Royal LePage
Guide to Buying a Home

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"Guide To Buying A Home" has been prepared by Royal LePage Realtors to offer you practical information about the buying process. It outlines steps that you and your Royal LePage Realtor will follow during your search for the ideal home.

Determine What You Can Afford

Purchasing a home involves one-time costs and monthly expenses.

The largest one-time cost is the down payment. It usually represents between 5 – 25% of the total price of the property.

In addition to the actual purchase price, there are a number of other expenses that you might be expected to pay for. These are listed in the following table:

Typical One-Time Expenses

EXPENSE	PAID
Mortgage Application and Appraisal Fee	At time of application
Property Inspection (optional)	At inspection
Legal Fees	Closing
Legal Disbursements	Closing
Property Survey (sometimes provided by seller)	Closing
Land Transfer, Deed Tax or Property Purchase Tax (in Quebec within 3 months following signing)	Closing
Mortgage Interest Adjustment and Take Over Fee (if applicable)	Closing
Adjustments for Fuel, Taxes, etc.	Closing
Mortgage Insurance (and Application Fee if applicable)	Closing
Home and Property Insurance	Closing and ongoing
Moving Expenses	Date of move

Typical monthly costs incurred with home ownership are mortgage payments, maintenance, insurance, condo fees, property taxes and utilities. See the "What You Can Afford" Worksheet to help you estimate the approximate purchase price of a home you can afford.

Understanding Market Conditions

The real estate market is always changing. It helps to understand how market conditions can affect your position as a buyer.

Your Royal LePage Realtor can provide you with current real estate market conditions and explain their impact.

MARKET CONDITIONS	CHARACTERISTICS	IMPLICATIONS
Buyer's Market: The supply of homes on the market exceeds demand.	High inventory of homes. Few buyers compared to availability. Homes on the market longer. Prices tend to drop.	More time to look for a home. More negotiating leverage.
Seller's Market: The number of buyers wanting homes exceeds the supply or number of homes on the market.	Smaller inventory of homes. Many buyers. Homes sell quickly. Prices usually increase.	May have to pay more. Make decisions quickly. Conditional offers may be rejected.
Balanced Market: The number of homes on the market is equal to the demand or number of buyers.	Demand equals supply. Sellers accept reasonable offers. Homes sell within an acceptable time period. Prices generally stable.	More relaxed atmosphere. Reasonable number of homes to choose from.

Obtain a Pre-Approved Mortage

Having a pre-approved mortgage will give you the confidence of knowing exactly what you can spend on a home before you start looking. You will also be protected against interest rate increases while you look for your new home.

Your Mortgage Specialist will answer your questions and help you determine which financing terms and options are right for you. Your Mortgage Specialist and Realtor work as a team to help you find the right home and select the best financing.

See "The Home Buyer's Glossary" at the back of this booklet for definitions of mortgage terminology.

Finalizing Your Mortgage

Once you've found the home you want to purchase, there are some documents you'll probably be asked for in order to finalize your financing. They will include:

1 A copy of the real estate listing of the property. If the home is still to be built, the mortgage lender will need to see the architect's or builder's plans and details on lot size and location.

2 A copy of the offer to purchase or the building contract, if this document has been prepared.

3 Documents to confirm employment, income and source of pre-approval.

If you have a Pre-Approved Mortgage, it's a simple matter of finalizing a few details, which your Mortgage Specialist will explain to you.

The Major Elements of an Offer

Price

Depending on local market conditions, your opinion of value and marketing information provided by your Royal LePage Realtor, the price you offer may be different from the seller's asking price.

Deposit

The deposit shows your good faith and will be applied against the purchase of the home when the sale closes. Your Royal LePage Realtor can advise you on an appropriate amount.

Terms

Includes the total price offered and the financing details. You may arrange your own financing or ask to assume the seller's mortgage, especially if it has an attractive interest rate.

Conditions

These might include "subject to home inspection", "subject to buyer obtaining financing" or "subject to buyer selling their property".

Inclusions and Exclusions

These might include appliances and certain fixtures or decorative items, such as window coverings or mirrors.

Closing or Possession Date

Generally, the day the title of the property is legally transferred and the transaction of funds finalized unless otherwise stated (except in Manitoba and Quebec).

Note: In B.C. the Possession Date is legally 1 to 3 days after the closing.

How to Make an Offer

When it comes time to make an offer, your Royal LePage Realtor can provide current market information and will assist you in drafting your offer.

Your Royal LePage Realtor will communicate your offer, sometimes known as an **Offer To Purchase***, to the seller, or the seller's representative, on your behalf. Sometimes there may be more than one offer on a property coming in at the same time. Your Royal LePage Realtor can guide you through this process.

***Offer To Purchase:** a legal document which specifies the terms and conditions of your offer to purchase the home.

The offer can be Firm or Conditional.

Firm Offer To Purchase

Usually preferable to the seller, because it means that you are prepared to purchase the home without any conditions. If the offer is accepted, the home is yours.

Conditional Offer To Purchase

Means that you have placed one or more conditions on the purchase, such as "subject to home inspection", "subject to financing", or "subject to sale of buyer's existing home". The home is not sold until all the conditions have been met.

*In the province of Quebec, this is referred to as a "Promise to Purchase".

Acceptance of the Offer

Your Offer to Purchase will be presented as soon as possible. The seller may accept the offer, reject it, or submit a counter-offer.

The counter-offer may be in reference to the price, the closing date, or any number of variables.

The offers can go back and forth until both parties have agreed or one of you ends the negotiations.

Hire a Legal Professional

A legal professional is there to represent your interests and to provide the legal documentation required.

Your Royal LePage Realtor can provide you with the name of legal professionals who specialize in real estate.

The legal process differs from province to province. Your Royal LePage Realtor or legal professional will advise you on the steps to be taken before the keys to your new home are presented to you.

Have the Home Inspected (optional)

Having the property inspected by a qualified home inspector will give you the added confidence that you've made the right decision (costs vary).

When the procedure is complete, you may wish to ask for a full written report plus estimated costs for any necessary repairs.

Some Moving Tips

Once you have bought your home, your Royal LePage Realtor can help make the move easier for you. Follow this handy checklist:

Book the Movers

You can choose to have your movers pack everything, or just the breakables, or you can pack yourself. It's a good idea to obtain estimates from several different companies.

If You Own Your Present Home

Arrange to have your gas and electric meters read on the day you leave and have the bill forwarded to your new address.

Have the oil tank read and filled before your sale closes, and provide a receipt to your legal professional if required.

If your water heater and/or furnace are rented, arrange for a transfer of the rental agreement to the purchaser.

Disconnect your telephone, cable TV and water softener.

If You Rent Your Present Home

Give the necessary written notice to your landlord and make arrangements for the return of any money you have on deposit.

At Your "New" Home

Make arrangements for the gas and electric utilities, water softener, telephone and cable TV to be connected on the day the sale closes (or possession date).

General

Get "change of address" cards from the post office and send them out well before moving day.

Have the post office forward your mail to your new address.

Cancel any contracted services and pre-authorized cheques.

Inform gardening, dry cleaning, garbage pick up, newspapers, magazines and other home services. Arrange for services at your new address.

Cancel or transfer social, athletic, civic, religious or business affiliations and memberships.

Arrange for transfer of medical, dental, prescription and optical records.

Change the address on your driver's license(s) effective the day of the move.

Collect all items out for cleaning, repair or storage (e.g. dry cleaning).

Make special arrangements for the moving of perishables, such as plants.

Make special arrangements for the moving of your pets.

Safely dispose of all flammable liquids, as it is illegal for movers to carry them.

Your Personal Checklist

"What You Can Afford" Worksheet

Step 1

Calculate your Gross Debt Service Ratio (GDS).

Most lenders say that your monthly housing expenses (principal, interest and taxes) should not exceed 30% of your family income (before personal income taxes).

To calculate your Gross Debt Service Ratio (GDS):
Take your total monthly gross (before tax) income

$ ___________

Multiply it by the maximum GDS Radio (30%).

x .30 $ ___________

This is the maximum amount available for your mortgage payment (principal and interest), property taxes and 50% of condo fees (if applicable)

= $ ___________

Example: John and Sue have a gross family income of $66,000 per year, or $5,500 per month. No more than $1650 ($5,500 x 30%) can be applied to housing expenses.

Step 2

Calculate your Total Debt Service Ratio (TDS).

Your TDS takes into account monthly housing expenses plus other debts and loans you may have.

To calculate your Total Debt Service Ratio (TDS):
Take your monthly gross (before tax) income

$ ___________

Multiply it by the maximum TDS ratio (40%)

x .40 $ ___________

Subtract your regular monthly expenses (e.g. credit cards, car payments, personal loans)

– $ ___________

This is the maximum amount available for your mortgage payment, property taxes and 50% of condo fees (if applicable)

= $ ___________

Example: John and Sue have a gross family income of $66,000 per year, or $5,500 per month. They also have two car payments totalling $575 per month, a student loan of $150 per month, and credit card payments of $175 per month. They can apply no more than $1,300 of their monthly income to housing costs ($5,500 x 40% = $2,200 - $900 = $1,300).

Step 3

Calculate the amount available to apply to your monthly mortgage payment. This figure will be used to calculate how much mortgage you are eligible for.

To calculate this amount: Identify the lower of your GDS or TDS:

$ ___________

Subtract an appropriate amount for property tax:

– $ ___________

This is the amount we will now use to calculate how much mortgage you are eligible for.

= $ ___________

Using the example of John and Sue, their TDS ($1,300) is lower than their GDS ($1,650) and they estimate their property taxes will be $175 per month. They have $1,125 available to apply to their monthly mortgage payment. (i.e. $1,300 - $175 = $1,125)

Step 4

Determine the Purchase Price you can afford.

- Using the figure calculated in Step 3, find the closest matching number in column A.
- The corresponding number in column B is your approximate eligible mortgage amount.
- In column C record the down payment amount that you have available.
- In column D add the numbers identified in columns B and C together.

This equals approximately the price of the home that you can afford. In the example of John and Sue, the amount calculated in Step 3 was $1,125. They also have saved a down payment of $30,000. With a monthly payment of $1,125 (refer to column A) they are eligible for an approximate mortgage of $130,000 (refer to column B). With their down payment of $30,000, they can afford to buy a home worth approximately $160,000.

A **Monthly Payment**	B **Eligible Amount of Mortgage**
$686	$100,000
$823	$120,000
$960	$140,000
$1,097	$160,000
$1,234	$180,000
$1,371	$200,000
$1,713	$250,000
$2,056	$300,000
$2,398	$350,000
$2,741	$400,000
$3,083	$450,000
$3,426	$500,000
$3,768	$550,000
$4,111	$600,000
$4,453	$650,000
$4,796	$700,000
$5,138	$750,000
$5,481	$800,000

(cost includes principle and interest payment per month based on interest rate of 6.75% and 25 year amortization)

C **Down Payment Available**	D **House Price You Can Afford**
+ ___________________	= ___________________

Don't forget that the down payment must be at least 10% of the purchase price of the home, unless you qualify for Canadian Mortgage and Housing Corporation's (CMHC) 5% down program for first-time buyers.

Please note that all amounts are approximate. Columns A & B are based on an interest rate of 6.75%. Rates do vary. If rates are higher, you would be eligible for a smaller mortgage. If rates are lower, your mortgage could be higher.

These calculations do not take into account mortgage insurance premiums for high-ratio mortgages.

Your Royal LePage Realtor can keep you informed of current rates and refer you to a Mortgage Specialist who will help you decide the financing terms and options that are right for you.

The Home Buyer's Glossary of Terms

Amortization Period: The actual number of years it will take to pay back your mortgage loan.

Appraised Value: An estimate of the value of the property. Conducted for the purpose of mortgage lending by a certified appraiser. This appraisal is not to be confused with a building inspection.

Assumability: Allows the buyer to take over the seller's mortgage on the property.

Closed Mortgage: A mortgage that locks you into a specific payment schedule. A penalty usually applies if you repay the loan in full before the end of a closed term.

Condominium: The owner has title to a single unit, as well as a share in the common elements such as elevators or surrounding land.

Condominium Fee: A common payment among owners that is allocated to pay expenses.

Conventional Mortgage: A mortgage loan issued for up to 75% of the property's appraised value or purchase price, whichever is less.

Down Payment: The buyer's cash payment toward the property. The difference between the purchase price and the amount of the mortgage loan.

Equity: The difference between the home's selling value and the debts against it.

High-Ratio Mortgage: A mortgage that exceeds 75% of the home's appraised value. These mortgages must be insured for payment.

Interest Rate: The value charged by the lender for the use of the lender's money. Expressed as a percentage.

Land Transfer Tax, Deed Tax or Property Purchase Tax: A fee paid to the municipal and/or provincial government for the transferring of property from seller to buyer.

Maturity Date: The end of the term, at which time you can pay off the mortgage or renew it.

Mortgagee: The person or financial institution that lends the money.

Mortgagor: The borrower.

Mortgage Insurance: Applies to high-ratio mortgages. It protects the lender against loss if the borrower is unable to repay the mortgage.

Mortgage Life Insurance: Pays off the mortgage if the borrower dies.

Open Mortgage: Allows partial or full payment of the principal at any time, without penalty.

Portability: A mortgage option that enables borrowers to take their current mortgage with them to another property, without penalty.

Pre-Approved Mortgage: Qualifies you for a mortgage before you start shopping. You know exactly how much you can spend and are free to make a "firm" offer when you find the right home.

Prepayment Privileges: Voluntary payments in addition to regular mortgage payments.

Principal: The amount borrowed or still owing on a mortgage loan. Interest is paid on the principal amount.

Refinancing: Paying off the existing mortgage and arranging a new one or re-negotiating the terms and conditions of an existing mortgage.

Renewal: Re-negotiation of a mortgage loan at the end of a term for a new term.

Second Mortgage: Additional financing. Usually has a shorter term and higher interest rate than the first mortgage.

Term: The length of time the interest rate is fixed. It also indicates when the principal balance becomes due and payable to the lender.

Title: Legal ownership in a property.

Variable-Rate Mortgage: A mortgage with fixed payments but fluctuating with interest rates. The changing interest rate determines how much of the payment goes towards the principal.

Vendor Take-Back Mortgage: When the seller provides some or all of the mortgage financing in order to sell their property.

Royal LePage Realtors are dedicated and committed to their clients. Please don't hesitate to call your local Royal LePage Realtor if you have any questions.