts.
- Find qualified industry professionals, such as real estate lawyers, home appraisers and home inspectors.
- Plan for closing costs and other related expenses.



Assess your present household budget and your annual income to determine if you are eligible for a mortgage and how much you can comfortably afford.

Also check out the Mortgage Affordability Calculator at www.REALTOR.ca.

1. Assess Financial Readiness

What do lenders require?

Mortgage lenders use two calculations to help determine your eligibility for a mortgage – your Gross Debt Service (GDS) ratio and your Total Debt Service (TDS) ratio.

Your GDS ratio is the percentage of your gross monthly income used for mortgage payments, taxes and heating costs or - if you are buying a condominium - half of the monthly maintenance fees. As a general rule of thumb, your GDS ratio should not be more than 32% of your gross monthly income.

Your TDS ratio is the percentage of gross monthly income required to cover monthly housing costs, plus all your other debt payments, such as car loans or leases, credit card payments, lines of credit payments and any other debt. Generally, your TDS ratio should not be more than 40% of your gross monthly income.

Have you been pre-approved?

Getting pre-approved for a mortgage before looking at properties gives you a more realistic expectation of what you can afford.

However, keep in mind that the pre-approved amounts can overestimate what you can actually afford to pay.

Pre-approval does not guarantee you will be approved once you actually apply if market conditions, interest rates, or your personal circumstances change.

Do you know your credit rating?

Order a copy of your credit report to make sure it does not contain any errors because lenders will check it before approving you for a mortgage. A credit report is a summary of your financial history and shows whether or not you have had any problems in the past paying off debts.

The Financial Consumer Agency of Canada (FCAC), a federal government agency, has tips on how to order your credit report for free and how to improve your credit rating. Visit FCAC's website at:

www.itpaystoknow.gc.ca.



A mortgage is a loan, generally used to buy a property. How much you pay depends on how much you borrow (the principal), the loan's interest rate, and how long you take to pay it back (the amortization period).

Do not be afraid to negotiate interest rates and mortgage terms with different lenders.

They are offering you a product and talking to more than one lender helps you make an informed decision.

2. Consider Mortgage Options

What type of mortgage is best for you?

- Fixed rate mortgages: Your interest rate is locked in for a specified period called a term. Your payments stay the same for the mortgage's term so you will not pay more if interest rates increase over time.
- Variable rate mortgages: Rate of interest you pay may change if rates go up or down.
- Conventional mortgages: Require a down payment of more than 20% of the property's value. You are not required to get mortgage default insurance with a conventional mortgage.
- Closed mortgages: The mortgage cannot be paid off early without paying a prepayment charge.
- Open mortgages: A mortgage that can be paid off at any time during the term, without having to pay a charge. The interest rate for an open mortgage may be higher than for a closed mortgage with the same term.

What mortgage features are best for you?

- Portable mortgages: If you sell your existing home, you can transfer your mortgage to your new home while keeping your existing interest rate. You may be able to avoid prepayment charges by porting your mortgage.
- Prepayment privileges: You can make lump-sum prepayments or increase your monthly payments without having to pay a charge. This can help you pay off your mortgage quicker and save on interest charges.

How often can you make your payments?

- By switching from monthly payments to accelerated weekly or biweekly payments, you can pay off your mortgage faster. Explore your options for mortgage payments and see how much interest you could save by using FCAC's Mortgage Calculator Tool at: www.itpaystoknow.gc.ca.



What types of mortgage charges might you have to pay?

You may have to pay charges if you prepay large portions of your mortgage early or if you break your mortgage due to unforeseen life changes, such as marital breakdown, death of a spouse or relocating for a job.

It is your right to know how lenders calculate prepayment charges. Read your mortgage contract carefully and make sure you understand how charges will be calculated before you sign.

How much do you need for your down payment?

A down payment is the portion of the property's price not financed by the mortgage. You will need a down payment of at least 5% of the purchase price of the home. For example, to buy a home for \$200,000, you will need at least \$10,000 as your down payment. If your down payment is less than 20%, you will need mortgage default insurance.





When you buy a home with less than a 20% down payment, the mortgage needs to be insured against default. This type of insurance protects the mortgage lender in case you are not able to make your mortgage payments. It does not protect you.

3. Mortgage Default Insurance

Are you planning to purchase a property with less than a 20% down payment?

If yes, you require mortgage default insurance which generally adds 0.5% to 3% to the cost of the mortgage depending on the total amount borrowed.

Mortgage default insurance enables you to purchase a home with a minimum down payment of 5% (10% for multi-unit dwellings) with interest rates comparable to those of a conventional mortgage.

Major providers of mortgage default insurance include Canada Mortgage and Housing Corporation (CMHC), Genworth Financial Canada, and Canada Guaranty Mortgage Insurance Company.





The federal government has assistance programs to help homebuyers. Research government program requirements to see if you are eligible.

4. Research Government Programs

- First-Time Home Buyers' Tax Credit – a \$5,000 non-refundable income tax credit on a qualifying home. The credit provides up to \$750 in tax relief to assist first-time buyers with purchase costs. For more information, check the Canada Revenue Agency's (CRA) website: www.cra-arc.gc.ca.
- Home Buyers' Plan – a one-time withdrawal up to \$25,000 from a Registered Retirement Savings Plan (RRSP) by first-time buyers to help purchase or build a home. Generally, you have to repay all withdrawals from your RRSP within 15 years. For more details, visit CRA's website at: www.cra-arc.gc.ca.
- CMHC Green Home program – when you use CMHC-insured financing to buy or build an energy-efficient home or make energy-saving renovations, you may qualify for a premium refund of 10% on your mortgage default insurance and a premium refund for a longer amortization period (if applicable). Check out CMHC's website for more information: www.cmhc.ca.

Government programs can change over time. For the most up-to-date information, refer to Service Canada's website: www.servicecanada.gc.ca.





Finding your perfect home can be a long process. Your REALTOR® will help identify the right type of home for you and continually research new listings in neighbourhoods that meet your needs.

Check out www.howrealtorshelp.ca to see how your REALTOR® can make the home buying process easier for you!

5. Finding a Home

Where do you want to live?

- Urban, suburban or country?
- Will you need to commute? Do you need access to public transit? How much will commuting cost?
- Are there schools nearby? How will your children get there?

What type of home do you prefer?

- Single-family detached homes stand alone on their own lot.
- Single-family semi-detached homes are joined on one side to another home.
- Duplexes contain two single-family homes, one above the other.
- Row houses (townhouses) are several single-family units, located next to one another and joined by common walls.
- Other types of homes include stacked townhouses, link or carriage homes, condominiums and co-op apartments.

What are the types of ownership?

Freehold

You own the land and house and are responsible for everything inside and outside of the home.

Condominium ownership

You own your unit and share ownership of common spaces. The condominium association is responsible for upkeep of the building and common interior elements, such as halls, elevators, parking garages and the grounds. You pay a monthly fee to the condominium association to cover maintenance costs. The fee varies but can often include utilities, TV services and taxes. You may also have to buy or rent your parking space.

Condos often have strict rules regarding noise, use of common areas and renovations to units. Be aware of your condo's rules before putting in an offer.



Co-operatives

Similar to condos but instead of owning your unit, you own shares in the entire building or complex with the other residents. Co-op residents pay for maintenance and repairs through monthly fees and are subject to the rules and regulations of the co-op board.

Be aware that if you decide to sell or rent your shares, the co-op board has the right to reject your prospective buyer or tenant. Read the co-op's rules before making an offer.

Check out www.REALTOR.ca to see personalized listings for a variety of different housing and homeownership types.





After seeing many different homes, you have finally found one worthy of an offer! What are the next steps?

6. Making an Offer

What is an offer?

An offer is a formal, legal agreement to purchase a home and is legally binding once accepted by the seller. Offers to purchase a home can be made conditional on factors such as financing or a home inspection. If any of the conditions are not met, you can change or cancel the offer, even if the seller has already accepted it.

Do you have your money ready?

You will need to present a deposit along with your offer. The amount varies based on the home's purchase price and the market.

Do you have up-to-date identification?

The federal *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (PCMLTFA) requires REALTORS® to identify clients involved in the buying and selling of real estate. REALTORS® need to record your name, address, date of birth and occupation for their files which are kept for at least five years. They need to see valid government-issued ID.

The Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) provides more information about the Act on its website: www.fintrac-canafe.gc.ca.





Closing costs are the legal, administrative and disbursement fees associated with buying a home. Understanding these fees will help you budget more accurately. Remember these are additional costs over and above the price of the home.

7. Closing and Related Costs

How much land transfer tax will you have to pay?

The land transfer tax is a one-time tax levied by your province when you purchase a property. The tax is based on a percentage of the purchase price of the property, and varies from province to province. Some municipalities also charge a land transfer tax (for example, Toronto).

Have you budgeted for the associated legal costs?

Legal costs cover your lawyer's fees or, in Quebec, your notary's fees. These may include:

- Reviewing the terms of the offer
- Conducting a title search on the property
- Registering a new title
- Obtaining relevant documents, such as surveys and evidence of liens on the property
- Checking the statement of adjustments for taxes, utility and fuel bills, and other costs that have been pre-paid by the seller at the date of closing

Do you need a home inspection?

A home inspector assesses a property's condition and can tell you if something is not working properly, needs to be changed, or is unsafe. They may be able to identify where there have been problems in the past, such as a leaking basement or termite damage.

What other costs can you expect?

- Interest adjustments between date of closing and first mortgage payment
- GST/HST on a new home or a home that's been extensively renovated
- Service charges from utility companies for hook-ups on electricity, gas, internet and telephone services
- Appraisal fees
- Moving costs
- Storage costs if you must leave your current residence before you are able to move into your new home
- Furniture and appliances
- Real estate commissions

Now that you have arrived at your destination, it's time to enjoy your new home!



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