

Community Legal
Education Association



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Purchasing a Home



(1) HOW MUCH CAN YOU AFFORD?

When starting to look for a home, you have to consider what you can practically afford. By setting a maximum price range and keeping to it, you can make sure that you will not over-extend yourself financially. The maximum price range should include the amount you can afford for a down payment as well as the ongoing mortgage payments.

To determine what is affordable, you can refer to the CMHC Guidelines. They state that your monthly housing costs should not be more than 32% of your gross monthly income. Included in housing costs, are the mortgage payments, taxes, insurance and utilities.

Your total monthly debt should not exceed 40% of your gross monthly income. These debts include housing costs, as well as other debts, such as credit card payments, lines of credit, student loans, and car loans.

There are other expenses to consider in the purchase of a home as well, such as legal fees, mortgage insurance and application fees, property insurance, land transfer tax, GST, property tax adjustment, home inspections, and moving costs.

(2) HOW DO YOU FIND A DOWN PAYMENT?

A down payment is the portion of the purchase price of a home that is paid from personal resources, outside of a mortgage. The down payment usually ranges from 5% to 25% of the purchase price. If the down payment equals 25% or more of the purchase price, you will likely qualify for a conventional mortgage loan, which does not require mortgage loan insurance. If the down payment is less than 25% of the purchase price, insurance will be required to protect the lender against payment default.

The Canada Mortgage and Housing Corporation (CMHC) offers a 5% down payment mortgage program. On February 23, 2004, CMHC announced that borrowers will have more options in obtaining that 5% down payment. Previously, borrowers were required to provide the down payment from their own resources. Now the down payment can come from any source, such as borrowed funds and lender incentives, subject to the provisions of the new program.

The Federal Government offers a RRSP Home Buyers' Plan to help first-time home buyers in securing a down payment for their home. The Plan allows eligible purchasers to withdraw up to \$20,000 in RRSPs to purchase or build a home. The withdrawn amount must be repaid within 15 years. If you do not make the repayments as required, the amount will be included in your income.



Purchasing a Home Continued...

3) WHAT ARE THE MORTGAGE FINANCING OPTIONS?

A mortgage is security on a loan for the purchase of a home. The home is used as collateral. If the borrower defaults on payments, the lender may sell the home. The mortgage is repaid in blended payments consisting of the principal (amount borrowed) and the interest (cost of borrowing). Lenders can provide you with a pre-approved mortgage showing approximately how much you can afford to borrow.

Fixed rate mortgages have the same interest rate throughout the term of the mortgage. Floating or variable mortgages also have standard monthly payments, but the interest rate can fluctuate. This affects the amount that is paid towards principal instead of interest. Some mortgages have prepayment privileges that allow the borrower to pay off all, or part, of the principal before the agreed due date. These open mortgages usually have a higher interest rate than a closed mortgage.

There are also second mortgages, which usually have a higher interest rate because of the risk to the lender. The vendor may also lend you the money to purchase the home, which is referred to as a vendor take back mortgage. This type of mortgage may also be sold by the vendor to a mortgage broker.

(4) HOW DOES A LAWYER HELP WHEN YOU ARE BUYING A HOME?

The lawyer can help the buyer make sure that they are getting what they bargained for. The purchaser's lawyer should confirm that the title of the property is as agreed. A Surveyor's or Building Location Certificate may be ordered. The Certificate will confirm that there are no encroachments from or onto the property. The Certificate identifies the land and the dimensions of the structures on the land. In addition, the lawyer may require the vendor to make a declaration of possession, or include specific information about the property, such as the lot size, in the agreement. A Zoning Memorandum specifies how the land may be used and the structures permitted on the land. The lawyer can also address movable items that are included in the sale. Rented items in the house, or personal property with liens, such as a hot water tank, should be identified.

The lawyer can investigate other outstanding matters in relation to the property, including work orders for health, fire, building and environmental by-law non-compliance, certificates of judgment against the property, liens, unregistered liens from utility companies, residential tenancies, and the status of property taxes.

The lawyer will review closing documents including the mortgage and the transfer of land. The purchaser's lawyer will also arrange for the exchange of documents and funds, and forward the appropriate documents: transfer, duplicate title, mortgage, fees, and taxes to the land titles office for registration.