CONSIDERING BUYING A HOME?

The decision to buy a home for the first time may well be the most important purchase decision of your life – one that should be shaped entirely by your own personal needs and preferences.

Since it is a decision which affects you and all other members of your household, it should be made as much as possible collectively, with thorough consideration given to all its personal and financial implications. Above all, it should never, ever, be made on impulse.

Owning a home can be long-term source of pride and pleasure and a satisfying investment. By ensuring *before* you make the commitment that it's what you want and within the limits of what you can afford, you are well on your way to making it a happy home before you even move in.

We look forward to assisting you 416.385.3333

SUMMERHILL PRESTIGE REAL ESTATE LTD.

BROKERAGE

SOME OF THE COSTS INVOLVED WHEN BUYING A HOME

For many of us, buying a home is the largest purchase of our life. While home ownership can be a rewarding experience, the true foundation of security rests in owning a home that falls within your financial limits.

There are extra obligations that you'll take on as a new home owner.

There are four new financial obligations that you should be prepared to assume as a home owner:

UPFRONT COSTS

- Down payment
- Purchase closing costs and extras

MONTHLY EXPENSES

- Mortgage payments
- Other monthly obligations

UPFRONT **COSTS**

As very few home buyers (first-time or otherwise) have the cash available to buy a home outright, most will turn to their financial institutions for assistance. This is the first step in a long-standing relationship between you and your financial institution.

THE DOWN **PAYMENT**

The **down payment** is that portion of the purchase price you furnish yourself. The balance is obtained from a financial institution in the form of a **mortgage**. The amount of the down payment (which represents your financial stake, or the **equity** in your new home) should be determined before you become involved in full-scale house hunting.

A common down payment is 25% to 30% of the selling price of the home. The minimum down payment generally accepted today is 10%, although special conditions do exist which permit as little as 5% down. There is no limit to the maximum down payment you can make. There is no over-riding consideration, however, in determining how much to put down:

> *The larger the down payment, the less your home will cost in the long run. With a smaller mortgage, interest costs will be lower and over time, this will amount to significant savings.*

SALE CLOSING COSTS **AND EXTRAS**

Most people considering their first home purchase know they must have capital set aside for the down payment. Potential home owners often overlook, however, the other initial costs associated with the actual purchase. These costs can add up, so it's important to have a good understanding of the types of expenses you're likely to incur. For a resale home, these extras can easily add 1.5% to 2% to the basic purchase price.

Inspection Fee

It is recommended that you have an inspection performed by a professional building inspector before you finalize your offer to purchase. The inspection may bring to light areas where repairs or maintenance are required and will assure you that the house is structurally sound. Often the inspector will provide you with a written report.

Mortgage Application Fee

Some financial institutions will charge a mortgage application fee for processing your application. If your request for a mortgage is turned down, the mortgage application fee is returned to you. This application fee is also charged by some institutions each time your mortgage is renewed.

Appraisal Fee

The financial institution extending the mortgage will hire an appraiser to ensure that the property you are buying meets its criteria for a mortgage. You are generally responsible for the cost of the appraisal.

Closing or Adjustment Costs

These costs are payable, usually through the lawyer or notary, when the sale is closed. Standard adjustment costs include property and school taxes, utility bills and condominium common expenses, if applicable, that may have been paid by the seller prior to closing. These adjustment costs are pro-rated based on your occupancy date. You are responsible for reimbursing these amounts to the seller.

Land Transfer Tax

Sometimes known as the “Welcome Tax”, most provinces levy a one-time tax based on a percentage of the purchase price of the property.

PROPERTY INSURANCE

All homes must have adequate insurance coverage against fire, and other risks of loss, theft and liability. You may find that insurance on your new home is more costly than at your previous residence. Your mortgage lender requires that you provide your lawyer or notary with proof that your insurance is in place by the closing date.

TITLE INSURANCE

Ask your Solicitor about purchasing Title Insurance. It is recommended in today's real estate transactions and provides a level of security should there be unexpected problems with Title.

MOVING EXPENSES

Whether the move into your new home is a do-it-yourself affair or you hire movers, there will be costs involved. If you plan to move during the peak spring/summer months, you should contract for service two to three months in advance, if possible.

ADDITIONAL EXPENSES

Depending on the type of mortgage you decide upon and the province in which you buy, there could be additional costs, i.e., default insurance premiums (for low down payment mortgages), costs of a survey of the property or a new home warranty fee.

NEW HOME EXPENSES

Most new home owners will likely need to buy certain items early on – kitchen appliances, tools, gardening equipment, cleaning materials, perhaps some new furniture, carpets or curtains. It's a good idea to tally up the costs of items you think you'll need in the short-term and factor these expenses into your initial costs.

MONTHLY EXPENSES

Now that we've looked insome detail at the initial costs associated with buying a new home, we should also review the financial obligations that home owners must be prepared to assume on a monthly basis. By being able to identify these monthly expenses, you can estimate the amount of money that a finaicnal institution will likely be prepared to lend.

MORTGAGE PAYMENT

For most home buyers, mortgage payments constitute their largest monthly outlay of cash. The actual amount of the mortgage payment can vary widely since it is based on a number of factors and variables.

OTHER MONTHLY EXPENSES

Mortgage payments are not the only monthly outlay you'll have as a home owner. The following additional costs must also be added into the equation each month.

PROPERTY TAXES

Property taxes are usually billed twice a year at six-month intervals, and can be paid in two ways. They may be remitted directly to the municipality by you, in which case you may be required to periodically show proof of payment to your financial institution. Alternatively, you may include a provision for the payment of your property taxes in your monthly mortgage payment (this provision is calculated a 1/12 of the previous year's tax bill). Your financial institution will retain your tax contributions in a separate account (on which you earn interest), remitting on your behalf as required by your municipality.

SCHOOL TAXES

In some municipalities, school taxes are integrated into the property taxes; in other municipalities, they are collected separately and are payable in a single lump sum. In the latter case, school taxes for the upcoming academic year are generally due at the end of the current school year.

UTILITIES

As a home owner, you'll be responsible for all utility bills (including heating, gas, electricity, water, telephone and cable), some of which may previously have been included in the cost of your rent.

CONDOMINIUM FEES

If you have chosen to purchase a condominium unit or a townhouse, you will likely be required to contribute to exterior maintenance and upkeep of the common grounds and public areas on a monthly basis. Your property manager or condominium association can provide full details of the services and monthly fees.

MAINTENANCE AND UPKEEP

As a home owner, you will also have to cover the costs of maintenance (including interior and exterior painting, roof repairs, electrical and plumbing, walks and driveway), lawn care and snow removal, and if you so choose, periodic renovations. A well-maintained property helps to preserve your home's market value, enhances the neighborhood and, depending on the kind of renovations you make, could add to the worth of your property.

A well-maintained property helps preserve your home's value.

MORTGAGE DETAILS

There is no such thing as "just a mortgage." More than at any time in the past, today's home owners have special needs and widely varied financial circumstances. Because of this, there are numerous types of mortgages and payment options designed to meet the unique requirements of every home owner.

BASICS

If you're considering the purchase of a home, you are likely aware of many of the basic mortgage elements. The fundamental components of a mortgage are:

PRINCIPAL

The amount of money you need to borrow, usually the difference between the selling price of the property and the down payment.

INTEREST

The amount you will pay for borrowing money.

MORTGAGE PAYMENT

A regular installment usually made up of principal and interest, by which you repay the mortgage over its term to maturity.

AMORTIZATION PERIOD

The actual number of years it will take to repay the entire mortgage, generally a period anywhere between 15 and 25 years.

Knowing the terms of the trade will help you get the mortgage that is right for you.

TERM

The length of time which a specific mortgage agreement covers, generally being between six months and 10 years (although 25-year terms have recently been introduced). When the term matures or expires, the balance of the mortgage is generally renegotiated for another term at prevailing rates and conditions in effect at that time.

EQUITY

The value of the property over and above all claims, generally being the difference between market value and the outstanding principal of all mortgages relating to the property.

By understanding these definitions, you will gain a better understanding of the many options available and how to tailor your mortgage to your specific needs.

TYPES OF MORTGAGES AVAILABLE

Mortgages are available on a **closed**, **open** or **convertible** basis and at **fixed** or **variable** rates. Your choices will ultimately reflect your short-term plans, your desire for longer-term security, and whether you believe interest rates are going up or down.

CLOSED, OPEN AND CONVERTIBLE MORTGAGES

In a **closed mortgage**, the interest rate is locked in for the full term of the mortgage and you must pay compensation, or **breakage costs**, to the mortgage lender in order to renegotiate the interest rate or pay off the balance prior to the end of the term.

Closed mortgages are usually the better choice for buyers who suspect that interest rates may be on the rise and for those who are not planning to move in the short term. They are often considered ideal for first-time home buyers, particularly in the early years. Interest rates for closed mortgages are generally lower than for open mortgages and first-time buyers are often more secure knowing exactly how much their mortgage payments will be over a set period of time. Closed mortgages are generally available in a full range of terms.

Open mortgages offer greater flexibility than closed mortgages since they can be repaid either in part or in full at any time without breakage costs. Open mortgages are generally available only in terms of six months or one year.

Open mortgages are good options for buyers who are planning to move in the immediate future or who believe that interest rates are going down. Interest rates for open mortgages are generally higher than for closed mortgages because of the added flexibility.

A **convertible mortgage** gives you the same security as a closed mortgage, plus the flexibility of being able to convert to a longer, closed mortgage at any time without penalty. If you think rates may drop, this allows you to wait until you feel the time is right. If rates begin to rise, you can lock in.

FIXED-RATE MORTGAGES AND VARIABLE-RATE MORTGAGES

The interest rate for a **fixed-rate mortgage** is locked in for the full term of the mortgage. Payments are set in advance of the term, providing buyers with the security of knowing precisely how much their payments will be throughout the entire term. Fixed-rate mortgages may be either open (may be paid off at any time without breakage costs) or closed (breakage costs apply if paid off prior to maturity).

With a **variable-rate mortgage**, mortgage payments are generally fixed for a term of one or two years even though interest rates may fluctuate during that time. If interest rates go down, more of the regular payment is applied to reduce the principal; if rates go up, more the regular payment is applied to payment of interest. Variable-rate mortgages are generally open.

A variable-rate mortgage provides the buyer with the flexibility to take advantage of market conditions and to pay off the entire mortgage or convert to a fixed-rate mortgage at any time without breakage costs.

PRE-APPROVED MORTGAGES

To avoid unexpected problems when arranging a mortgage, you should complete a pre-approved mortgage application at your financial institution prior to making any offers to purchase. By pre-selecting the terms and conditions of your mortgage, you can receive pre-authorization of the maximum amount your financial institution will lend you subject to a formal credit approval and satisfactory property appraisal. You will also generally receive a 60-day guarantee on the interest rate, protecting you against short-term interest rate fluctuations between the date of your pre-approval and the date you receive your mortgage funds. If interest rates go up during that 60-day period, you'll automatically get the guaranteed rate; if they go down, you'll pay the lower rate.

With a pre-approved mortgage, you can shop and negotiate with confidence, already knowing just how much you are able to spend.

FINDING THAT **PERFECT NEW HOME**

One of the most critical considerations in choosing the home of your dreams is location. Your decision on the neighborhood should depend largely on the size and age of your family, your income and your personal preferences. Some people prefer the city; others like small towns or the suburbs. No matter where you choose to buy, here are some basic factors to consider:

- Availability and cost of public transportation; accessibility to major roads and highways
- Condition of public facilities such as streets, sidewalks, water and power supplies; parks and recreational facilities; restaurants and theatres
- Availability of public services such as street cleaning; snow removal; garbage collection; police and fire protection
- Proximity to medical services including hospitals, doctors, dentists
- Cost of municipal taxes compared to similar municipalities
- Appropriateness of schools
- Proximity to shopping facilities
- Proximity to a place of worship of your denomination
- Proximity to family and friends
- Investment potential and future prospects for increase property value.

YOUR REAL ESTATE SALES REPRESENTATIVE

When a home is put on the market, the seller is generally responsible for any real estate commissions associated with the sale. However, there may be advantages to your seeking the assistance of a real estate sales representative who has experience in the neighborhood in which you are house-hunting.

Through a real estate sales representative, you can get a good idea of the types of properties currently available by studying and comparing various property listings. The sales representative will also arrange all visits and will assist you in making your offer once you've made your selection.

Before you begin to visit homes, however, prepare a checklist of specific details so that you can compare them later. A thorough house-hunt may stretch over a period of several months, during which time you'll likely visit many different homes! Keep detailed notes, and you'll find it easier to compile a "short list" of places you're really interested in.

Finally, after many weeks or months, you find the home that's right for you! Now the negotiations, starting with the "offer to purchase", begin in earnest.

HOME INSPECTION

During this negotiation phase, it is strongly recommended that you have the building checked out by a qualified home inspector. The inspection should include checks of the roof, foundation, insulation, beams, gutters, bricks, siding and caulking. The plumbing, heating and electrical systems should all be tested and fully examined. Any evidence of leaks, moisture accumulation, rot or faulty workmanship should also be cited in the inspection report. Use only an experienced inspector who will provide you with a detailed written report.

You can learn much about your prospective new home by accompanying the building inspector during the inspection. It provides you with an excellent opportunity to get answers to questions that may not be included in the written report, so listen carefully and take notes. An experienced inspector should also be able to give you an estimated cost for specific repairs and maintenance.

The offer you make to the seller should always be conditional on a satisfactory inspection. The identification or discovery of serious defects should allow you to renegotiate your offer or suspend negotiations altogether by withdrawing your offer.

TIP: Choose an inspector who has been recommended. Ask your sales representative, or friends or acquaintances that may have recently gone through the same experiences, or contact your local real estate board for references.

READY TO PURCHASE

(AGREEMENT OF PURCHASE AND SALE)

Once you have found the home which best suits your needs and your budget, the next step is to have an offer to purchase drawn up. As this is a legally binding document, it should never be made on impulse or under pressure.

Having a real estate sales representative prepare the offer on your behalf can minimize errors and omissions. Be certain to review the offer in detail before it is presented to the seller. Ask questions if you need clarification and make sure that you understand exactly what it is you're signing. Before you sign, consult your lawyer or notary to ensure that your interests are protected.

The offer should clearly outline all terms and conditions of the sale including, among other details, the following:

- the proposed purchase price

- a list of all items included in the purchase price (e.g. appliances, carpeting, draperies, fixtures, etc.) as it compares to the original real estate listing, noting any additions or exclusions; stipulation that there are no liens or payments due on these items.

- explicit details of all financial arrangements (e.g. amount of your deposit and interest payable on your deposit, if any; amount of down payment and mortgage, etc.)

- closing date for the sale of the property

- full details concerning the seller's mortgage if you are assuming it (e.g. balance, interest rate, term, repayment privileges, etc.) If you do not wish to assume the seller's mortgage, the owner must provide clear title to the property, free of all encumbrances, and all existing mortgages must be discharged with the sale proceeds on closing.

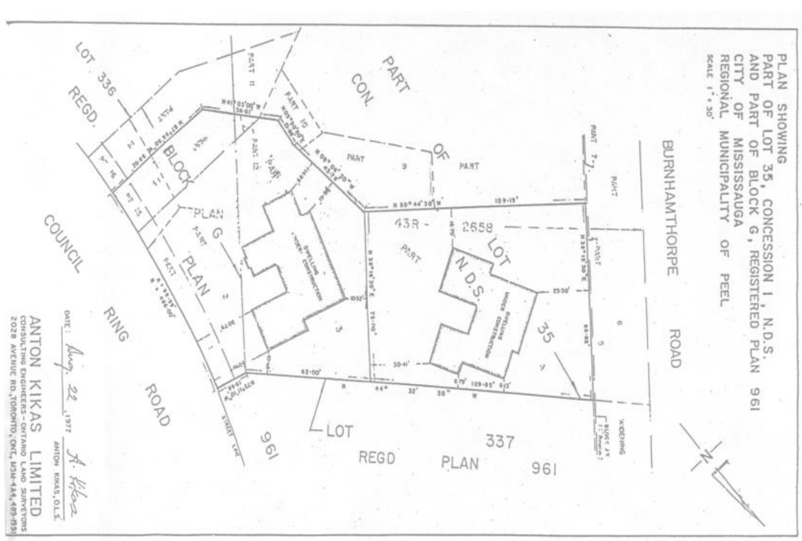
- date of occupancy (Completion Date / Closing Date)

- any conditions attached to the sale (e.g. satisfactory house inspection; mortgage approval; sale of an existing home, etc.)

- any specific obligations to be fulfilled by the seller prior to the closing date.

- time period for which the offer is in effect (irrevocability) (from as short a period as several hours to as long a period as a week or two)

- A Certificate of Location or survey is required by the financial institution for mortgage approval and by the lawyer or notary for transfer of ownership. Ensure that these certificates reflect improvements such as decks, patios or pools. If outdated, the offer to purchase should indicate whether the seller or the buyer will incur the necessary expense to obtain the appropriate certificates.



DECIDING WHAT PRICE TO OFFER

How do you determine your proposed purchase price? That decision will depend on a combination of factors including the number of homes available, both in general and in that neighborhood; the asking price of other comparable homes in the area; the recent sales of comparable properties in the area; unique selling features such as a pool, fireplace, etc.; the general condition of the property and the area; and the immediacy of your need to purchase and the seller's need to sell.

Check the business section of the newspaper for general information on the local housing market or discuss it with a real estate sales representative or your banker.

Before a final agreement is reached, you and the seller will likely go through a series of negotiations over the price and/or other selling conditions. It is not uncommon for the seller to respond to your preliminary offer with a **counter offer,** detailing specific changes. You, in turn, are free to either present your own counter offer or to withdraw your original offer entirely. This process continues until either an agreement is reached, or one of the parties withdraws from the negotiations.

It is customary for the purchaser to make a deposit with the offer as evidence of good faith. Be advised that if the owner accepts your offer and you later choose to cancel it, you stand to both forfeit your deposit and, depending on the circumstances, have legal action brought against you by the seller.

MOVING DAY

Today, you officially become a home owner.

By the time you arrive at the lawyer's office, much of the documentation has already been completed. Check with your lawyer beforehand and ensure that you have delivered all the appropriate documentation needed to complete the sale. In some provinces, this may even include divorce papers, so make sure to check before closing day.

Together you'll review the Statement of Adjustments detailing the exact amount you owe the seller on closing. This will include that balance of purchase price and reimbursement for any prepaid utilities or other expenses paid by the seller. You should be prepared to have a cheque or draft payable to the lawyer to cover these costs. Legal or notarial fees and disbursements are also due at the closing.

In the meantime, your financial institution will have arranged to make the mortgage funds available to your lawyer. The lawyer will issue payment to the seller on your behalf and register the property in your name. You'll receive the keys, and the property is legally yours!