HOME BUYER'S HANDBOOK

The Insider's Guide to Saving Money & Eliminating Risk When Buying Your Home!

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Table of Contents

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Introduction

Casually mention that you're thinking about buying your first home and get ready for plenty of "expert" advice. Family and friends alike will tell you how they made a killing on this property or that deal. You'll hear conflicting views on mortgages, interest rates and the general health of the real estate market. One person will caution you to wait for prices to change. Another will advise you to move now before it's too late.

You'll begin to notice full-page ads in your local newspaper's real estate section enticing you with "low downpayments" and "quality life styles". You'll see commercials for mortgages offered by banks and trust companies promoting "special finance packages" and "easy payment terms".

For most of us, the purchase of a home is the most important financial commitment we'll make in our lifetime. Yet our schools don't teach us how to go about it, and many of the books available on the subject are complex and confusing, assuming far more knowledge than most first-time buyers possess.

Welcome to the world of home buying. It's an exciting world, full of anticipation and opportunity -- a chance to pursue your dream, establish roots and take your first steps towards long-term financial security.

What this book can do for you

If you're a bit overwhelmed by the thought of buying your first home, this book was written for you. We want to take the mystery out of buying a home. We'll offer you a step-by-step guide on how to find and purchase the right home for you and your family, a home that also fits your financial goals.

This book will help you understand the many terms used in real estate transactions. We'll show you how to work with REALTORS, lawyers and other professionals. You'll learn how to shop for a mortgage and talk intelligently with your banker. We'll help you pick a home inspector to check out your home thoroughly, and we'll explain the process involved in making the home yours.

What this book can't do for you

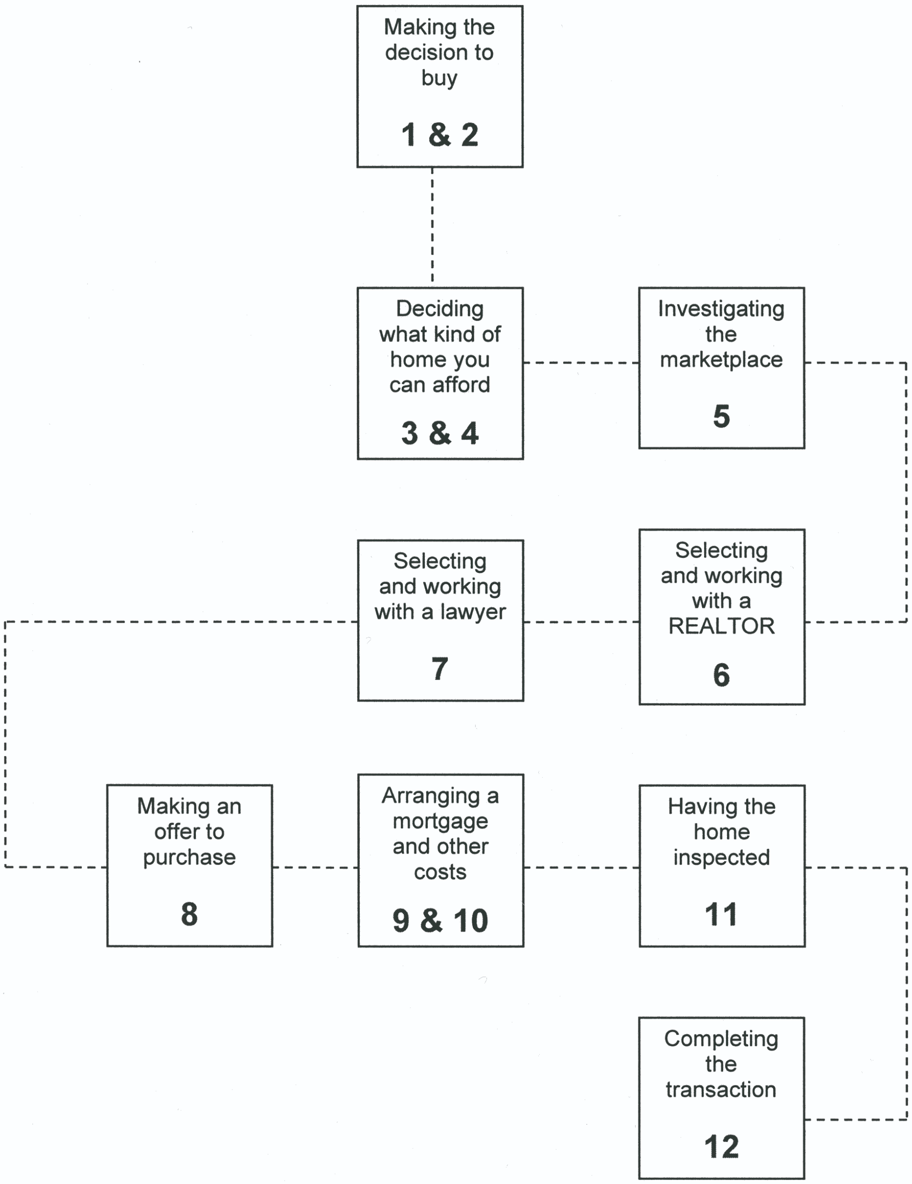
This book is not intended to be a replacement for the professionals who will help you buy a home. These people are part of your "team" and will provide you with the information you need to make the best decisions. Nor are we going to cover every single detail involved in purchasing residential real estate. Our goal is to help you understand generally how one goes about finding and buying the right home, and what you can expect along the way. Once you've finished reading these pages and have completed the handy worksheets we've provided in the back of this book, you'll have a better understanding of how to participate in the process and the confidence to know what questions to ask and where to turn for help.

Let's get started

In organizing this book we've attempted to present each topic in the order you're likely to deal with it during your home-buying adventure. Of course, some of these events may take place at the same time. For example, you may want to begin investigating mortgage financing during the early stage of your house-hunting expedition, at the same time you're interviewing prospective REALTORS.

The figure below shows the usual steps taken in buying a home, and gives you a "blueprint" for the chapters that follow:

Figure 1
Home Buying Steps



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1 To Own or Not to Own?

For many, home ownership is a compelling dream. We look forward to the freedom and security of owning our own home, and are more than willing to make the sacrifices required to achieve our goal. These include working hard and finding ways to save the funds we'll need to make our first purchase.

But owning a home is not for everyone, and you must consider your personal needs carefully before taking on this large responsibility. Your decision to buy should include an assessment of your financial situation and how well you manage your money. But first, a word or two about timing and home ownership as an investment.

What about market conditions?

Much has been written about the right time to switch from being a renter to becoming an owner. Great emphasis has been placed on the rate at which a home appreciates in value, and whether now is the right time to buy.

This question is especially challenging when the market seems to be changing rapidly. If prices are falling, people tell you to wait until the market "bottoms out" before buying. When prices are increasing quickly, there's an urgency to buy now and not be left behind. Unfortunately, no one can predict accurately when a market will reach its peak or lowest point.

As you listen to others, it's easy to forget the primary purpose of buying a home: to provide you and your family with a comfortable place to live for several years or longer. Sure, you may have friends who have done very well in a boom real estate market, but today's buyers can't and shouldn't rely upon that happening. Economists say that home values will continue to grow over the long term, but not necessarily at the steep rates recently experienced in many parts of Alberta.

Real estate markets tend to move in cycles. In a strong economy, values will increase, often very quickly. Then the economy cools off and there is a "correction" in prices. If you're planning to buy a home soon with the idea of selling it next year for a substantial gain, think again. Even the so-called experts can't predict the future that accurately.

Don't think of your primary residence as a short-term investment. Home ownership is one of the best investment opportunities available to you over the long term, while providing you with much more than a roof over your head. No matter when you buy in the market cycle, if you hold on to your investment, that fact will always be true.

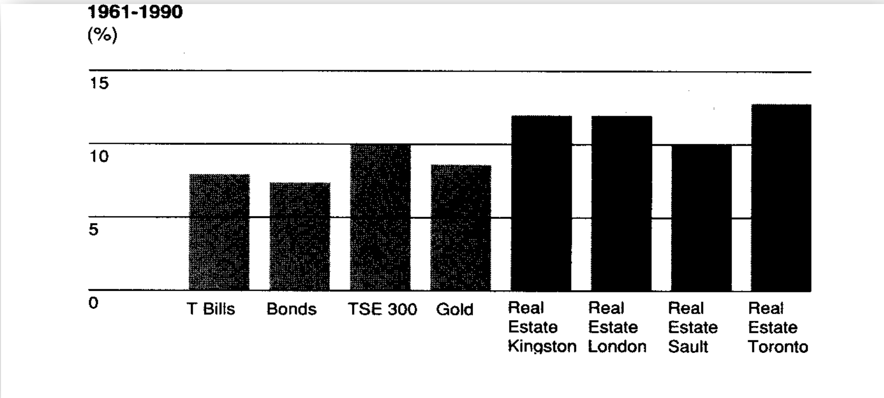
An excellent long-term investment

Maybe you're thinking there are better investments than owning a house and your best bet is to continue renting and invest your money elsewhere. You may be surprised to learn, however, that over the long term one of the best ways to achieve financial security is through home ownership.

A study conducted by two professors from the School of Business Administration at the University of Western Ontario supports the long-term financial advantages of home ownership. Their report was based on data gathered from the residential housing markets in four representative areas: Toronto, Kingston, Sault Ste. Marie and London, Ontario. It showed that during a recent 30-year period, with all its economic ups and downs, housing produced a better return on investment than treasury bills, government bonds, the Toronto Stock Exchange 300 index or gold.

The professors concluded their report by saying that as an investment, residential housing has a proven track record superior to that of other personal investments. No one has a crystal ball to predict the future, but if the past 30 years are any indication, housing will continue to be a solid, long-term investment opportunity and one of the best ways to provide for your financial well-being.

Figure 1
Average Annual Return on Investment



Financial considerations

One of the easiest ways to evaluate your decision to buy is to ask yourself, "If all else were equal, would I rather rent or own my home?" It's safe to say that most of us would opt for ownership. So how do you make the choice financially? One way is to look into the future... say, 25 years.

Ian and Elizabeth just leased a two-bedroom apartment for $750 a month. Assuming an average of 5% in annual rent increases, they'll pay a total of $430,000 in rent over the next 25 years. That money will be gone. All they'll have to show for it is a large stack of rent receipts.

Doreen and Tom buy a three-bedroom house for $145,000. Their monthly payments today are $1,200. Assuming this represents their average payment over the next 25 years, they'll pay a total of $360,000 for their house -- $80,000 less than Ian and Elizabeth paid in rent.

Let's compare the financial position of these two couples 25 years from now.

- Ian and Elizabeth are still renters, currently paying $2,400 in rent each month. Although their incomes have kept pace with the rising cost of living, now they're worried. During their retirement years, their rental costs will continue to grow while their income will remain the same. They may no longer be able to afford their apartment without dipping into savings. The couple might even have to move into smaller accommodations or move in with their children.

- Doreen and Tom own their house free and clear. It has appreciated an average of 5% each year and is now worth approximately $470,000. Their only costs to live in their home are taxes, maintenance and utilities, which their retirement income more than covers. In fact, they usually have money left over each month for travel and the other things they enjoy doing together. Equally important, Doreen and Tom are sitting on a $470,000 asset that will continue to grow in value over time. This security gives them tremendous peace of mind. They don't have to move anywhere, and won't have to rely upon their children or society for help.

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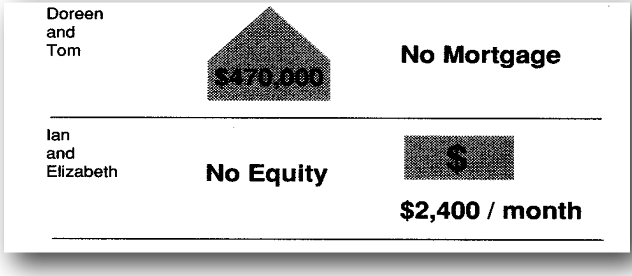
Figure 2
Financial Position After 25 Years



Of course, the financial considerations are more complex than in our simple comparison. For one thing, Doreen and Tom likely spent considerable amounts of money and time on maintaining and upgrading their home. On the other side, perhaps Ian and Elizabeth wisely invested a portion of each month's income and now have a substantial nest egg in mutual funds or some other investment.

The key word in this scenario is "perhaps". Unfortunately, many people don't have the discipline to maintain an ongoing savings or investment program and end up with little to show for years of hard work.

A house, in essence, forces you to save. Each mortgage payment buys you a larger portion of an appreciating investment. When you've paid off the mortgage, you're left with a sizable asset. Along the way, you and your family have enjoyed many years of shelter, security and the shared joys only a home can provide. As someone once said, "It's difficult to protect your family from falling snow with a mutual fund certificate!"

Making your money work for you

There are two additional and related factors that make home ownership financially attractive in comparison to other investments: *leverage* and *capital gains exemption.*

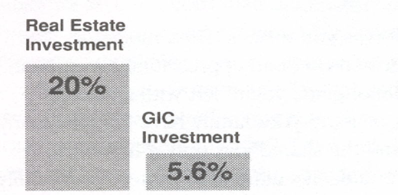
When a relatively small amount of your money controls a much larger asset, that's called *leverage.* For 25%, 15% or as little as 10% down, your hard-earned cash can be used to acquire a house worth tens or hundreds of thousands of dollars. The more you are "leveraged", the greater the financial return on your initial investment (downpayment) as the value of your house increases. Few other major investments can be purchased with only 10% to 30% of your own money.

To understand the concept of leverage, consider these two examples:

- Bess and Randy buy a house for $100,000, putting $15,000 down on the purchase. During the first year, their house rises 3% in value for a $3,000 gain, which is called a *capital gain.* The return on their initial investment of $15,000 is 20% ($3,000 ÷ $15,000 = 20%). Furthermore, this return is *tax free,* as we'll see in the next section.

- William buys a $100,000 term investment (GIC) for one year. His investment increases by $8,000 during the year. But since it cost him $100,000 in cash to buy the GIC, the return on his investment is only 8% before taxes ($8,000 ÷ $100,000 = 8%). Assuming he is in the 30% tax bracket, his return after taxes is only 5.6%.

Figure 3
Comparison of Real Estate to GIC Investment



In this simple comparison, Bess and Randy were able to leverage a return on their investment that was nearly four times greater than the return William obtained. Imagine being able to go to your bank and open a savings account that yields four times more interest than the bank down the street! In real estate, leveraging is a powerful way to make your money work for you.

No tax on your home's capital gain

As we've just seen, the increase in a home's value (and almost any other type of investment) is called a capital gain. When the value of most investments such as stocks or term deposits increases, you pay tax on the capital gain. However, the government allows Canadian taxpayers to be exempted from paying capital gains tax when their principal residence increases in value.

If you live in a home that increases in value by $50,000 over 10 years, you pay no tax on the $50,000 capital gain when you sell. By contrast, you would owe thousands of dollars in tax for the same $50,000 capital gain in the stock market or other type of investment.

Not only do homes appreciate more than other investments over the long term, but the government also lets you keep more of what your investment earns. That's more good news for home owners! Even if you decided to remain a renter and were able to match a home's increase in value with your own investments, you would end up with less money after Revenue Canada took its share.

Personal money management

As we said at the beginning of this chapter, the decision to buy versus rent depends on much more than just investment opportunities. It also hinges on your ability to purchase a property and keep up with the monthly financial obligations necessary to own it. This concept of affordability is so important, we've devoted the next two chapters to the subject.

In the meantime, another key consideration is how you manage your money. The effort to save for and buy a home may require you to make significant changes in your way of life. Do you have the temperament to be a home owner? This checklist will help you decide.

Checklist - Are you ready to buy a home?

(Check all boxes that apply)

- ❑ Over the years, I have demonstrated the ability to save money and am generally pleased with the amount I've saved so far.
- ❑ I'm ready to change my spending and lifestyle habits to support the additional costs of paying for and maintaining a home.
- ❑ I have worked hard to earn a good credit rating and continue to use credit wisely.
- ❑ I'm prepared to enter into a long-term commitment for my family's security, both physical and financial.
- ❑ Pride of ownership is important to me, and I would enjoy the chance to take care of my house, inside and out.

If you checked all or most of these boxes, you may be ready to buy a home. It's a big step, but the remainder of this book will help you make it an enjoyable and rewarding one.

2 Affordability and Your Decision to Buy

You've weighed the option of renting or buying and have decided you'd like to buy a home. But a quick look in the papers or a conversation with friends immediately discourages you. "Look at these prices," you say to yourself. "I can't afford to buy in this market!"

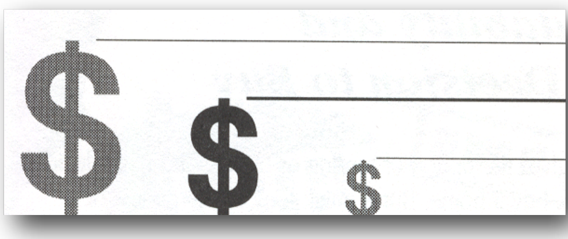
If it will make you feel any better, most people who first look at home prices are equally shocked. Probably the most expensive thing you've bought so far is a car or furniture for an apartment. Now you're looking at prices that are five, ten or even twenty times the amounts you paid for those other consumer goods!

Let's face it. It *is* more difficult for the first-time buyer today than it was when our parents purchased their first home. Over the years in many Alberta real estate markets, increases in home prices have far exceeded the gains in median family income. The average downpayment required to buy a home has in many cases also increased more rapidly than our incomes.

So what's the good news, you ask? The answer is that real estate values are expected to continue increasing, at least by the rate of inflation and probably more over the long term. Why is that good news? Because the sooner you buy your first home, the sooner you can take advantage of the tendency of property to appreciate.

The average home price listings in the business sections of our daily papers shouldn't keep you from buying either. Remember, "average" means the middle point -- approximately half the homes for sale are above this figure and half are below it. You'll discover that prices are significantly different, depending on where you look and the type of house you buy.

Figure 1
Average Home Price



Nor will the size of the downpayment necessarily prevent you from buying a home. As you'll learn later in this book, there are several ways to finance the purchase of a home by maximizing the funds you have available for a downpayment.

Don't let appearances fool you. Despite today's prices and downpayment requirements, somewhere there's a home with your name on it. The important thing is to get into the market as soon as you are able to afford it.

Matching dreams with reality

Most first-time buyers want their dream home right away. White picket fence, trees shading a huge yard, several thousand square feet of living space and a fully finished walk-out basement, overlooking a stream in the valley below. You know the picture. Your dream may be somewhat different but just as appealing.

Where do we get these ideas? Often they relate to our parents' home or our grandmother's house in the country. We associate warm memories with those places and naturally want to duplicate the feelings.

Reality soon sets in, however. Our dream home sells for several hundred thousand dollars and the downpayment is more than we earn in two years. Not to mention the payments, which are three times our take home salary each month.

The best way to deal with this reality is to match your financial capabilities with the home that meets as many of your needs as possible. Many first-time buyers purchase what is commonly known as a "starter home". There's nothing wrong with this approach. In fact, it's good common sense to avoid buying a home that will stretch your budget to its breaking point. Remember, the starter home is just that -- a way to get started in long-term real estate investment.

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3 How Much Home Can You Afford?

Let's take a look at your financial situation and help you determine how much home you can afford. Then we'll see how you can apply that knowledge to finding homes in your price range.

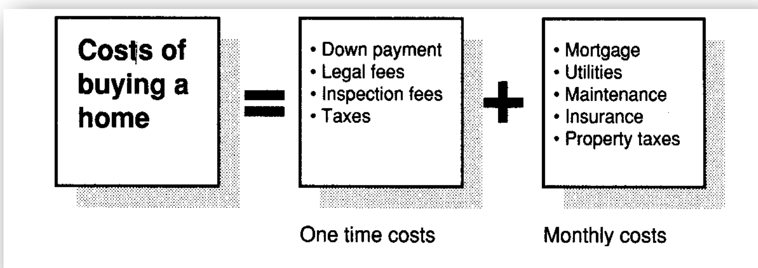
The vast majority of home buyers lack the funds required to buy a home without assistance from a bank or other financial institution (commonly called a "lender"). For most of us, buying our first home means combining our savings with money borrowed through a special type of borrowing arrangement called a "mortgage". Borrowing to purchase is not only acceptable, it's desirable. Even people buying millions of dollars' worth of real estate borrow to make the purchase. They understand the power of leveraging their money, as we discussed in Chapter 1.

There are two types of cost in buying a home:

- The amount of money you will need for the initial purchase. This consists mainly of the downpayment and other costs such as legal fees, inspection fees and taxes.

- The ongoing costs of paying back your mortgage, along with monthly operating costs for utilities, maintenance, insurance and annual property taxes.

Figure 1
Costs of Buying a Home



When lenders assess your ability to buy, they look at your ability to pay both types of costs in determining how much money they will lend you. Before you ever visit a lender, you can predetermine this amount using the same formulas they do.

But first, here are some definitions for terms we'll be using in our discussion:

- **Mortgage** A contract between someone who wants to borrow money to buy a home (you, the borrower) and someone who is willing to lend money (the lender). When you buy a home, your property is security for the lender through a mortgage.

- **Principal** The initial amount of money you borrow, or the remainder still owing on the original mortgage amount. If you buy a house for $120,000 and contribute $30,000 of your own money as downpayment, the initial principal of your mortgage is the $90,000 you borrowed. A portion of each mortgage payment goes towards reducing the principal. Once you've paid back $20,000 of the original mortgage amount, for example, the remaining principal is $70,000.

- **Interest** The amount the lender charges you for using its money to buy your home. In other words, the cost of borrowing your mortgage funds.

- **Mortgage payment** The regular installments you make towards paying back the principal and interest. Payments are usually made on a monthly basis, although you can arrange to pay more frequently.
- **Taxes** Every municipality charges taxes on property within its jurisdiction. As a homeowner, you will be responsible for paying these property taxes. Often, taxes are added to your mortgage payments.
- **Insurance** Lenders require that you protect your property (and their collateral) against hazards such as fire, storms, etc., with homeowner's insurance. Moreover, if your downpayment is less than 25% of the home's purchase price, you may be required to buy mortgage insurance. More on insurance later.
- **Condominium fees** The amount condominium owners pay monthly to help maintain and service portions of their building and grounds. Condominium fees are included in the calculations lenders use to determine your ability to make your monthly mortgage payments.

That's enough terminology for now. Let's get on with discovering how much house you can afford.

Rule of thumb for prequalifying yourself

Lenders use several factors in judging your ability to handle a mortgage, including your income, employment record and credit worthiness. However, one way you can estimate the price range you can afford is to look at the amount of money you have available for a downpayment.

The most common mortgage is a "conventional mortgage." In this type of arrangement, lenders will loan up to 75% of the "appraised" value (estimated market value) of the property or the purchase price, whichever is lower. The remaining 25% is the amount you will contribute as downpayment. If you want to buy a home that has an appraised value of $200,000, a lender may loan you 75% or $150,000 on a conventional mortgage when you contribute a downpayment of $50,000.

So here's a quick rule of thumb: If you plan to borrow funds through a conventional mortgage, multiply the money you have available for a downpayment by four. For instance, if you have access to $40,000, you may be able to purchase a home with an appraised value of $160,000 ($40,000 x 4 = $160,000).

Downpayment x 4 = Cost of Home

This assumes, of course, that you have sufficient income to make the payments on a $120,000 mortgage (75% of $160,000). Most lenders will not permit a borrower to take on a debt load the borrower can't carry. That's why reputable lenders "qualify" potential borrowers before issuing mortgages. Let's see how they do this.

How lenders "qualify " borrowers

Most lenders say that your monthly housing expenses (mortgage payment, taxes and heating), plus half of the condominium fee, if applicable, should not exceed 32% of your monthly gross family income. This is called your *Gross Debt Service (GDS) ratio.* Some lenders will go as high as a 35% GDS, depending upon a number of variables.

- Louis and Catherine have a combined gross income of $60,000 per year or $5,000 per month. No more than $1,600 (32%) can be applied to housing costs ($5,000 x 32% = $1,600).
- Tracy's gross monthly income of $7,200 qualifies her for housing costs up to $2,300 per month ($7,200 x 32% = $2,304).

Lenders also use a second calculation in qualifying you for a mortgage. It's called the *Total Debt Service (TDS) ratio.* Generally speaking, no more than 40% of your gross family income may be used when calculating the amount you can afford to pay for mortgage payments and taxes *plus* other fixed monthly expenses. These other fixed costs are your ongoing commitments and can include auto, student or personal loans, as well as revolving charge accounts such as Visa, MasterCard and department store accounts. Again, the 40% calculation may vary slightly among lenders.

- Bruce and Mary have a combined family income of $72,000 per year or $6,000 per month. Therefore, no more than $2,400 (40%) per month can be used for housing costs and other fixed debt ($72,000 ÷ 12 = $6,000 per month x 40% = $2,400). They have a car payment of $250 and a student loan of $150 per month. That leaves $2,000 available for housing costs.

Lenders look at both your GDS and TDS amounts in calculating your gross income available for housing costs (mortgage payments and property taxes) and will usually use only the smaller of the two amounts.

Don and Janis have a gross monthly income of $4,500, as well as two car loans with payments totaling $350 per month.

- Using the GDS ratio, they can apply $1,440 of their monthly income to housing costs ($4,500 x 32% = $1,440).
- Using the TDS ratio, they can apply $1,450 of their monthly income to housing costs ($4,500 x 40% = $1,800 - $350 = $1,450).

The lender will use the lower of the two amounts ($1,440) in determining the amount of income the couple has available for housing costs.

Once you've determined your income available for housing costs, subtract the estimated monthly property taxes for the home you may be considering. Property tax rates vary from region to region, but a REALTOR or local banker can help you estimate the taxes for homes in your area. After you've subtracted the monthly tax amount, the remainder is the amount you have available for mortgage payments.

- Don and Janis are looking at a home with property taxes of $150 per month. Subtracting this amount from the couple's income available for housing ($1,440) leaves them with $1,290 for monthly mortgage payments.

Worksheet - What can you spend each month on mortgage payments?

A. Calculate your Gross Debt Service (GDS) ratio

1. Total monthly gross income (before income taxes) $ __________________ (a)
2. (a) x 32% = amount available for mortgage payments and property taxes (GDS) $ __________________ (b)

B. Calculate your Total Debt Service (TDS) ratio

1. Total monthly gross income (before income taxes) $ __________________ (c)
2. (c) x 40% = amount available for mortgage payments, property taxes and fixed monthly payments, i.e., loans and credit cards (TDS) $ __________________ (d)
3. (d) - your fixed monthly payments = the amount you have available for mortgage payments and property taxes $ __________________ (e)

C. Calculate the income available for mortgage payments

1. Subtract estimated monthly property taxes from (b) or (e), whichever amount is less $ __________________
(f)*

* (f) is the monthly income you have available for mortgage payments. It is also the figure used by lenders in calculating your maximum mortgage amount, as we'll see in the next section.

Determining the mortgage amount

Now that you know the portion of your monthly income available for mortgage payments, you're ready to calculate the *mortgage amount* you can arrange. This is based on the current interest rates being charged by lenders. Here's how it works.

In the following chart, find the interest rate in the left-hand column that corresponds to the current rates being charged by lenders. The number opposite each interest rate is the cost per thousand dollars borrowed over 25 years (based on a 10% downpayment).

- **Example** At 6.5% interest, cost per $1,000 borrowed is $6.70.

Chart 1
Monthly Payment per $1,000 Borrowed Over 25 Years

Interest Rate (%)	*Cost/$1,000*
4.0	$5.26
4.5	$5.53
5.0	$5.82
5.5	$6.10
6.0	$6.40
6.5	$6.70
7.0	$7.01
7.5	$7.32
8.0	$7.64
8.5	$7.95
9.0	$8.28
9.5	$8.62
10.0	$8.95
10.5	$9.29
11.0	$9.63
11.5	$9.98
12.0	$10.32
12.5	$10.68
13.0	$11.03

Source: CMHC, Homebuying Step-by-Step: A Consumer Guide and Workbook, 1998.

Divide the income you have available for your monthly mortgage payment by the cost per $1,000 borrowed. The result, multiplied by 1,000, is the mortgage amount you can borrow.

- As noted in our example on page 9, Don and Janis determined they have $1,290 in income available each month for mortgage payments. At a 7% interest rate, they may qualify for a $184,000 mortgage ($1,290 ÷ $7.01 x 1,000 = $184,022).

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Since the mortgage amount is directly tied to interest rates, it stands to reason that the higher the rate, the lower the mortgage. Of course, if rates are lower, a larger mortgage can be arranged.

- At an 8.5% rate, Don and Janis would only qualify for a $162,000 mortgage ($1,290 ÷ $7.95 x 1,000 = $162,264).

- Conversely, if interest rates dropped to 5.5%, they would qualify for a larger mortgage totaling $211,000 ($1,290 ÷ $6.10 x 1,000 = $211,475).

Finding out how much home you can afford

In order to determine the price range of homes you can afford, lenders look at both the size of mortgage for which you qualify and the amount you plan to contribute as downpayment. Conventional mortgages require a 25% downpayment (although there are other types of mortgage arrangements, as we'll discuss in Chapter 9).

- Assuming $109,000 represents 75% of the home's appraised value, Don and Janis can purchase a home with an appraised value of approximately $145,000 ($109,000 ÷ 75% = $145,333) on a conventional mortgage, after contributing $36,250 as downpayment ($145,000 x 25% = $36,250).

Worksheet - What price home can you afford?

1. Amount of your income available each month or mortgage payments: $ ________________________ (a)
2. Current market interest rate for mortgages ________________________ %
3. Cost per $1,000 at current interest rate (from Chart 1 on page 10) ______________ per $1,000 (b)
4. (a) ÷ (b) x 1,000 equals your mortgage amount ________________________ (c)
5. Mortgage amount (c) ÷ 75% = approximate home price you may be able to afford with a 25% downpayment $ __________________________

If you have less than 25% of the purchase price to put down, you may still be able to buy a home. For mortgage loans of more than 75% of the purchase price, your lender will require mortgage insurance as protection against any payment default. Subject to price ceilings, this means your downpayment could be as little as 5% of the house price, providing your GDS ratio is less than 32% and you meet the insurer's other criteria.

Your lender will obtain mortgage insurance from either the Canada Mortgage and Housing Corporation (CMHC) or GE Capital, a private insurer. Application fees vary from one to several hundred dollars. The mortgage loan insurance premiums range from 0.5% to 3.75% of the amount of your loan, depending on the size of the loan and value of your home. Usually, the premium is added to the total amount of the loan before payments are calculated.

There are many ways to arrange financing

A few final thoughts on affordability. Just because your debt service ratios qualify you for a given mortgage amount, don't assume the process is automatic. As we mentioned earlier, your lender will also look at your overall credit rating, number of years at your present job and other factors in assessing you as a loan risk.

On the other hand, if the house you'd like to buy requires a mortgage amount that is a little larger than your ratios would normally allow, don't despair. Some lenders offer debt consolidation packages or other programs to help buyers qualify for a mortgage. It pays to talk with several lenders.

If you can't find a lender who will give you the mortgage amount you want with your current income and debt levels, there are other ways to buy the home you're interested in. One is to lower your other debt. Pay off that car loan or charge account if you can. Remember, the less non-housing-related debt you have, the more income you have available for housing costs. Think creatively.

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Another way to buy the home you've found is to contribute a larger downpayment.

- Jack is interested in a home with an appraised value of $140,000. On a conventional mortgage, Jack's lender would loan 75%, or $105,000, to a qualified buyer who contributes a $35,000 downpayment. However, Jack's income and debt service ratios only qualify him for a $95,000 mortgage, leaving him $10,000 short. He decides to increase his downpayment by $10,000, for a total of $45,000 down. The lender issues him a $95,000 mortgage and the transaction is completed.

Of course, you may not have the cash to make a larger downpayment. In later chapters, we'll explore other options available when you can't quite qualify for the mortgage you need, including using your RRSPs to buy a home (see page 31).

There's tremendous peace of mind in knowing the size of mortgage you qualify for before you shop for a home. A REALTOR will be happy to help you with this process, so that you can shop for homes in your price range and negotiate from a position of strength.

Try it out for yourself

Once you've determined the size of mortgage you qualify for and the home price you can afford, try living for a couple of months as if you were paying that mortgage and meeting other anticipated home-related expenses. Think of this as "test driving" your ability to buy a home before you sign on the dotted line.

The easiest way to do this is to take your current living expenses and tack on the additional amounts required to own a home. Use Worksheet 1 at the end of this book to help you do this. Once you've determined the extra costs required each month to own a home, put that amount into a savings account and see how well you can get along without it.

If the extra costs fit easily within your budget, you're probably ready to buy a home. If the additional costs seem difficult to handle, look for ways to reduce your spending in other areas. Perhaps you can do with fewer nights out each month, or wear your clothes a little longer before buying a new wardrobe. Rent videos instead of spending $50 a night for movie tickets, popcorn, parking, restaurant and babysitter. You may even want to consider selling that beloved sports car (gulp!) which costs a fortune in payments and insurance. Owning a home and building a secure financial future take sacrifices and trade-offs. To paraphrase industrialist J. Paul Getty, "Decide what you want in life, decide what you're willing to give up for it, and go after it!"

4 Zeroing in on Your Home

Once you have a fairly good idea of the home price you can afford, it's time to look at the market and see what kind of home you can buy for that price and where it may be located. Enough calculations. Now the fun really begins!

Naturally, you want to buy the most home for your money, but preliminary investigations will tell you that a $150,000 home in the heart of a city is considerably different from a $150,000 home in the country. Even homes of similar style and design are priced much differently from one community to another.

Before we talk about the features you'll want to have in your home, let's spend a few moments on location, perhaps the most important factor in making any real estate purchase. Basically, the major categories include:

- **Urban** Normally associated with large cities and metropolitan centres. Urban communities offer the broadest range of housing types, generally at the highest prices. (People are willing to pay more to be near their jobs and all the other amenities a large city offers.)

- **Suburban** The suburbs are typically made up of newer neighbourhoods, schools and shopping centres. Prices may or may not be much lower than those of the central city, but you often get more for your money -- additional square footage, larger rooms and bigger lots.

- **Smaller cities and towns** Alberta is dotted with hundreds of small centres that offer a pleasant, slower-paced alternative to big-city living. Taxes are usually lower and housing prices are sometimes less than those in urban centres. There are, however, fewer types of homes available and the number for sale may be limited.

- **Rural** Despite the fact that more than 2.8 million people call Alberta home, the vast majority of our province is made up of sparsely populated farmland, forest and wilderness. While rural living is not for everyone, the idea of owning a few acres near a gently flowing stream may be appealing to you. If so, your housing budget will often buy you more in a rural setting than any alternative we've mentioned.

What features are important to you?

Now it's time to think about the things that are important to you in a home. For example, if your family is already outgrowing your two-bedroom apartment, you know that you'll need a home with at least three bedrooms and a second bathroom soon. REALTORS refer to these essentials as "needs" -- the things your new home must have in order for you to be comfortable.

In addition to the needs, there's another category of features you should consider in looking for a home. These are called "wants" -- things you would like to have if you can afford them and if they are available.

As you contemplate the kind of home to buy, your strategy should be to find a home within your price range that fulfills all or most of your "needs" and as many of your "wants" as possible. We've provided a handy worksheet at the end of this book (Worksheet 2) to help you. It lists many of the features your new home could have. Just mark each with an "N" for needs or a "W" for wants, according to your personal preferences. Then use your answers to prepare your own "shopping list" on a separate piece of paper, arranging your needs and wants in order of priority. The time you take to think about these things now will prove invaluable later during your initial discussions with a REALTOR.

Comparing homes and location

Armed with your list of needs and wants, your next step is to match the type of home you'd like to purchase with the locations that most appeal to you. During this process, you may find that a similar style of home varies widely in price depending on location or that the home you want may not be available in all areas. For example, if your heart is set on a 100 year old Victorian home, you're not going to find it in that new housing development you noticed last week. If large bedrooms and several baths are essential for the size of your family, looking in an older section of town where homes are smaller may prove frustrating.

Other factors will affect your decisions about location. What schools are available? How important is access to public transportation? Does a rural environment suit your tastes or do you like to live amid the excitement of an urban centre? If you have children, will they have lots of other playmates in the community you're considering? Think about your lifestyle and the things about location that could enhance or detract from your daily enjoyment. Add these preferences to your needs and wants worksheet.

Seeing what's out there

Start reading the real estate ads in local newspapers, REALTOR-produced publications and on the Internet at www.JoeSamson.com These ads will give you an idea of which communities best match your home and location criteria and which have homes for sale within your price range, both new and resale.

While you're studying the weekly ads, drive through the communities that seem to be the most likely candidates. Check out the types of homes available in the area and how well the neighbourhoods are maintained. This is also a good time to make note of schools, shopping, recreational sites and religious facilities. Become aware of potential drawbacks too -- railway tracks, major highway noise, large industrial or manufacturing centres, airports, etc. Drive through the areas at different times of the day and night to learn about the pros and cons of the neighbourhood.

"Open houses" provide you with a great chance to see inside some of the homes in the areas you're exploring. Look at different types of homes so you'll begin to understand which ones best suit your needs and which are available within your price range. (More on types of homes in the next chapter.)

Open houses also provide an excellent chance to meet the REALTORS who are hosting the events. In fact, it's likely you may select a REALTOR from among those you meet at these open houses. REALTORS are very familiar with the areas in which they work and can answer many of the questions you've been developing during your search, so don't be afraid to ask!

5 Deciding What to Buy

Unless you've been living on a remote tropical island for the past 20 years, you probably already have a general idea of the types of homes available in our province. There's quite an array and you should be able to find one that matches both your financial needs and your lifestyle.

Before you begin your house-hunting expedition, it will be helpful to understand the terminology used in describing different types of homes. Here's a quick overview:

- **Single-family detached** As its name implies, the home is not attached to the home next door. Detached homes come in three basic styles: *bungalow* or one-storey; *two-storey* where the entire home is two stories high; and *split-level* where one portion of the house is one level and another is two levels.
- **Semi-detached or linked** Two houses with a common wall between them (or sometimes between garages or basements).
- **Duplex** A two-family dwelling or house.
- **Townhouses** Also known as terrace or row housing, these comprise several homes sharing the same style, usually joined together by common walls, although townhouses can be detached. In some townhome developments the owner owns the land as well as the home on it.
- **Condominiums** A condominium is not really a type of home, but rather a legal term referring to a form of collective ownership. Each home "unit" is owned individually, while common areas, including the land, are owned jointly. Most building structures can be set up as condominiums -- apartments, townhouses, detached, semi-detached, duplexes, commercial buildings, mobile home parks, parking lots -- anything where there are advantages to be gained from collective ownership.

New or resale?

As with many other decisions you'll be making in purchasing your home, the choice between a new home and a resale home is a matter of weighing the pros and cons and deciding what is right for you.

New homes are "yours" from day one -- you don't inherit a previous owner's tastes and design ideas. New homes are likely to be more up-to-date than 10 to 25 year-old homes, and thus more energy efficient. If major systems such as heating, electrical and plumbing break down, new home limited warranties may cover much of the repair bills. But when you buy a new home, there may be additional cash outlays for landscaping, window coverings and appliances, although some builders include these items in the purchase price.

In many resale homes, the structural defects and system problems that have cropped up early in the home's life may have been fixed by the previous owners. Older resale homes can also offer a charm or character often not available in new designs. Landscaping is mature. Nearby schools and local services are in place and working.

Moreover with resale homes, you often get additional features for little or no additional cost. After someone buys a new home, there is a tendency to add upgrades over the years: central air conditioning, a cedar deck, in-ground swimming pool, finished basement, etc. Some of these are expensive undertakings.

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When these owners sell their home, they're often in for a shock. Their $25,000 swimming pool, for example, may add just a few thousand dollars to their home's market value. In fact, many upgrades add only a fraction of their cost to home's resale value. This is great news for buyers of resale homes, who can purchase these upgrades as part of the home's selling price without having to buy each item separately at full cost.

Buying a new home

If you decide that new is the way to go, you have three main choices: you can buy from a production builder, you can have a home custom designed and built, or you can act as your own contractor and build the house yourself.

Few first-time buyers have the experience or time required to act as their own contractor and build their own home. So let's consider the other two options: buying from a production builder or hiring a custom-home contractor.

In either case, before you commit yourself to the project, carefully examine the building lot, blueprints and other homes built by the same company. Ask for references and talk to other owners about the builder's work. A REALTOR can play an integral part in helping you buy your new home. It is also advisable to have your lawyer review all documents presented by the builder before you sign.

The contract you have with the builder should describe the finished product in the greatest detail possible. Specify quantities of material, quality, brand names and model numbers; define finishes; specify landscaping. Leave nothing to chance. The contract should also say who is responsible for cleanup and repairs of damage to trees and surroundings.

Specify who is responsible for dealing with the various public authorities to obtain building permits, health inspections, etc. Any changes during construction should be initialled by you and the builder and additional costs should be agreed upon in writing up front. During construction, stay on top of the process and be sure the builder is sticking to plan.

Payment is usually scheduled for predetermined dates during construction. Never hand over full payment in advance. Begin with a deposit, then pay additional portions as each milestone is passed. Sometimes a professional appraiser hired by your lender will approve each phase before payment is remitted.

By law, you have the right to make a full inspection of the home before you accept it as complete. Your lender's appraiser will also make a final inspection before the mortgage is issued. Note any problems and ask for a signed agreement, requiring the builder to fix them. The *Builders Lien Act* in Alberta requires you to "hold back" 10% of the total cost of each payment to the builder or contractor for 45 days following substantial completion of the work. This helps ensure that their suppliers and subcontractors are paid. Ask your lawyer for assistance in complying with this Act.

In Alberta, builders may belong to a new home warranty program where their finished products must adhere to strict requirements set out by the program. The builder's warranty program registration number must be listed on the contract you sign. For a list of registered builders in your area, contact your nearest office of the Alberta New Home Warranty Program (see the telephone book's white pages).

The condominium alternative

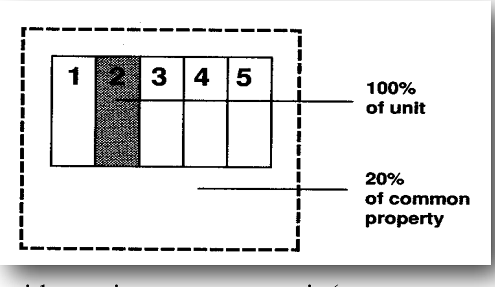
Canadians have responded well to the concept of shared ownership, and today several hundred thousand individuals and families call their condominium home. Since some first-time buyers select this alternative as a way to own an affordable property in a city, let's explore the pros and cons of condo living and the ways it differs from other types of housing.

How condominiums are owned

Condominium ownership is divided among two or more parties, each of whom owns a portion of the structure *separately* and a portion of it *in common.* For example, if you're an owner in a high-rise condominium where there are many fellow owners, you own a *unit* individually and it is legally registered in your name at the land registry office. You also own a proportionate *share* of the common areas in the development. These generally include the outside grounds, recreational facilities, lobby, elevators, stairs and hallways, as well as the air conditioning, electrical and plumbing systems. Some common areas may be reserved for the exclusive use of specific owners, such as roof gardens, backyards (in townhomes, for instance), balconies, parking spaces and storage lockers.

As a unit owner, you are automatically a member of the *condominium corporation* which manages the affairs of the complex. In essence, you're a voting member of a self-governing community. In most cases, each unit is awarded one vote, regardless of how many owners, residents, bedrooms or square feet are involved.

Figure 1
Condominium Ownership



In addition to the costs associated with owning your own unit (mortgage payments, taxes, etc.), you are also required to pay your proportionate share of owning and maintaining the common areas. This is paid in the form of a monthly *condominium fee*. In Alberta, a portion of this fee is held in a reserve fund to pay for major repairs or replacement on items like heating systems, roofs, plumbing and so forth. If you are thinking about buying a unit in an older building, be sure to satisfy yourself that the reserve fund is sufficient to pay for any anticipated major repairs to areas like the roof, underground garage or mechanical equipment.

Is condo living right for you?

Many people just don't have the time or the inclination to maintain a home's exterior (yardwork, shovelling snow, painting, etc.). Perhaps you enjoy taking weekend trips and like the idea of being able to just lock your door and go. Maybe you thrive on tennis, squash or swimming and are attracted to the recreational facilities available in many newer buildings. Condominium living gives you the freedom to pursue your lifestyle without many of the responsibilities involved in maintaining a more traditional home.

A condo can make the ideal starter home, often costing thousands less than single-family homes in the surrounding neighbourhood. This gives you an opportunity to participate in the real estate market sooner than might otherwise be possible.

However, condos can also restrict your freedoms through a list of rules and bylaws governing how you may use your unit. Moreover, if you've been renting for a while, you know that when the toilet leaks or the sink backs up you can all the superintendent or owner to get the problem fixed. Not so with a condominium unit. You're responsible for everything that happens inside your unit's walls.

For additional tips on purchasing a condominium, see Worksheet 3 at the back of this book.

Working with a Real Estate Professional

You've really been doing your homework. Let's review what you've accomplished so far:

- Made the commitment to buy a home.
- Determined the price and size of home you can afford.
- Thought about the type of home you'd like to buy.
- Listed the features you need and want in your home.
- Studied real estate advertisements, researched the market and visited open houses.

Not bad for someone who has never done this before!

You're also discovering that buying a house is more complex than any other purchase you've made before. Maybe you're thinking you'd better get some help before you go any further with the process. If so, you're right! It's time to add a real estate professional to your team.

There are many reasons why you, as a first-time buyer, would want to turn to a professional to help you with your purchase. These reasons will become evident in a minute but, first, let's review the requirements to hold a licence to trade in real estate.

Before being able to trade in real estate as agents, candidates must successfully complete a 90 hour mandatory course and pass the Provincial Qualifying Examination. But that's only the beginning. Once licensed, real estate agents must continually upgrade their education with professional development courses. The requirement is 18 hours in every two year period, including the completion of a mandatory course. To obtain a broker's licence, agents must complete the demanding Brokers' Licensing Program. They then become associate brokers or brokers, and they maintain their licence by taking mandatory continuing education courses. This emphasis on education and training means that when you deal with a real estate professional, you're working with an individual who cares about your needs and can provide you with effective, professional service.

Agency relationships

To provide the highest level of service to sellers and buyers, real estate brokerages work within a legal relationship called *agency.* The agency relationship exists between you (the Client) and the brokerage (the Agent). The licensed broker, and all agents and associate brokers registered to the brokerage become your Agent. Collectively, they are identified as the Buyer's Agent, when working for a buyer, and as the Seller's Agent, when working for a seller.

The essence of the agency relationship is that the Agent has the authority to represent the Client in dealings with others. Agents are obligated to protect and promote the interests of their clients as they would their own. Specifically, the Agent has the following fiduciary duties:

- **Undivided loyalty** The Agent must protect the Client's negotiating position at all times, and disclose all known facts which may affect or influence the Client's decision.
- **Obedience** The Agent must obey all lawful instructions of the Client.
- **Confidentiality** The Agent has an obligation to keep the confidence of the Client.

- **Reasonable care and skill** in performing all assigned duties.
- **Full disclosure** of information that might affect the value of the property.
- **Full accounting** for all money and property placed in the Agent's hands while acting for the Client.

The Client, as well, has duties toward the Agent.

- You have the duty to compensate the Agent for the expenses that the Agent incurs as a result of carrying out the Agent's responsibilities.
- You have the duty to pay the agreed-upon remuneration or compensation as outlined in the signed contract.

In addition, you have a duty to disclose material facts to the third party in the real estate transaction.

Single agency occurs when both buyer and seller are represented by their own Agent in a real estate transaction. Each Agent owes full fiduciary duties to its own Client.

Dual agency occurs when one brokerage, trading in real estate from one or more locations, represents two parties with respect to the potential purchase of a property. Since the brokerage is working for both parties, it is necessary to limit the fiduciary duties owed to both Clients (as described below). These limitations on the fiduciary duties will also apply for buyers when one brokerage represents two or more buyers.

The Dual Agent:

- will *not*, without prior written permission of the applicable Client, disclose to the other Client(s):
    - that the seller will accept a price less than the asking price (or a countered selling price),
    - that the buyer will pay a price higher than the price offered,
    - the reason the seller is selling and the buyer is buying, and
    - the terms and conditions of competing offers;
- *will* disclose to both parties all facts known to the Dual Agent that materially affect or may materially affect the marketability or value of the property.

You may wish to act on your own behalf in a real estate transaction. In this situation, you understand that the brokerage represents the seller as the Seller's Agent and owes you no duties.

What to expect from a REALTOR

In earlier chapters, we have made reference to REALTORS. Not all real estate licensees are REALTORS. To be a "REALTOR", the licensed agent, associate broker or broker must be a member of a local real estate board. As a member of the local board, the REALTOR is also a member of the Alberta Real Estate Association and the Canadian Real Estate Association. REALTORS adhere to a national Code of Ethics in addition to provincial laws. Only REALTORS have access to the Multiple Listing Service® (MLS®) system.

Most real estate boards have their MLS® systems on computer. By sitting down at a keyboard, the REALTOR can key in your needs, choice of neighbourhoods and price range and immediately come up with a list of suitable properties. Some computer systems are more extensive than others. Some even show a photograph of the house, complete with interior views. Also common are MLS® catalogues, which provide additional information about each property, along with its photograph. Both computer systems and catalogues are updated regularly.

REALTORS have considerable knowledge of market values, the properties available in your price range and homes that will match your individual needs. A REALTOR can tell you about financing and property taxes, as well as schools, places of worship and services in the neighbourhood. When you work with a REALTOR, you have direct access to a vast library of information and experience. More specifically, the REALTOR will:

- Review your list of needs and wants in a home and help you determine the price range of homes you can consider.
- Answer your questions about the market(s) you're interested in and help you compare homes from one neighbourhood to the next. It's the REALTOR's responsibility to know these markets thoroughly and to stay on top of new home listings as they occur.
- Introduce you to a broad range of possible homes. REALTORS have direct access to the MLS® which provides details on a wide variety of properties in the markets you're exploring.
- Preview properties so you're shown only those homes that fit your budget and match the list of needs and wants you've prepared (a great time saver!).
- Make the appointments to show you candidate homes. Here's your chance to ask as many questions as you can about the homes and neighbourhoods.
- Explain the various financing alternatives available and provide up-to-date information on interest rates and mortgage options.
- Draw up a legally binding contract and represent your best interests in the transaction if your REALTOR is acting as Buyer's Agent.
- Assist you with all the details required to complete the transaction successfully.

You can expect competent service from your Agent, knowing that he or she is bound by ethics and the law to be honest and thorough in every real estate transaction. This approach is reflected in the standard real estate contracts produced by the Alberta Real Estate Association. Feel free to ask your REALTOR to show you the contracts appropriate to your real estate transaction.

Selecting a REALTOR

There are a number of ways to find a REALTOR. Note the names of REALTORS in newspaper real estate advertisements, REALTOR publications and on the Internet. As you drive through prospective neighbourhoods, you should also jot down the names and telephone numbers of REALTORS shown on the "For Sale" signs. As we mentioned earlier, open houses are a great way to meet REALTORS working in an area. It's also a good idea to ask your friends and business associates for names of REALTORS they would recommend. These days, you can often learn more about REALTORS from their personal websites.

Since you'll be working closely with the REALTOR for weeks or perhaps months, it makes sense to choose one you feel comfortable with, someone who listens to what you have to say, asks intelligent questions and shows a genuine interest in helping you. You may want to interview two or three REALTORS to make a comparison.

How successful has the REALTOR been? Is the real estate brokerage well established in the markets that interest you? Is the REALTOR knowledgeable about the market and financing options? Specifically, what will the REALTOR do for you? You may even want to consider asking for references from buyers with whom the REALTOR has worked previously.

How is a REALTOR paid?

Traditionally, REALTORS have been paid out of the proceeds of the real estate transaction. The commission is negotiated between the seller and the Seller's Agent, and the terms, including how much is to be paid to the Buyer's Agent, are laid out in the listing contract. Nowadays, it is becoming more common for the buyer also to enter into a contract with a REALTOR. A buyer brokerage agreement specifies your obligations, the services offered by the brokerage and remuneration for the agent. One of the options in the agreement is that the REALTOR's brokerage will be paid the Buyer's Agent's portion of the commission set out in the listing agreement. You will also have the option to pay the Buyer's Agent directly. If you do so, remember the amount of remuneration is not fixed by law and is always negotiable.

You should also be aware that contracts are with the brokerage, not the individual agent because only the brokerage has the authority to receive and disburse commission monies through its trust account. Generally, agents sign a compensation agreement with the brokerage to which they are registered. These agreements vary from brokerage to brokerage.

Work closely with a REALTOR

Once you've selected a REALTOR, be honest in discussing your financial situation and carefully review the features you are looking for in a home. This will help the REALTOR find prospective homes best suited to your needs, and it will save you a great deal of time.

Most importantly, remain loyal to the REALTOR you've chosen if the REALTOR earns your trust. This individual will be spending a lot of time and effort on your project, but unless you have agreed to remunerate the brokerage through a buyer brokerage agreement, he/she won't be paid unless and until the transaction is completed. Getting involved with several REALTORS creates unnecessary and confusing duplication of effort. REALTORS in any given area use the same MLS® and are likely to show you the same homes. Buyers who deal with several REALTORS may miss out on the high level of interest and comprehensive service one is entitled to expect by being loyal to a single REALTOR. As a first-time buyer, you will want a committed professional working on your behalf.

House hunting with a REALTOR

Once the REALTOR has a clear understanding of what you want and what you can afford, you're ready to view prospective homes. Here's where the REALTOR's knowledge of the market will really pay off and save you a lot of unnecessary time looking at homes that aren't right for you.

No matter what kind of condition the market is in, house hunting isn't a process that should be rushed. How long will it take, and how many houses are you going to see? The answer is different for every buyer. However, we recommend looking at a few rather than many. If you and the REALTOR have done your homework, ideally you should only have to visit a handful of homes to make an informed and wise selection. Much of your search can be done through the Multiple Listing Service® and preliminary discussions with the REALTOR. As you visit and react to each home you see, the REALTOR will have an increasingly better idea of what you want and don't want and will refine the search process until you find the house that is just right for you.

The important thing is to remain objective and avoid letting a particular feature affect your judgment about an entire home. The seductive powers of an in-ground swimming pool or huge island kitchen can mask other features that may not match your list of needs and wants. Take the time to look at each promising house carefully and avoid being pressured by anyone into making a decision before you're completely satisfied.

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This doesn't mean you should be too casual about the process. If the REALTOR shows you a home that seems to fit your criteria particularly well, seriously consider acting on it soon. In a strong market, you may lose the opportunity to make an offer on the house if you don't act quickly. Even in a "soft" market, attractively priced, feature-packed homes don't stay unsold for very long. Remain available for the REALTOR and be prepared to view any new listings as soon as you can.

After you've toured a few homes, you may find it difficult to distinguish one from another. This is particularly true if you've looked at a number of homes with similar floor plans in the same neighbourhood. One clever way to avoid this confusion is to take Polaroid snapshots of the homes that catch your eye. Another good way to remember features of each home is to note them in writing. You won't want to do this with every home you see, since some will clearly not be right for you. But for homes with great potential, nothing beats a written record.

Once again, a little homework before you begin your house-hunting adventure will pay dividends. Study the checklist we've provided at the end of this book (Worksheet 4) and add any other features that are important to you. You may want to highlight specific features that your new home simply must include. Then make several photocopies of the list and take them along. If you're buying a house with a spouse or other partner, our checklist may form the basis of a lively discussion about the kind of things you each want in a home. (If you don't agree on every point, better to discuss it now than in front of a REALTOR!)

House hunting is a form of "market research." Each visit will give you additional knowledge about the features of homes in the neighbourhood and the price you can expect to pay for the specific home that interests you. After you've looked at a few, you'll become more comfortable with the process, developing a trained eye to spot the good and not-so-good things about the homes you see. A REALTOR can also show you a list of homes that sold recently in the area and their selling prices, giving you even more specific market knowledge.

Finally, remember why you're doing this. Ask questions and don't give up until you're satisfied with the answers. But be considerate, too. If you don't like the way a particular house is decorated, wait until you're out of the earshot of the sellers to make your comments, or better yet, don't make them at all. You're not there to critique someone else's taste. Remember to look beyond the superficial things like wallpaper or paint colours, most of which can be easily changed if the house is right for you.

7 Adding a Lawyer to Your Team

When you buy a home, you'll have plenty of opportunities to sign your name. Among the flurry of papers requiring your signature, the most important are the offer to purchase (Chapter 8) and the mortgage financing documents (Chapter 9). When signed, each of these is a binding contract, full of legal language few of us are trained to understand. REALTORS have training and experience in drawing up purchase contracts and will help you understand its contents. However, it's also important to have a lawyer on your team, someone who can wade through all the "legalese" to ensure that your rights and interests are fully protected. We suggest you select a lawyer early and consider having him or her review every document before you sign it.

Finding the right lawyer

Since this is your first home, it's likely you've never employed the services of a real estate lawyer before and may not know how to go about finding one. As with choosing most professionals, one of the best ways is to ask the people you *do* know and trust -- family, friends or business associates -- for names of lawyers whose practices include substantial real estate experience. Perhaps your friends recently bought or sold a home and were pleased with the legal services they received. If not, maybe they know of someone you can call for a recommendation.

REALTORS may be able to give you the names of several lawyers to contact, although REALTORS cannot recommend or endorse a specific lawyer. If these avenues don't produce a viable candidate, most communities also have a legal referral service which can give you the names of two or three candidates for you to interview. Of course, there are always the yellow pages.

During your conversations with prospective lawyers, inquire about their real estate experience, how they structure their fees, and ask for an estimate of the other legal costs you can expect. Find out what services they will provide for the fee and how and when they will let you know if costs are likely to exceed their estimates. The fees lawyers charge usually vary with the type of mortgage arrangement and the overall complexity of the transaction.

Is the lawyer accessible on evenings and weekends, when most offers are signed? Is he or she equipped to cope with problems if they develop? You also may want to request references, particularly if you learned about the lawyer through a referral service or the yellow pages. Ultimately, you'll weigh their responses against your own gut feelings about their attitude and willingness to help you. Don't let fees be the only deciding factor. There is often no relationship between fees and experience. Go with the lawyer who, in your opinion, has the right experience and is genuinely interested in providing professional service.

How your lawyer will help

Lawyers certainly earn their fees in real estate transactions, taking care of many of the complicated, time-consuming things most of us either can't or aren't prepared to do. When you find the home you want to buy, consider having your lawyer review your offer before you sign to make sure it is legally complete and accurate. Once an agreement has been reached with the seller, your lawyer may provide a number of other services including:

- Making sure you will have valid title (proof of ownership) to the property and that it is described correctly in every document.

- Investigating whether there are any claims registered against the property and ensuring these are cleared before you take title, unless you have agreed to assume these (e.g. assuming the mortgage).

- Checking with the appropriate municipalities to find out if taxes are owed on the house, or (in the case of a new home), if final inspection has been completed.

- Calculating the registration costs at Land Titles that you will be required to pay when you complete the transaction (see Chapter 10), as well as any adjustments necessary to compensate the seller for prepaid taxes and utility bills.

- Suggesting possible alternative sources of financing.

- Drawing up the mortgage documents, if these are not prepared by your lender's lawyer.

- Ensuring that the home complies with local bylaws (e.g. no encroachments such as decks or garages).

Your lawyer will be an important participant in the home buying process. Don't be intimidated by the aura that surrounds the legal profession. Rely on your lawyer's services and guidance and ask questions if you don't understand something. Make sure problems are anticipated and prevented *before* the transaction is completed, not later, when you're sitting in your new home.

8 Making an Offer

Your house-hunting expedition has been a success! You've found the right home, one that satisfies your needs, most of your wants...and best of all, fits your pocketbook. Now comes one of the most important phases of your home buying experience: making an offer to purchase the home.

The offer to purchase, which is written on a standard purchase contract, is a precisely worded document that sets out the terms and conditions between the buyer (you) and the seller. Once the offer is made and accepted, and after any conditions of the offer are met (if there are any conditions), the offer becomes a legally binding purchase contract, meaning that you and the seller are obligated under law to hold up your ends of the agreement and complete the transaction. For that reason, you must be very sure you understand what's in your offer before you sign it.

A properly drafted offer should leave no room for interpretation. It should contain everything that is important to you about the home and the transaction. For example, if the MLS® listing states that the washer and dryer are included in the sale, put that fact into the offer. How about that satellite dish in the backyard? If you want to be sure it's sold with the house, say so in your offer. Having a written agreement about these things now will avoid complications later.

Preparing the offer

Since this is the first time you've purchased a home, you've probably never even seen a purchase contract, let alone drafted one. Not to worry. The REALTOR is knowledgeable about this subject and will prepare your offer, taking into account all the factors that are important to you.

Fortunately, REALTORS don't have to reinvent the wheel every time there's a contract to be drafted. Standard purchase contracts are used by REALTORS and contain the terms common to almost every real estate transaction in the province. The wording on these forms is broadly accepted, having been thoroughly reviewed and tested.

That doesn't mean, however, that your specific offer cannot also include special conditions you want. Every sale is different and your offer will contain the wording that suits your needs. Let's run through a real estate purchase contract briefly to discuss the specific areas that will likely be custom-tailored to fit your transaction.

- **Buyer** That's you! If you're buying the property with a spouse or other partner, each of your names should be listed exactly as you'll want them to appear on the Certificate of Title when the property is yours.

- **Seller** If jointly owned, each seller's name should be listed in full, exactly as shown on the existing title.

- **Property** This is the exact legal description of the property you intend to purchase. It should include the postal address, lot and plan number, as well as frontage and depth dimensions. The REALTOR and lawyer will make sure the property description is specific and accurate.

- **Purchase price** The price you are offering for the property.

- **Deposit** When you submit an offer, normally you're requested to include a deposit to demonstrate you're serious about your intent to buy the property. This deposit will usually be in the form of a cheque, payable to the seller's brokerage, who will place the deposit in trust until the deal is completed or terminated. Your deposit provides the seller with some assurance that you will go through with the sale when the day of completion arrives.

Note that a deposit is not the same thing as a downpayment, although when an agreement is reached and the transaction is completed, the deposit will be credited in full towards the purchase price. There is no standard amount for a deposit, but the size of your deposit says something about how serious you are about buying. Deposits normally don't exceed 10% of the purchase price.

- **Clauses particular to this agreement** As we mentioned earlier, every transaction is unique, so space has been provided on the standard form for any provisions that apply only to your offer. Often these provisions are stated in the form of "conditions" to the agreement. Conditions are generally inserted at your request and for your protection. If a condition is not satisfied within the time allowed, your offer is no longer valid and you usually have the right to get your deposit back.

  Many conditions are buyer-protection clauses, containing language like "subject to" or "conditional upon". For example, you may want the REALTOR to insert a condition that says the offer is subject to you arranging a specific amount and type of financing, or that the offer is conditional upon you being approved to assume an existing mortgage. (Naturally, since this is a legal contract, the actual wording used in conditional statements is far more technical and specific than we've indicated here.) Conditions must always be satisfied by a specific date or within a specific period.

  An unconditional offer that is signed by the buyer and accepted by the seller becomes a contract binding both parties. However, if the seller accepts an offer containing one or more conditions, the contract is subject to those conditions. When the conditions are satisfied, the deal is firm. Keep in mind that if a seller receives two offers at or near the same purchase price, and one contains conditions and the other doesn't, the seller may well be inclined to accept the unconditional offer. A REALTOR and lawyer can counsel you on the use and wording of conditional clauses.

- **Completion day** This date, often referred to as the "closing date," is the glorious day when the parties expect to complete the transaction. All documentation is filed, all monies are paid out and the property is yours. The completion day is often scheduled for 30 to 60 days from the date of the contract (and 90 days or longer for some new home sales), although this period will vary with circumstances. The REALTOR can help you negotiate a mutually agreeable completion day.

- **Irrevocability of the offer** This is the period during which you leave your offer open for consideration by the seller. If you are not notified before the precise time and date specified that your offer has been accepted, the offer becomes "null and void" (no longer valid). The REALTOR can assist you in determining how long you should let the seller think about your offer, but it is often a period of less than 48 hours.

- **Attached and unattached goods** Attached goods (also called fixtures) are permanent improvements to a property that normally stay with the property as part of the sale. However, it isn't always clear what constitutes an attached good or whether it will stay. For example, the seller will naturally want to retain a dining room chandelier that is a family heirloom. Since the chandelier could be defined as an attached good, it will be listed as an exception in the offer. From a legal standpoint, if it is an attached good and not mentioned in the contract, it is considered part of the purchase price.

  In order to attract buyers, it's common for sellers to include in the selling price some unattached goods (chattels) that aren't normally considered part of the dwelling itself. These movable pieces of personal property often include washers and dryers, window blinds or microwave ovens, and are listed as items to be included with the sale.

  If there's any doubt in your mind as to whether attached and unattached goods are part of the contract, specifically list the items you're concerned about in your offer. Where appropriate, give make and model numbers, or describe the items by colour and location. Leave nothing to chance. You'll avoid surprises later when you take possession of the home.

Checklist - What is included with the purchase price?

Here's a list of some items to ask about. If you're not sure, include them in your offer if you want them to be part of the sale:

- ❑ Area rugs
- ❑ Brass, gold or wood bathroom fixtures
- ❑ Ceiling fan(s)
- ❑ Chandeliers and other light fixtures
- ❑ Draperies, curtains and blinds
- ❑ Wood-burning stoves and accessories
- ❑ Microwave oven
- ❑ Portable dishwasher
- ❑ Refrigerator/freezer
- ❑ Freestanding stoves and ovens
- ❑ Washer and dryer
- ❑ Custom-fitted furniture
- ❑ Water heater
- ❑ Water softener
- ❑ Window air conditioner(s)
- ❑ Garage-door opener and remote controls
- ❑ Storage shed
- ❑ Satellite dish and equipment or TV antenna tower
- ❑ Above-ground swimming pool
- ❑ Swing sets and other playground equipment
- ❑ Garden furniture
- ❑ Barbecue

- **Time to examine title** When you buy a home, you're really paying for ownership and the rights that go along with it. "Title" is the legal evidence of ownership, and you want to be sure your lawyer has time to search the seller's title to make sure it is free of restrictions. If the seller doesn't have clear ownership, there may be complications in transferring title to you on completion day. Give your lawyer as much time as possible to search title prior to completing the transaction.

Involve your lawyer

You may want to have your lawyer review the offer *before* you sign and submit it to the seller. Why? Because when it's all said and done, you and the seller are legally responsible for what the contract says.

If you believe you'll miss an opportunity to buy a property if you have to wait for your lawyer to review the offer, there is a simple solution. Ask the REALTOR to insert a condition stating that your offer is subject to satisfactory review by your lawyer, usually within a period of 24 or 48 hours. Most lawyers are very responsive to your request and will look at the offer right away. Don't expect your lawyer to comment on the value of the property. His or her job is to review the documentation and ensure your rights are protected.

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Submitting the offer

After you sign your offer, your agent will take it to the Seller's agent and the seller. It's not likely you will meet the seller in person, which is all the better, since many negotiations are more successful that way.

During the irrevocable period you've defined in your offer, the seller can accept the offer, reject it or "sign back" a counteroffer.

If your offer is rejected, discuss the reasons with the REALTOR to determine whether you should submit a revised offer. Sometimes offers are rejected because of a misunderstanding on the part of the seller which may be easily corrected. If the rejection is due strictly to price and the seller didn't deem it worthwhile to reply with a counteroffer, you may want to raise your price and try again. You have little to lose with this approach and may be able to get the negotiating process back on track.

A seller who signs back a counteroffer is indicating interest in your offer but dissatisfaction with one or more of your terms. Most frequently, this revolves around the purchase price, and the seller will cross out your price and insert a somewhat higher figure. If you're not happy with the counteroffer, you can cross out the seller's price and write in another figure. This process continues until both parties agree to a price or until one of you ends the negotiation. (If the offer becomes unreadable because of all the changes, the REALTOR will prepare a fresh copy.)

Counteroffers may involve other terms besides price. Perhaps the seller wants a shorter period before closing or disagrees with an unattached good you've listed in the contract. In any case, a counteroffer places the ball back in your court and it's up to you to pursue the purchase or end it there. You should always be willing to compromise on minor items, but avoid giving up on the things that are truly important to you.

9 Arranging a Mortgage

In the process of determining how much money you can borrow to buy your home, you'll find yourself dealing with dollar amounts that would have boggled your imagination a few years ago. (Perhaps they still do!) It makes perfect sense, then, to shop carefully for your mortgage. If you're willing to drive from one end of town to the other looking for the best deal on a new pair of skis, you certainly should be willing to spend time arranging a mortgage that best fits your financial needs.

In fact, shopping for mortgage funds has some things in common with shopping for skis, though the dollars involved are *considerably* different! Stroll into any ski shop and you're immediately struck by how much choice there is -- downhill, cross-country, short skis for beginners, longer skis for experts -- dozens of makes and models, and each manufacturer claiming their line of skis is the very best money can buy. (If you don't ski, think about all the different kinds of cars you can buy.)

The choices among mortgages can be equally bewildering for first-time buyers: open vs. closed; fixed rates vs. variable; high-ratio vs. conventional. How do you even begin to make a decision?

Turn to those with experience in this field for advice, that's how. Talk to the loans people where you bank. They'll be glad to explain the mortgage products they offer. REALTORS are also well-versed in mortgage financing, and unlike the advice you'll receive from a specific bank, a REALTOR may be able to suggest and explain a broader range of options for you to consider. Your real estate lawyer may also be able to help, as can mortgage brokers. More on these choices later.

In the meantime, let's discuss the most common sources of mortgage funds and the different types of mortgages available. Spending a few moments now to familiarize yourself with these options will prove invaluable when you begin to shop.

Who offers mortgage funds?

It might seem easier to ask, who doesn't? Mortgage lending is big business and everybody wants in on the act. That's good news for you, because all those players make the competition for mortgage lending extremely intense. All the more reason to shop around.

Banks and trust companies lend the majority of the funds. *Credit unions* welcome mortgage business from their members (even new members who have just joined), and some life insurance companies can lend you money. *Mortgage brokerages* exist solely to write mortgages and then may sell them to outside investors. *Private lenders* advertise frequently in the newspaper and are another alternative for mortgage funds, although their interest rates are generally higher.

Try talking with at least one or two representatives from each of these lending categories, more if possible. You don't have to visit them all; let your fingers do the walking. Most will be delighted to answer your initial questions by telephone. If they're not, that may say something about their dedication to service.

Mortgage brokers have access to conventional lenders (banks and trust companies), private lenders, pension funds, real estate syndicates and foreign banks. In effect, a mortgage broker's role is that of matchmaker, introducing the appropriate lender to the qualified buyer. Mortgage brokers can also be helpful in arranging financing for buyers who have questionable credit ratings, high debt service ratios or other potential problems. Keep in mind that brokers charge a fee for their services. Some buyers feel, however, the time and hassle a mortgage broker can save are well worth the cost. Find out in advance what the fee will be.

Other mortgage sources

There are two other sources for mortgage financing that shouldn't be overlooked. One is to "assume" the mortgage that exists on the home you'd like to purchase. Simply stated, assuming a mortgage means you agree to take over the seller's mortgage and payments as part of the price you're paying for the house. How does this work?

- Nancy and Jim are buying a house for $150,000 and the seller's existing mortgage on the home is $100,000. In order to complete the transaction, the couple has agreed to pay $50,000 in cash to the seller and assume the $100,000 mortgage. Therefore, they don't have to arrange financing from another source in order to buy the home.

Assumptions can be a very attractive way to arrange mortgage funds. Often the interest rate on the assumed mortgage is lower than rates available in the current market. In some cases, you can assume a mortgage automatically, although many lenders require you to qualify first. Even so, mortgage assumptions are quick and can save you lots of money in the fees normally associated with arranging new financing (legal fees, closing costs, property appraisals, etc.). Be sure to note the time remaining on the "term" of the mortgage (see page 32), and talk to a REALTOR and real estate lawyer before you offer to assume a mortgage.

The second source of other mortgage financing also comes from the seller. People who have owned their homes for years often have a large "equity" or stake in the property, having paid off much or all of their mortgage. (Equity is the home's current market value, less any outstanding loans on the property.) To help you buy their home, some sellers will "take back" a mortgage, which means they will loan you the money themselves from their equity.

- Rick and Joan have found a small hobby farm on the outskirts of town selling for $200,000. Since it's been in the seller's family for generations, the property is owned free and clear. Rick and Joan have qualified for 75% financing through their bank, but don't have sufficient funds for the 25% downpayment ($50,000), The seller is prepared to take back a one-year mortgage for $30,000, so the couple only has to come up with $20,000 in cash for their downpayment to arrange their mortgage with the bank, assuming they meet the lender's debt service ratio requirements.

This type of arrangement is commonly known as a VTB or "vendor take-back" mortgage, and is frequently employed when the real estate market is slow or the seller wants to sell the home quickly. First-time buyers find a take-back mortgage attractive because it puts them into their home sooner, while giving them time to save a larger downpayment or increase their income to qualify for a larger mortgage. Additionally, VTBs are faster and less expensive than other types of mortgages. Sellers find them attractive, because they can sell the home sooner, using their property as security on the mortgage.

As an alternative to take-back mortgages, sellers can also use their equity to pay your closing costs or "buy down" (see glossary) the interest rates on the mortgage you arrange through other sources. Some real estate listings will include a seller's willingness to use their equity in these ways. Ask a REALTOR to explain the options and help you find these deals.

You may also wish to investigate the possibility of borrowing some of your mortgage funds from your registered retirement savings plan (RRSP). The Government of Canada offers a program to first-time home buyers (the Home Buyers' Plan) that allows you to withdraw up to $20,000 from your RRSPs tax-free to buy or build a qualifying home. If you buy the home together with your spouse or other individual, each of you can withdraw up to $20,000. You must qualify under a certain number of conditions, and the entire balance must be repaid within a period of 15 years. Your REALTOR has access to a brochure outlining the features of the Home Buyers' Plan. As well, you can contact your local Canada Customs and Revenue Agency (CCRA) office for more information.

Mortgage terminology explained

Knowing where to get a mortgage is one thing. Understanding the lenders when they explain their products is quite another. Every business and profession, including the world of mortgage financing, has its own terminology. The following terms may seem foreign to you at first, but after a few conversations with REALTORS or bankers, you'll be sounding like a real pro. Speaking of terms, the one we'll talk about first is called a "mortgage term".

- **Mortgage term** Lenders will only loan you money for a specific period of time called the *mortgage term.* These terms typically range from six months to five years, although there are longer terms available through some lenders. When the term is completed, the remaining principal amount is payable in full, unless you renew the mortgage (or arrange new financing) for another term.

- **Amortization** Few of us can pay off the entire principal of a large mortgage in a six-month term, or even a three-year term. Imagine how big each monthly payment would have to be! To help you out, lenders calculate or "amortize" the mortgage payments over a much longer time, often as long as 25 years. They aren't loaning you the money for a single 25-year period, they're just calculating the payment schedule as if it will take you that long to pay back the principal, plus interest. During the *amortization* period you will probably renew the mortgage for several terms.

  The longer the amortization period, the more money you pay in interest. Conversely, the shorter the amortization period, the more you'll save in interest costs. This chart demonstrates the interest savings over two different amortization periods for a $60,000 mortgage:

Chart 1
Comparing Amortization Periods
($60,000 mortgage @ 7.5% interest)

Amortization Period	*Monthly Payments*	*Total Paid*	*Total Interest Paid*
15 years	$552.31	$99,416	$39,416
25 years	$438.93	$131,679	$71,679

- **Interest rates** As you no doubt know from arranging car loans or having credit cards, *interest* is the cost of borrowing money. Over a period of a few years or even a few months, the mortgage interest rates charged by lenders can rise or fall by several percentage points. Although interest rates fluctuate with the economy, the rate charged on your mortgage, and therefore your monthly payments, will be fixed for each term of the mortgage (except in the case of variable rate mortgages -- see page 36).

  Why is this important to you? Because a difference in the rate of interest to which you commit yourself at the beginning of the term can have a significant effect on the amount you pay each month for your mortgage. This is particularly true in the early years of a mortgage when almost your entire payment is used to pay the interest and very little is applied to the principal. Here's an example of how different interest rates can affect your payment.

  You've just arranged a $100,000 mortgage, amortized over 25 years, calculated semiannually:

  - At a 6% interest rate, your monthly payment would be approximately **$640** for principal and interest.
  - At 8%, your payment would be **$763**.
  - At a 10% interest rate, the payment would be **$895** for the same $100,000 mortgage.

  You can see that a 4% difference in interest rates (6% to 10%) means a $255 difference in monthly payments. Naturally, we would all rather pay $640 than $895 for a $100,000 mortgage.

Interest rates *do* make a difference, not only in your monthly payment amounts, but also in your ability to qualify for the mortgage in the first place. Remember our discussion on debt service ratios in Chapter 3? The higher the interest rate, the less you can borrow to finance your home purchase, so it pays to shop around for the best rate you can find.

- **Payments** Most mortgage payments consist of two parts: (1) principal and (2) interest. This is known as a "blended" mortgage payment. Each payment reduces the balance owed on the mortgage by the portion of the payment that is credited to the principal.

  - Eleanor has an $80,000 mortgage at 7% interest on her house, amortized over 25 years. When she makes her first payment of $560.33, the interest portion is $460 and only $100.33 is left to pay down the principal. After her first payment, the remaining balance on her mortgage is $79,899.67 ($80,000 - $100.33 = $79,899.67).

    When she makes the second payment, the 7% interest is calculated on the remaining principal of $79,899.67 (not $80,000). She still makes her normal fixed payment of $560.33, but the interest portion has decreased to $459.43 and the amount applied to principal has increased to $100.91.

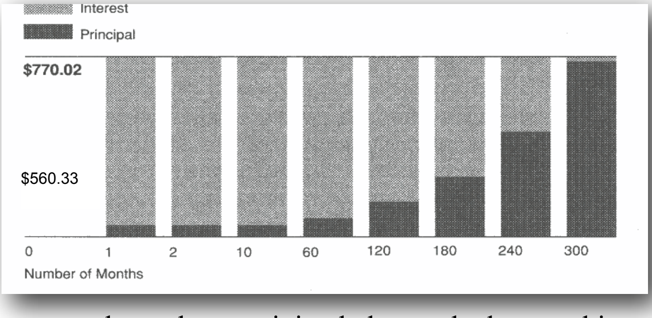
    This chart shows how the interest and principal portions of the same monthly payment change over the 25-year amortization of Eleanor's $80,000 mortgage:

Chart 2
Payment Schedule

Payment #	*Payment*	*Interest*	*Principal*	*Balance*
1	$560.33	$460.00	$100.33	$79,899.67
2	$560.33	$459.43	$100.91	$79,798.76
10	$560.33	$454.69	$105.64	$78,970.34
60 (5 years)	$560.33	$419.62	$140.72	$72,835.68
120 (10 years)	$560.33	$361.84	$198.49	$62,729.69
180 (15 years)	$560.33	$280.34	$279.99	$48,474.20
240 (20 years)	$560.33	$165.37	$394.96	$28,365.42
300 (last)	$560.33	$3.20	$557.13	$0.00

The above chart also illustrates vividly what we said a moment ago. In the early years of the mortgage, when the amount owed is larger, most of the payments go to interest and very little is applied to the principal. Note that even after five years of payments (totaling $33,620), the original $80,000 balance has only been reduced to $72,835.68. The remainder, more than $26,000, went to interest.

Figure 1
Monthly Payment (Principal & Interest)



The faster you can pay down the remaining balance, the less total interest you'll pay.

- **Prepayment privileges** The total amount of interest you pay over the life of a mortgage may surprise you. For example, a $50,000 mortgage, amortized over 25 years at a 6% interest rate, will cost you $45,971 in interest *alone* over the mortgage amortization period. That's almost the amount you borrowed in the first place!

  Naturally, if you could decrease the total amount of interest paid, you'd be a happier homeowner, right? Well, you can. Simply make extra payments towards reducing the loan's principal whenever you can. The lower your principal, the less overall interest you'll pay. Said another way, the sooner you pay down the principal, the more money you'll save in interest. One important note: for most mortgages, principal prepayments will not reduce your monthly payment amount during the current mortgage term.

  Fully open mortgages (those with no prepayment restrictions) let you make extra payments towards the principal anytime you want. Fully closed mortgages don't allow prepayment privileges. But *partially open mortgages* (sometimes called *partially closed mortgages)* let you make very specific prepayments at certain intervals. For example, they may let you make one additional payment of no more than 10% of the principal each year. On a $50,000 balance, that means you could pay up to an additional $5,000 towards the principal in the first year, over and above your normal monthly payments.

  You may be asking yourself, "Where am I going to get an additional $5,000?" Sure, that amount may seem huge today, but as your salary increases, you may find it easier to set aside some of your extra income for a mortgage prepayment.

  In the meantime, could you pay an extra $500 a year? Probably so. You only need to save a little more than $40 a month to save $500. Well, watch what happens. On the same $50,000 mortgage, if you pay just $500 extra each year for the first five years, you will save more than $10,000 in interest over the mortgage amortization. It only costs you $2,500, but you save four times that amount in interest! Behold the power of prepayment privileges. Make sure you seriously consider this opportunity when shopping for a mortgage.

  The ability to prepay a mortgage is also very important if you want to sell your home before the current mortgage term is complete, or if market interest rates have dropped substantially and you want to refinance your mortgage at a lower rate.

- **Payment frequency** Up to this point in our discussions, we've assumed your mortgage payments will be made once each month, since most are. But many lenders offer several different payment options, including weekly and biweekly (every two weeks) plans. Why are more frequent payments worth considering? Because they too will save you money in interest costs, in much the same way that prepaying your principal saves you interest.

  Let's look at a $60,000 mortgage, amortized over 25 years, calculated semiannually at 12% interest.

  - If you pay *once a month,* your payments for principal and interest will be $619.14 each month. Total interest paid over the 25-year amortization of the mortgage will be $125,742.

  - If you pay *weekly,* each payment will be $142.02. Total interest paid over the 25-year amortization of the mortgage will be $118,752, *saving you nearly $7,000 in interest* over the amortization of the mortgage. This happens because the principal is adjusted downward more frequently, reducing the amount of interest owed by a small amount each time it is calculated.

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Even more dramatic savings are available if you pay on an "accelerated" payment plan, a feature offered by many lenders.

- If you pay through an *accelerated weekly* plan, your payments on the $60,000 mortgage will be $154.79 each week, just $12.77 more per week than with the standard weekly payment plan ($154.79 - $142.02 = $12.77). But your total interest cost will be $79,575, which is $46,167 less than you would pay on a monthly payment plan.

That bears repeating. *By merely adding $12.77 to the amount you pay weekly, you can save $46,167 in interest over the mortgage amortization period when compared to making monthly payments.* What could *you* do with an extra $46,167?

Under this weekly accelerated payment program, you pay only $619.14 more in a year, which is the equivalent of one extra monthly payment. Look at the following chart to see how these savings become even more impressive on a larger mortgage amount:

Chart 3
Comparing Payment Frequency
($100,000 mortgage, 10% interest, amortized over 25 years)

Payments (frequency)	*Mortgage Paid Off*	*Total Interest Paid*	*Interest Saving*
$895 monthly (12/year)	25 years	$168,500	n/a
$447.50 biweekly (26/year)	18 years, 10 months	$118,927	$49,573
$223.75 weekly (52/year)	18 years, 9 months	$118,111	$50,389

Of course, not everyone can arrange to pay their mortgage off with more frequent payments. If, for example, you're paid on commission or once a month, it may not be as convenient for you to make your payments more frequently. Lenders and REALTORS can help you decide which payment option is right for you.

- **Portability** A portable mortgage allows you to take your mortgage with you (without penalty) if you sell your present home and buy another one. This can be very advantageous, particularly if the interest rate on your mortgage is lower than the market rates at the time of your move. If your new home requires a larger mortgage amount, the additional funds required will be borrowed at the current market rate.

  - Mary and Tom have just sold their home which currently carries a 3-year term $50,000 mortgage at 10%. There are two years left on the term. Their new home will require a $75,000 mortgage. The portability feature of the couple's mortgage enables them to continue using their 10% mortgage for the first $50,000 on their new home and arrange for the remaining $25,000 at the current market rate of 6.5% for the same two-year term. The resulting mortgage payment is "blended" at 8.25% to combine the two rates and mortgage amounts.

  - Existing mortgage: $50,000 @ 10%
  - Additional funds: $25,000 @ 6.5%
  - New mortgage: $75,000 @ 8.25%

  The portable mortgage option lets Mary and Tom borrow the additional funds at a lower rate for the remainder of the original term.

- **Assumability** This feature allows the buyer of your home to take over your existing mortgage and *assume* responsibility for it. Many sellers offer this as an attractive selling feature when the interest rate on their mortgage is lower than prevailing market rates (see page 31.) However, note that in most cases assumability is not automatic and that the buyer must be qualified by the lender in order to assume the mortgage.

Types of mortgages

Now that you're fully conversant with "mortgage speak," let's look at the different types of mortgages you'll encounter.

- **Conventional mortgages** Available through most lenders, they're called conventional because they're the most common type of mortgage around. The lender will loan you up to 75% of the appraised value or purchase price of the property, whichever is lower, and you must usually come up with the other 25%, which is the downpayment. Many people use their savings and other cash assets to raise the 25%, although you may be able to arrange for a portion of the amount needed through alternate or "secondary" sources of financing.

- **Second (and third) mortgages** These are additional financing arrangements "behind" an existing mortgage, also secured by the property. Secondary financing is usually arranged at a higher interest rate and for a shorter term than the first mortgage. As a first-time buyer, you may find it advantageous to arrange a second mortgage to assist you in making the 25% downpayment required for a conventional mortgage, although you'll still have to qualify through your debt service ratios for both the first and second mortgage payments.

- **High-ratio mortgages** When you don't have sufficient personal funds to make a 25% downpayment, you may want to investigate a *high-ratio mortgage.* These are available for up to 95% of a home's appraised value or purchase price, whichever is lower, up to a maximum mortgage amount set by the government. However, since you are borrowing more than the usual 75%, the mortgage must be insured against default and *you* must pay the cost of insurance. That cost can range from one-half to almost four percent of the mortgage amount and is added to the mortgage principal (see also page 11).

- **Variable rate mortgages** Most major institutional lenders offer conventional and high-ratio mortgages as *variable rate mortgages.* Typically, your monthly payments are fixed for a one- or two-year term, while the interest rate portion of the payment "floats" in relationship to the bank rate set by the federal government. If rates go up, more of your payment is applied to interest and less is applied to the principal. If rates drop, however, more of your monthly payment is used to pay off your principal and your mortgage is paid off sooner.

  Variable rate mortgage loans can protect you if interest rates are high at the time you arrange your mortgage; when rates fall, you're not stuck with high interest payments and more of your payment is applied to the principal. If you arrange a variable rate mortgage when rates are low, an increase in prime could mean more of your payment is being applied to interest than you bargained for.

  When this happens, some lenders allow you to convert your variable rate mortgage to a fixed-rate mortgage or make an additional cash payment to cover the extra interest.

  Since variable rate mortgages offer you additional protection in times of frequently changing interest rates, lenders usually restrict the mortgage amounts to 70% of a home's appraised value or purchase price, whichever is less.

- **Assumed mortgages** (see page 31)

- **Vendor take-back mortgages** (see page 31)

- **Mortgages from builders** New-home and condominium builders will often assist you in arranging financing. Open the ads in your local newspaper's real estate section and you're likely to see a number of developers offering below-market interest rates. They accomplish this by "buying down" the interest rate charged by the lenders with whom they've made an arrangement in order to sell their homes faster. For example, let's say the prevailing market interest rate is 8%, but the builder is advertising only 5% to prospective buyers. In order to make this offer, the builder pays the 3% difference in interest income to the lender.

  Two things to be aware of, however, if you're considering a builder's mortgage. First, some builders add the extra amount they paid in the interest buy-down to the sale price of the home, so you may end up with a higher mortgage principal amount than your neighbours who arranged their own financing. Second, mortgages are usually only bought down for a short term, often just a year or two. Then you'll have to arrange your own mortgage at the current market rate and perhaps encounter substantially higher mortgage payments.

  Builders' mortgages can be an excellent way to get into your first home, but again, talk to a REALTOR and lawyer before you sign on the dotted line.

How much should I contribute as downpayment?

The answer depends upon your specific financial situation. Of course, the more you put down, the lower your monthly payments will be. But before you contribute every penny you have towards the downpayment, set aside a cash reserve for other costs, including legal fees, closing costs, moving expenses, and any improvements or renovations you plan to make in your new home shortly after you move in (see Chapter 10).

- If you have a large savings account (or other readily accessible assets such as mutual funds or Canada Savings Bonds) and sufficient family income, arrange a conventional mortgage with at least 25% down.

- If you *don't* have the required 25% downpayment for a conventional mortgage, you may want to:

    - Consider a home with a lower price.
    - Arrange a high-ratio mortgage.
    - Request the seller to "take-back" a mortgage.
    - Assume an existing mortgage.
    - Arrange a second mortgage for part of the downpayment.
    - Sell other assets that could generate cash.
    - Ask a family member or friend for a cash "gift".
    - Take in a "partner" on the purchase.
    - Use your RRSP under the Home Buyers' Plan to obtain additional funds.

- If you *do* have the 25% down, but lack the income required for the lender's debt service ratios, try to:
    - Make a larger downpayment (30%, 35%), reducing the amount you'll need to borrow.
    - Consolidate other loans by adding them to your mortgage.
    - Pay off some of your other debts, such as a car loan.
    - Assume an existing mortgage.
    - Ask someone to cosign your mortgage.
    - Find an additional part-time job.
    - Look for a home that can accommodate a boarder or tenant for additional income.
    - Ask for a raise!

Selecting the term for your mortgage

It's virtually impossible to predict accurately where interest rates are going, but you can watch for trends by reading the paper's business section regularly. If you see several articles stating that the economy's inflation rate is too high, you can bet that the Bank of Canada will try to reverse this trend by raising interest rates and slowing down the economy. However, if interest rates have been relatively high for quite a while and inflation is under control, interest rates will usually begin to drop in order to stimulate economic growth… and entice you to buy a home!

If all that talk of inflation and economic growth confuses you, just remember this: what goes up must come down -- the trick is guessing when. Interest rates run in cycles.

- If rates have been high for a long period and the housing market is in a slump, you can probably assume that rates will begin to fall in the "near-term," meaning in a matter of months or within a year. So if you think rates will soon start to drop, you may not want to lock yourself into a long-term, high-interest mortgage. Perhaps you should arrange a six-month or one-year term, or a variable rate mortgage.

- If rates have been relatively low and the housing market (and business in general) is experiencing strong growth, you may want to lock in a lower rate for a longer term, say three years or more. A long-term mortgage at reasonable rates will protect you against future upswings in rates. For many, a long-term mortgage offers peace of mind in knowing that their mortgage payments will stay the same for several years.

When rates seem high and about to fall, opt for a shorter term. Remember, however, that it's difficult to predict exactly which way interest rates will move. Over the 15 to 25 years it takes to pay off a mortgage, unanticipated world events and just plain bad luck can throw off even the "experts". Talk to a REALTOR and others whose opinions you trust and see if there's a general consensus about where rates are headed.

Applying for a mortgage

Once you've decided on the lender and the type of mortgage you want, it's time to apply for your mortgage. Put on your thickest skin -- you're going to be asked a lot of questions about your personal finances and creditworthiness. Naturally, the lender wants to be satisfied that you have the financial means to meet the obligations of a mortgage.

Before you see the lender, a brief checklist of things you can do in preparation follows. To assist you, we've provided a worksheet (Worksheet 5) at the end of this book.

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Checklist - What's needed to prepare for a mortgage application?

Note: Your co-applicant for the mortgage (spouse, partner, friend) should bring similar information and join you when you visit the lender to fill out the application.

- ❑ Ask your employer for a letter confirming your employment. This should include your position, number of years with that employer, your prospects for the future with the company and your current salary, wage or anticipated earnings. If you just recently joined your present employer, you'll need to get the same type of letter from your previous employer. Photocopies of your T4 slips for the past few years are also helpful. If you are self-employed, the lender will need to see financial statements or income tax returns going back at least two years, preferably longer.

- ❑ Make a list of your assets -- cars (even if you owe money on them), stocks, savings accounts, bonds, etc.; include their present estimated value (and location, where appropriate); add up the total dollar amount of assets held.

- ❑ Also list your liabilities (the things you owe money on) -- car loans, student loans, credit card balances, etc.; include the current balance owed, name of the party to whom you owe money and account numbers; add up the total dollar amount of liabilities.

- ❑ Subtract your total liabilities from your total assets; the remainder is your net worth.

- ❑ Itemize the source(s) of your downpayment, giving account numbers where appropriate. The lender will need to verify that you have these funds before granting the mortgage. If you borrow a portion of the downpayment from family or friends, the lender will want to know how you intend to pay back the loan. If there's a payment involved, it may be used in calculating your debt service ratio.

- ❑ Also come prepared with your social insurance number, chequing account information and contact information for your lawyer.

- ❑ If you've already selected the home you want to purchase, bring along any information that will help describe it: full address, legal description, lot size, anticipated purchase price, annual taxes, annual condominium fee (if applicable), type of home (detached, semi-detached, etc.), and a current real property report, if available; if you have a signed purchase contract, bring it.

  The lender will need to verify the value of the house and will arrange to have it appraised. The appraised value is an independent expert's estimate of the market value of the house. This will hopefully be close to the price you've agreed to pay, but it may not necessarily be the same. When calculating the size of mortgage the lenders will issue against the property, they will base it on the appraised value or the selling price, whichever is less. Keep this in mind when negotiating your purchase price, and be sure you understand the market value of similar homes in the area.

10 Additional Costs When Buying a Home

As you've no doubt guessed by now, the purchase price of your home is only one of the costs you'll encounter, although it is by far the largest. Before we leave the subject of finances, we should go over the other costs involved in obtaining a mortgage and purchasing your home. (Use Worksheet 6 at the end of the book to calculate your costs.)

- **Application fee** It costs lenders money to process your application and some will pass these costs on to you. Application or mortgage initiation fees vary, and some lenders will waive this fee entirely if you have other accounts with them.

- **Appraisal fee** Lenders typically loan a percentage of the home's purchase price or the market appraisal of the property, whichever is lower. The appraisal is done by someone on the lender's staff or by an outside professional whose opinion the lender accepts. Once again, you're responsible for the cost of this appraisal, which varies with the complexity and location.

- **Mortgage broker's fee** The fee charged by a mortgage broker to arrange a mortgage on your behalf. This is usually payable at the time of closing (that is, when the purchase transaction is complete), although some brokers require the fee up front. Some mortgage brokers also charge an application fee, some do not charge at all. Be sure to ask.

- **Real property report fee** Lenders require a real property report of the property you intend to buy. This confirms the property's boundaries and makes sure there are no problems (called "encroachments") like fences in the wrong place or a portion of your neighbour's home on your land. Under the terms set out in the purchase contract, it is the responsibility of the seller to provide a real property report reflecting the current state of improvements on the property. Lenders will accept an existing real property report if it is accompanied by an affidavit stating that nothing has been added to the property since that date.

- **Inspection fee** Some lenders may require a professional inspection of your home before issuing a mortgage. You may want an inspection anyway for peace of mind, since the costs involved are well worth it (see Chapter 11 for more on home inspections).

- **Insurance** There are several types of insurance that may be required or helpful as part of arranging a mortgage. If you're applying for a high-ratio mortgage, you'll have to pay for *mortgage insurance* (refer to page 36) which protects the lender against default. You should also consider purchasing *mortgage life insurance,* a form of term life insurance that pays off the balance owing on your mortgage if you or your co-borrower dies. Many lenders offer you the option of buying this insurance and adding the cost to your monthly payments. You may also want to talk to your insurance agent and compare the costs of obtaining your own policy instead.

  Since your home will be used as security for your mortgage, lenders require you to carry *fire and extended-coverage insurance* that well exceeds the amount of the outstanding balance or the value of the buildings. This policy covers fire and weather-related damage and you'll want to have that kind of protection anyway. You may also want to investigate public liability insurance. See your insurance agent.

- **Legal fees** As we've seen, your lawyer is an integral part of the home-buying process, and naturally, you're expected to pay all legal fees required to arrange a mortgage. You'll also pay for "disbursements," which are the costs involved in conducting a title search, and preparing and registering the mortgage. Much of this work may be done by the lender's lawyer, although more often it will be handled completely by the lawyer representing you. You can save some of the legal fees usually charged by the lender if your lawyer draws up the mortgage.

- **Other costs** These include property tax adjustments, interest adjustments and service charges to hook up utilities, to name a few. (An "adjustment" takes place when the seller has already paid for something in advance and wants to be credited for the unused portion on the date the home becomes yours. Adjustments usually include property taxes, utility bills, etc.) Ask everyone involved -- the REALTOR, lender and lawyer -- to explain each cost you're likely to incur. No need for surprises on the day you sign the title and mortgage documents. You'll be excited enough as it is!

- **Maintenance and utility costs** We've added this category to remind you that your mortgage payment and property taxes are not the only ongoing costs associated with owning a home. Be sure to budget for heating, electricity, snow removal, landscaping, any renovations you have planned and the initial costs of making your new home livable. Also put aside your spare cash and contribute regularly to a separate fund for maintenance costs (plumbing or appliance repairs, painting, gardening supplies, etc.).

The Goods and Services Tax

Although the Goods and Services Tax (GST) is collected at a rate of 5% on the sale price of goods and services, it doesn't apply to every type of home sale or every form of real estate service.

- **GST and your new home** When you buy a newly constructed home, condominium or townhome, the entire purchase price, including land, is taxable. If the property is to be rented to tenants, the full 5% GST is charged on the purchase price. However, if the home is going to be your primary place of residence, it may qualify for a partial GST rebate, depending upon the sale price.

  For homes costing $350,000 or less, you will receive a GST rebate of 36% of the GST paid, to a maximum of $8,750. That means you pay approximately 4.5% GST (not 7%) on the purchase price.

  The rebate for new homes costing between $350,000 and $450,000 declines to zero on a proportional basis, using this formula:

  $$\text{Rebate} = \$8{,}750 \times \frac{(\$450{,}000 - \text{Home Price})}{\$100{,}000}$$

  New homes selling for more than $450,000 do not qualify for a GST rebate.

  If you buy a substantially renovated home from a builder who supplies both the land and the house in a single transaction, the same GST rebate conditions described above apply. A REALTOR can help explain how the federal government defines "substantially renovated", but it is best to obtain a ruling from the Canada Customs and Revenue Agency (CCRA).

- **GST and the resale home** You don't have to pay GST on the purchase price of a used residential home. In other words, the purchase is "exempt" from GST.

CCRA defines "used residential property" to include an owner-occupied house, condominium, apartment, summer cottage, vacation property or noncommercial hobby farm. They define "used" as residential property that has been occupied as a residence before you bought it. It can also mean a recently built house that is substantially complete and has been sold at least once before you buy it.

If the home has been substantially renovated, enough that the home is deemed "new", GST is payable.

- **GST and land** Land that is purchased separately may be subject to GST, depending on the previous use of the land. If you build a new home on the land, you will pay GST on the construction costs of the house, less any applicable rebate.

- **GST and the real estate transaction** GST applies to most of the services provided in completing the real estate transaction. For example, 5% GST is applied to the commission or fee a REALTOR charges for facilitating a sale.

GST also applies to many other services involved in the real estate transaction, including fees for appraisals, referrals, real property reports and legal assistance. The tax is charged on these services, regardless of whether the house you purchase is exempt from the tax.

One exception is that mortgage broker fees are exempt from GST if the fees are charged separately from any taxable real estate commissions. Additionally, mortgages and interest on mortgages are GST exempt.

The purchase contract places the responsibility for GST on the seller, since only the seller can know whether GST is applicable to the transaction. GST is normally due and payable when the real estate transaction is completed (completion day).

The rules regarding GST are complex, so it's best to ask your REALTOR, lawyer or someone from your local Canada Customs and Revenue Agency (CCRA) office if you have questions.

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11 The Home Inspection

When you're walking through a home that you're seriously considering buying, it's often difficult to put aside your emotions and really "see" what kind of shape the place is in. Sure, you may note that the wallpaper in the bathroom needs replacing or that the hallway carpet is worn, but are you really going to crawl under the foundation or climb onto the roof to check the place out thoroughly? Not likely. Even if you did, few of us have the training to uncover the major structural flaws and maintenance problems that can result in expensive repair bills *after* you've bought the home.

That's why some lenders require you to hire a qualified home inspector to go over every square foot of the house -- inside and out -- before they'll issue a mortgage. Regardless of whether your lender insists on this precaution, we recommend you do it anyway.

A home inspection *before* you purchase gives you the security of knowing what to expect and helps you make an informed decision about the value of the home and the costs of future upkeep. If a major problem is discovered, you can bring it to the seller's attention before removing any conditions on your offer. Since you don't want to hire a home inspector for every home you may be considering, ask the REALTOR or lawyer to add a conditional clause to your offer, making it subject to a satisfactory inspection (see Chapter 8).

Turning to a professional

Try to find an inspector who is a member of a professional home inspection association or who is licensed in a building-related field (architects, contractors or structural engineers). A growing number of home-inspection companies have come onto the scene during the past few years. Your REALTOR, lender or lawyer can probably recommend several to choose from. You may want to avoid inspectors who are also renovators, since their reports may not be objective. When interviewing candidates, find out how long they've been in business and ask for references. What will their inspection cover, and do they guarantee their inspection? If a major structural problem rears its ugly head soon after you move in, will their insurance cover the cost of repair?

A comprehensive inspection includes an examination of the structure from top to bottom, including heating, air conditioning, plumbing and electrical systems, as well as the roof, visible insulation, walls, ceilings, floors, windows, doors, foundation and basement. In older homes, the presence of lead paint, aluminum wiring and asbestos should also be investigated. Some of these things may affect the appraised value of the home as well.

Home inspections usually run about three hours. Take the time to join the inspector during the process. Doing so will give you the firsthand opportunity to see any problems for yourself and become much more familiar with your new home in the bargain. You'll also learn a host of maintenance tips on how to keep your property in top shape.

The inspector should provide you with a written report that summarizes the inspection and points out defects and the estimated costs for making any repairs. Don't ask the inspector to evaluate the home's purchase price or general property value. It's not their role to keep up on home prices in the market. Don't expect the inspection to replace the appraisal required by lenders for mortgage financing.

Should you hire an inspector to evaluate a new home? It can't hurt. Just because a home was built recently doesn't mean it's free of flaws. Construction quality can vary from builder to builder, and mistakes do happen. Moreover, an inspector can help you make sure you're receiving all that you paid for in terms of materials, insulation grades, etc. (If repairs or corrections are needed after you take title to a new home, most are covered by the builder's warranty or through the Alberta New Home Warranty program. However, repairs and corrections can be disruptive, so it still pays to have an inspector find the problems *before* you move into your new home.)

The cost of a home inspection varies with the size of the home, its age and condition, and the geographical area. Fees usually run no more than a few hundred dollars, a relatively small price to pay when compared to the total investment you'll be making in your home.

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12 Closing the Deal

Your offer has been accepted by the seller and you can't wait to move into your new home. These are exciting times, but don't break out the champagne just yet. There's still more to do before you officially become a home owner. You've got to prepare for and complete the process known as "closing".

Closing is the point at which the ownership and usually possession of the property is transferred from the seller to you. It takes place after the parties involved agree that all legal and financial obligations have been met. Many people, including you, will have a role in events leading up to this process. The REALTOR and your lawyer will guide you through the many steps involved, but here's a checklist of the major things to be done so you'll know what to expect along the way.

Checklist - What's involved in closing?

- ❑ Make sure a copy of the signed purchase contract is sent to your lawyer right away. The REALTOR will usually do this for you. Your lawyer needs to see any conditions that exist, and the date you and the seller have agreed to close. The lawyer will ask how you (and others involved in the purchase with you) want to be registered on the title to the property .

- ❑ Immediately begin satisfying any conditions of the agreement that require action on your part. These have definite dates associated with them, and if you miss a date, you may have to arrange an extension or possibly risk losing the entire deal. As each condition is met, the REALTOR will fill out a notice form for signatures. This document states that the condition has been satisfied and is no longer part of the agreement. Note that most lawyers won't begin doing many of the tasks they have to complete until the conditions are satisfied. This saves you money, should the deal fall through because a condition couldn't be met.

- ❑ Upon your direction and after the conditions have been met, your lawyer will begin searching title to the property. This can be an involved and time-consuming process of going back through government records to be sure the seller has clear title and that it can be transferred to you without any problem.

- ❑ If you so decide, your offer should contain a condition that the property pass inspection by a professional home inspector (see Chapter 11). Have the inspection done within the time established by the condition to be sure the house is in good shape and that you want to proceed with the purchase.

- ❑ Contact your lending institution and have them begin the process of finalizing your mortgage documents. Ask if your lawyer can draw up the documents; this will usually save you money. If you've yet to formally apply for a mortgage, now is the time to begin (see Chapter 9).

- ❑ If your lender is not going to draw up the mortgage papers, your lawyer will do this for you. When a vendor take-back mortgage is involved, your lawyer will create this document too. If you're assuming an existing mortgage, make sure you're qualified to assume by contacting the lending institution, and have your lawyer review any documents you will be signing.

- ❑ Your lawyer will contact the seller's lawyer with any questions or issues regarding title and costs that have to be resolved before closing can take place.

- Gas and utility companies serving the property will be contacted by your lawyer for final meter readings on the day of closing. Your lawyer will also make sure these utilities have no outstanding claims against the property for unpaid bills. You should contact the utilities, telephone company and cable company (if one serves your area and you wish to use it) to arrange for all services to be put in your name.

- If you currently rent, you'll need to give notice to your landlord or sublease your apartment. Also contact moving companies (or truck-rental companies, if you're moving yourself) to begin getting costs and making arrangements to move.

- Meanwhile, your lawyer will be busy gathering a number of different reports, certificates and clearances from various government offices. The lawyer will be making sure that property taxes on the house are up-to-date, local zoning and building restrictions have been met, and there aren't any liens (outstanding obligations) on personal property, such as appliances, to be sold with the house. You want your lawyer to make sure that what you've agreed to buy is what you'll get -- nothing more and nothing less.

- Send out your change of address notices and fill out a card at the post office. Arrange to have your address changed on your driver's licence, car registration, etc.

- Well before closing, contact your insurance agent to arrange homeowner's insurance coverage to become effective on the date of closing. They may not issue you a policy before that date, but your agent can give you a "binder" letter, certifying that coverage is in place. You may need to produce this document before closing. You may also want to talk to your agent about mortgage life insurance.

- Your lawyer will review and verify title, confirm the statement of adjustments and other closing information provided by the seller's lawyer, and will deal with any problems as they arise.

- A day or two before closing, you'll meet with your lawyer to go over and sign the closing documents. Bring the certified cheque(s) to cover the costs involved to that meeting. Your lawyer will let you know what the amounts are before the meeting date.

The big day arrives

Can you hear the drum roll? Many first-time buyers compare closing day with the day they got married. So much happens in such a short amount of time, it can all become quite a blur. (Fortunately, you've read this book and are better prepared than most.)

If your lawyer arranged everything well, closing day can be almost anticlimactic. There is usually no need for you to be present at closing. The lawyers for both parties exchange documents, keys and cheques, and then register the title and the mortgage. Soon thereafter, you'll be given the keys to your new home.

Congratulations! You can now call yourself a home owner. (Yes, it's OK to uncork that champagne now!)

After you've moved in

Most of the packing boxes have been taken away, and you're actually beginning to remember where you put things in your new home. Before we leave you to the pleasures of settling in, here's a final tip about enjoying your home.

Whether you've bought a new home or a resale home, you'll experience a very strong urge to begin making changes and improvements right away. The existing carpeting has just got to go. The yard needs additional trees and shrubs. Better start building the new deck now, in time for summer. Speaking of summer, wouldn't a new central air conditioning system be nice? Time out! Slow down and do some planning first. Live in the house for awhile and see how it fits.

Set up and follow a budget. Track your daily expenditures for a couple of months, so that you'll know where the money goes. Make a few mortgage payments and begin building a reserve fund for rainy days. Set up a maintenance program (your home inspector gave you a lot of information about this) and begin to establish some routines.

You've just been through several weeks of stressful events -- finding your home, arranging financing, making lots of decisions, writing lots of cheques and moving -- all leading up to a large, long-term commitment. Don't try to change everything in the first week or even the first month. Give yourself some time to relax and experience the sense of pride and accomplishment you should feel about owning your own home. Above all, have fun!

Worksheet 1
Tracking Your Monthly Costs

(See Chapter 1)

Use this worksheet to record your monthly costs, including your anticipated mortgage costs. Then place that amount in a savings account and see how well you do with your remaining income.

Monthly income

Take home pay	$		
Other income (interest, rent, etc.)	$		
Part-time income	$		
Total monthly income		$_________________	(a)

Monthly expenses

Current housing expenses	$		
Rent	$		
Electricity	$		
Heat	$		
Cable TV	$		
Telephone	$		
Renter's insurance	$		
Subtotal - Current monthly expenses	$	$_________________	(b)

Anticipated housing expenses

Mortgage payment	$		
Taxes	$		
Homeowner's insurance	$		
Subtotal - Anticipated housing expenses	$	$_________________	(c)

(c) - (b) = Additional monthly living expenses to own a home = $_________________ *

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* Put this amount into your savings account at the beginning of the month and see how well your remaining income covers your other monthly expenses itemized below.

Transportation (Will any of these costs increase when you move to your own home?)

Gas/oil	$	
Maintenance/repairs (estimated)	$	
Parking	$	
Public transportation/taxis	$	
Subtotal - Transportation		$_________________ (d)

Living expenses

Groceries/pharmacy	$	
Cigarettes, newspapers, etc.	$	
Beer, wine, etc.	$	
Entertainment (movies, dinners, etc.)	$	
Clothes, shoes, etc.	$	
Spending cash	$	
Other	$	
Subtotal - Monthly living expenses		$__________________ (e)

Fixed monthly payments

Car payment(s)	$	
Credit card(s)		
1.	$	
2.	$	
3.	$	
Furniture loan	$	
Other fixed costs (with 10 payments or more left)		
1.	$	
2.	$	
3.	$	
Subtotal - Fixed monthly payments		$__________________ (f)

Total monthly expenses (b) + (d) + (e) + (f) = $__________________ (g)

Remaining income each month (a) - (g) = $__________________

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Worksheet 2
Charting Your Needs and Wants
(See Chapter 4)

To help you zero in on your home, we've listed some of the major features most buyers think about when purchasing a home. Identify the features that are "needs" and those that are "wants" by placing an "N" or a "W" by each feature that appeals to you, and be sure to add any additional items of importance (where we've suggested options, circle your first choice).

<u>Property Features</u>

Exterior

Large lot and yard
Single-family detached home
Semi-detached home
Townhome
Condominium
One- or two-storeys
Fenced backyard
Deck or patio area
Mature trees, landscaping
Low-maintenance landscaping
Swimming pool (in-ground or above-ground)
Attached garage
One-, two- or three-car garage
Private driveway
Enclosed front porch
Eavestroughs and downspouts
Siding (brick, wood, aluminum, etc.)
Recently painted woodwork

Interior

Number of bedrooms
Number of bathrooms
Closet in entranceway for winter coats, etc.
Separate dining room
Fireplace in living room
Separate family room
Fireplace in family or recreation room
Eat-in kitchen
Island kitchen
Kitchen appliances with purchase:
1.
2.

3.
4.
Kitchen pantry/adequate cupboard space
Garage and kitchen connect
Utility room (for washer/dryer)
Ensuite bathroom off master bedroom
Main floor bathroom
Room for den or home office
Wall-to-wall carpeting
Hardwood floors
Plenty of closets/storage
Large windows
Single-pane or thermopane windows
Window screens
Draperies or blinds
Basement for storage/workshop
Finished basement for additional living area
Suite in basement for rental income

Systems

Efficient heating system (gas, electric, wood)
Air conditioning (window or central)
Modern plumbing (copper) and fixtures
City water or well
High-amperage electrical system (at least 100 amps)
Circuit breakers or fuses
Gas or electric hot water heater
Cable TV, antenna or satellite dish
Sewer or septic tank
Additional property features important to you:
1.
2.
3.
4.
5.
6.
7.

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Location Preferences

Identify the following preferences with an "N" or a "W" for needs and wants, and add others that are important to you.

Nearby facilities

Quiet street
Shopping within walking distance or short drive
Parks
Playgrounds
Golf course
Skating rinks
Restaurants
Theatres
Community centre
Public swimming pool/tennis courts
Public library
Places of worship

Services

Police
Fire department
Daycare
Snow removal
Hospital
Medical (doctors, dentists, etc.)

Transportation

Close to work
Near major highway or freeway
Near public transportation

Schools

Near schools appropriate for your children
School-operated transportation available

Your Other Preferences

1.
2.
3.

4.
5.
6.
7.
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9.
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11.
12.
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15.
16.
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22.
23.
24.
25.
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27.
28.
29.
30.

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Worksheet 3
Checklist for Condominium Buyers

(See Chapter 5)

Many of our suggestions presented in this book on buying a single-family home also apply to purchasing a condominium. However, there are a few significant differences you should consider. Buying a condominium can be more complicated, so be sure to enlist the help of a REALTOR and a lawyer who is well versed in condominium law. Here are some things to think about.

- **Location** As with the purchase of any type of property, check out the surrounding area thoroughly to be sure you'll enjoy living there, and that the residences around you will enhance your condominium's value.

- **The building** The general appearance of the common areas will speak volumes about how well the property is managed. If you're interested in a resale unit, look for obvious signs of disrepair, such as concrete deterioration or badly kept landscaping. Ask what major repairs have been done recently and whether any are planned for the near future. Then find out whether there are sufficient reserves to pay for these repairs. If not, you may have to cough up several hundreds (or perhaps thousands) of dollars to help replace a roof or air conditioning system. Hire an independent inspector to do an audit of the building and its major systems, or ask to see the building's own recent inspection audit and make your offer conditional upon a satisfactory report.

- **Management** This is perhaps the most important consideration when contemplating a condominium purchase. Find out if the complex is managed by a competent property manager. If not, who is managing and what is their track record? Talk to other building residents; they can provide you with a wealth of information about the entire development. Ask to see the minutes of the last annual meeting of owners and the minutes of any board meetings held during the past 12 months.

- **Security** Many condominiums have 24-hour concierge services and key or cardkey access systems. Find out how well the systems are managed and maintained. Did you find it easy to bypass security? If so, others will too. A well-run security system can be a definite plus at resale time.

- **The unit** In addition to standard considerations like square footage and the direction your unit faces, check out the soundproofing between units. Not all buildings are constructed with the same care. In highrise buildings, floor level is important too. Units on higher floors cost more to buy, but are more popular when you decide to sell. How close are you going to be to noisy areas like elevators and garbage chutes? Are there individual meters for electricity, heat and water, or are these costs included in the condominium fee? How recently was the fee increased and by how much?

- **Parking** Street parking is often at a premium around a condominium. Is a parking space within the building included in the purchase price? Depending upon the condominium, parking spots are purchased, leased or allocated. Your best bet is to own your parking spot. Discuss this with your REALTOR. Also find out how much guest parking is available.

- **Recreational areas** Find out what facilities are available and how well they are maintained. Be sure the use of these areas is included in the purchase price, and that only owners and their guests have access. Sometimes recreational facilities are also open to the public. You end up paying a separate membership fee and competing with non-owner members or residents of neighbouring condominium buildings for the use of the facilities.
- **Owners vs. tenants** Ask how many units are occupied by owners rather than tenants. Many investors purchase condos for income-producing purposes. Overall pride of ownership is higher when the majority of units are owner-occupied, a pride that will be reflected in the way the complex is maintained. If you ever plan to lease out your unit, be sure the condominium corporation places no restrictions on this right.

- **Insurance** Condominiums are covered by two different types of insurance policies: (1) the policy you purchase to cover your unit and its contents, and (2) a master policy held by the corporation to cover the common areas. Be sure your unit's policy includes everything not covered by the master policy, particularly as it relates to public liability. For example, all damages caused by a fire that starts in your unit, even if the fire spreads beyond your walls, are your responsibility. Damages caused by a fire that starts in a hallway and spreads into your unit are covered by the master policy.

- **Important documents** Ask the developer or management company for an information package. This package outlines the condominium fees levied on the unit, any anticipated increases, and whether or not the current owner is in arrears.

  The package will also provide detailed information about the development's finances, bylaws, rules, insurance and management agreements, giving you a good overall picture of the development's state of health. Since several of these documents govern your use and enjoyment of your condominium, it's essential you understand them *before* you purchase the property. Ask your lawyer to review these documents as well, and to make sure there are no legal actions against or by the condominium corporation, the liability for which could be transferred to you at purchase. A condition can be added to your offer, making the seller responsible for the cost of any prior actions.

- **Mortgage financing** Most lenders will write mortgages on condominiums, though restrictions may apply. For example, some may require a larger downpayment than they would for financing a single-family home. Your approach to arranging mortgage financing will basically follow the steps we outlined in Chapter 9. Remember that the condominium fee is figured in your debt service ratio, but is *not* financed by the mortgage. Lenders often add clauses that protect their interests in the property, and you and your lawyer should review these before you sign the commitment. In the case of new condominiums, developers often arrange attractive financing packages, sometimes with lower-than-market interest rates or lower downpayment requirements. First-time buyers should investigate these options too.

Worksheet 4
Your House-Hunting Checklist

(See Chapter 6)

The following checklist will help you look at prospective homes with a critical eye. We suggest making photocopies of this list and putting them onto a clipboard. When you find a home that really interests you, mark the features you see and note their general condition on this list. Where we've provided choices, check the ones that best describe each home. Make additional comments in the margins. (See Worksheet 3 for special considerations when buying a condominium.) If you don't know the answer to a question, ask the REALTOR.

Home location (information from MLS® listing)

Address	
Asking price	Mortgage terms
Annual property taxes	
Zoning restrictions (ask the REALTOR)	

The home's exterior

- ❑ Lot size/shape
- ❑ Position of home on lot (compass directions)
- ❑ Private or shared driveway/general condition
- ❑ Large front, side and rear yard
- ❑ Landscaping condition
- ❑ Mature trees, shrubs, etc.
- ❑ Soil type/condition
- ❑ Home's appearance from street
- ❑ Type of home (detached, duplex, etc.)
- ❑ Number of storeys
- ❑ Siding (brick, brick veneer, wood, aluminum, combination, etc.)
- ❑ Condition of siding and paint
- ❑ Attached or detached garage
- ❑ One-, two- or three-car garage
- ❑ Condition of walkways to front door
- ❑ Covered front porch
- ❑ Enclosed front porch
- ❑ Large backyard; fenced?
- ❑ Privacy?
- ❑ Patio/decking
- ❑ Swimming pool: above-ground or in-ground/condition
- ❑ Storage shed
- ❑ Type of roof/general condition/age

- ❑ Recent roof repairs; what was done? receipts?
- ❑ Eavestroughs and downspouts
- ❑ Type of foundation: raised well above ground? visible cracks?
- ❑ Structural appearance: straight lines, corners?
- ❑ Possible problems?

The home's interior (room sizes can be taken from MLS® listing)

- ❑ Separate front hallway
- ❑ Guest closet for winter coats
- ❑ Soundproofing between shared walls in duplex or semi-detached

Doors/windows

- ❑ Types of windows (single pane, thermopane)
- ❑ Open and close without sticking?
- ❑ General condition
- ❑ Locks and latches work?

Kitchen

- ❑ General size/colours
- ❑ Eat-in area
- ❑ Cooking/food preparation area
- ❑ Sufficient cupboard space/condition
- ❑ Pantry
- ❑ Single or double sink/condition
- ❑ Sufficient countertops/condition
- ❑ Floor type/condition
- ❑ Wallpaper/condition
- ❑ Window(s)
- ❑ Blinds, curtains
- ❑ Kitchen appliances being sold with home
- ❑ Stove top: number of burners; gas or electric
- ❑ Oven: self-cleaning; self-timer
- ❑ Microwave oven
- ❑ Refrigerator/freezer: size; frost-free?
- ❑ Dishwasher: built-in or portable?
- ❑ Lighting
- ❑ Possible problems (cracks, peeling paint/wallpaper, water stains, etc.)

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Dining room

- ❑ Size
- ❑ Separate from kitchen
- ❑ Convenient to kitchen
- ❑ Floor/carpet condition
- ❑ Type of lighting: chandelier sold with house?
- ❑ Possible problems (cracks, peeling paint/wallpaper, water stains, etc.)

Living room

- ❑ Size
- ❑ Floor/carpet condition
- ❑ Fireplace/type
- ❑ Windows/sizes
- ❑ Type/condition of window coverings; included?
- ❑ Colours
- ❑ Possible problems (cracks, peeling paint/wallpaper, water stains, etc.)

Family room

- ❑ Adjacent to kitchen
- ❑ Floor/carpet condition
- ❑ Fireplace/type
- ❑ Windows/sizes
- ❑ Type/condition of window coverings; included?
- ❑ Colours
- ❑ Possible problems (cracks, peeling paint/wallpaper, water stains, etc.)

Master bedroom

- ❑ Size
- ❑ Floor/carpet condition
- ❑ Windows
- ❑ Type/condition of window coverings; included?
- ❑ Colours
- ❑ Sufficient closet space
- ❑ Ensuite bathroom: number of pieces?
- ❑ Possible problems (cracks, peeling paint/wallpaper, water stains, etc.)

Other bedrooms

- ❑ Numbers/sizes
- ❑ Floor/carpet condition
- ❑ Windows
- ❑ Type/condition of window coverings; included?
- ❑ Colours
- ❑ Sufficient closet space
- ❑ Room available for home office or hobby work area?
- ❑ Possible problems (cracks, peeling paint/wallpaper, water stains, etc.)

Bathrooms

- ❑ Size
- ❑ Floor condition
- ❑ Windows
- ❑ Type/condition of window coverings; included?
- ❑ Colours
- ❑ Fixtures: colour/general condition (run faucets, flush toilets)
- ❑ Water pressure (run several fixtures at once)
- ❑ Stall shower/condition
- ❑ Bathtub with shower/condition
- ❑ Possible problems (cracks, peeling paint/wallpaper, water stains, etc.)

Hallway/stairs

- ❑ Floor/carpet condition
- ❑ Closet/linen storage
- ❑ Possible problems (cracks, peeling paint/wallpaper, water stains, etc.)

Basement

- ❑ Full or partial
- ❑ Finished or unfinished
- ❑ Adequate headroom
- ❑ Drained or sump pump
- ❑ Bedroom(s) and bath(s)
- ❑ Fireplace/wood-burning stove
- ❑ Windows: number/sizes

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- ❑ Signs of moisture (water marks, peeling paint, etc.)
- ❑ Utility area (washer/dryer sold with house)
- ❑ Floor: type/condition
- ❑ Cracks in walls or floors
- ❑ Door to outside
- ❑ Storage areas
- ❑ Possible problems (cracks, peeling paint/wallpaper, water stains, etc.)

Recent renovations

- ❑ Done by seller or professionally: ask to see receipts, if available

Systems

- ❑ *Electrical*: amperage; fuses or circuit breakers; adequate outlets; general condition; aluminum or copper wiring; meet current codes?
- ❑ *Plumbing*: copper pipes or other material; signs of leaks, recent repairs; age; meet current codes?
- ❑ *Water service*: city-supplied or well; if well, drilled or dug? ever run dry? water quality recently tested for potability? capacity; age of pump; size of feeder line from well to house; water agreement?
- ❑ *Sewer or septic system*: if septic, where is septic field? holding tank and system recently checked?
- ❑ *Heating*: type (gas, electric, steam, baseboard, combination); age; output; recent repairs
- ❑ *Air conditioning*: type (window, central); age; size; recent repairs
- ❑ *Hot water heater*: leased or owned; gas or electric; number of gallons; efficiency; age
- ❑ *Insulation*: type (UFFI? asbestos?); rating
- ❑ *Utilities*: ask to see copies of recent utility bills
- ❑ *Cable TV service, satellite dish or Internet*: adequate room outlets?

Other notable features

Community -- close to:

- ❑ Schools
- ❑ City services (fire, police, hospital)
- ❑ Medical (doctor, dentist, etc.)
- ❑ Shopping (grocery, pharmacy, etc.)
- ❑ Parks
- ❑ Playground
- ❑ Daycare
- ❑ Recreation centre
- ❑ Public swimming pool

- ❑ Public tennis courts
- ❑ Golf course
- ❑ Skating rink
- ❑ Hockey arena/ballpark
- ❑ Restaurants
- ❑ Theatres
- ❑ Public library
- ❑ Places of worship
- ❑ Major roads/highways
- ❑ Public transportation
- ❑ Possible problems (traffic congestion, train tracks, commercial complexes, industrial sites)

Local neighbourhood

- ❑ Urban, suburban, rural, etc.
- ❑ Older or newer; estimated age
- ❑ Types of homes (detached, link or semi-detached, duplexes, apartments, etc.)
- ❑ Age group of other homeowners
- ❑ Quiet streets
- ❑ Adequate streetlights
- ❑ Visible power and telephone lines/poles
- ❑ Well cared for homes and yards
- ❑ Sidewalks: general condition
- ❑ Space between homes
- ❑ Adequate street parking: overnight parking restrictions?
- ❑ Possible problems (junked cars, poorly maintained roads, poor drainage, etc.)

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Worksheet 5
Mortgage Application Worksheet

(See Chapter 9)

Complete this worksheet at home before you visit your lender.

Full name(s) of all applicants

Address(es), telephone numbers, etc.

Social insurance number(s)

Current employer(s), address, telephone numbers

Number of years with employer(s)

(Bring letter from employer, copies of T4 slips, etc., confirming employment. If self-employed, bring copies of the last two years' financial statements and personal income tax returns.)

Annual income

Other income sources

Assets

(cars, stocks, savings accounts, bonds, etc., with all account numbers)

1. $

2.	$
3.	$
4.	$
5.	$
6.	$
7.	$
8.	$

Total dollar amount of assets held $ _________________ (a)

Liabilities
(car loans, student loans, credit cards, etc., with monthly payments, current balance owed, lender contact information and account numbers)

1.	$
2.	$
3.	$
4.	$
5.	$
6.	$
7.	$
8.	$

Total dollar amount of liabilities held $ _________________ (b)

Net worth: (a) - (b) = $ _________________

Itemize downpayment sources (including appropriate account numbers)

1.	$
2.	$
3.	$
4.	$

Total downpayment available $_________________

The home you want to buy (if you've selected one)

Name and address of present owner	
Lot size and legal description (from listing)	
Type of home and general description	
Anticipated purchase price	$
Current taxes (from listing)	$
Monthly condominium fee	$
Current real property report available?	
Recent appraisal available?	

Bring completed copy of purchase contract, if available.

Worksheet 6
Estimated Costs to Purchase Your Home

(See Chapter 10)

This worksheet is designed to help you anticipate the costs involved in buying your home. Ask the REALTOR to assist you.

Purchase price	$
Less downpayment	$
Mortgage required	$
Plus mortgage insurance (if high-ratio mortgage)	$

Total mortgage required $ ____________________

Estimate of costs to arrange your mortgage

Application fee	$
Appraisal fee	$
Mortgage broker's fee	$
Legal fees	$
Inspection fee	$
Closing costs	$

Total costs to arrange mortgage $ ____________________

Other costs

Mortgage life insurance	$
Homeowner's insurance	$
Other	$
	$
	$
	$

Total other costs $ ____________________

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Glossary of Terms

Amortization The number of years it takes to repay the entire amount of a mortgage.

Appraisal An estimate of a property's market value, used by lenders in determining the amount of the mortgage.

Appreciation The increase of a property's value over time.

Assessment The value of a property, set by the local municipality, for the purposes of calculating property tax.

Assumable Mortgage A mortgage held on a property by the seller that can be taken over by the buyer, who then accepts responsibility for making the mortgage payments.

Blended Mortgage A combination of two mortgages, one with a higher interest rate than the other, to create a new mortgage with an interest rate somewhere between the two original rates.

Blended Mortgage Payments Equal or regular mortgage payments, consisting of both a principal and an interest component. With each successive payment, the amount applied to interest decreases and the amount applied to the principal increases, although the total payment doesn't change. (Exception: See Variable-Rate Mortgages)

Buy-down When the seller reduces the interest rate on a mortgage by paying the difference between the reduced rate and market rate directly to the lender, or to the buyer, in one lump sum or monthly installments.

Buyer's Agent The licensed brokerage (including its broker, all associate brokers and agents) who represents the buyer.

Closed Mortgage A mortgage cannot be prepaid, renegotiated or refinanced during its term.

Closing The real estate transaction's completion, when the parties involved agree that all legal and financial obligations have been met, and the title to the property is transferred from the seller to the buyer.

Closing Costs Expenses in addition to the purchase price for buying and selling a property.

Closing Date The date on which the title and keys to the property are transferred from the seller to the buyer and the money is paid.

Common Property The portions of a condominium development owned in common (shared) by the unit owners.

Condominium Shared ownership in property. Owners have title (ownership) to individual units and a proportionate share in the common elements.

Condominium Fee A monthly contribution paid by condominium owners for maintaining the development's common areas.

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

Counteroffer One party's written response to the other party's offer during negotiation of a real estate purchase between buyer and seller.

Debt Service Ratio The percentage of a borrower's gross income that can be used for housing costs, including mortgage payment and taxes (and condominium fees where applicable).

Downpayment The difference between a property's purchase price and the amount financed.

Easement A legal right to use or cross (right-of-way) another person's land for limited purposes. A common example is a utility company's right to run wires or lay pipe across a property.

Encroachment An intrusion onto an adjoining property. A neighbour's fence, storage shed or overhanging roof line that partially (or even fully) intrude onto your property are examples of encroachments.

Equity The difference between the price for which a property can be sold and the mortgage(s) on the property. Equity is the owner's "stake" in a property.

Estoppel Certificate A written statement of a condominium unit's current financial and legal status.

First Mortgage The first security registered on a property. Additional mortgages secured against the property are "secondary" to the first mortgage.

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Foreclosure A legal process by which the lender takes possession and ownership of a property when the borrower doesn't meet ("defaults on") the mortgage obligations.

Hazard Insurance An insurance policy required by lenders to protect a property against damage or loss caused by fire, weather, etc.

High-Ratio Mortgage A mortgage for more than 75% of a property's appraised value or purchase price.

Interest The cost of borrowing money.

Joint Tenancy A form of ownership in which two or more individuals (often spouses) have an equal share in the ownership of a property. In the event of one owner's death, his or her share is automatically transferred to the surviving owner(s), apart from the deceased's will.

Leverage Controlling a large asset with a relatively small amount of cash. In real estate, a $25,000 downpayment (or less) can be used to purchase (control) a $100,000 home, for example.

Lien Any legal claim against a property, filed to ensure payment of a debt.

Listing Agreement The contract between the brokerage and an owner, authorizing a REALTOR to sell or lease a property.

Mortgage A contract between a borrower and a lender. The borrower pledges a property as security to guarantee repayment of the mortgage debt.

Mortgage Broker A licensed individual who, for a fee, brings together a borrower in search of a mortgage and a lender willing to issue that mortgage.

Mortgagee The lender.

Mortgage Insurance Government-backed or private-backed insurance protecting the lender against the borrower's default on high-ratio (and other types of) mortgages.

Mortgage Life Insurance Insurance that pays off the mortgage debt, should the insured borrower die.

Mortgage Payment The regular installments made towards paying back the principal and interest on a mortgage.

Mortgage Term The length of time a lender will loan mortgage funds to a borrower. Most mortgage terms run from six months to five years, after which the borrower can either repay the balance (remaining principal) of the mortgage or renegotiate the mortgage for another term.

Mortgagor The borrower.

Multiple Listing Service® (MLS®) A cooperative listing system operated by a real estate board to relay information to REALTORS about properties for sale.

Open Mortgage A mortgage that can be prepaid or renegotiated at any time and in any amount without penalty.

Partially Open Mortgage (Also called a "partially closed" mortgage.) Allows the borrower to prepay a specific portion of the mortgage principal at certain times with or without penalty.

Portability A mortgage feature that allows borrowers to take their mortgage with them, without penalty, when they sell their present home and buy another one.

Prepayment Privilege A mortgage feature that allows the borrower to prepay a portion or all of the principal balance with or without penalty. This privilege is frequently restricted to specific amounts and times.

Principal The mortgage amount initially borrowed, or the portion still owing on the mortgage. Interest is calculated on the principal amount.

Rate (Interest) The return the lender receives for advancing the mortgage funds required by the borrower to purchase a property.

Real Estate Agent or Broker An individual who is licensed in Alberta to sell, lease or exchange property.

REALTORS Real estate professionals who are members of a local real estate board, the Alberta Real Estate Association and the Canadian Real Estate Association. Only these professionals can use the trademark "REALTOR".

Refinancing The process of obtaining a new mortgage, usually at a lower interest rate, to replace the existing mortgage.

Reserve Fund The portion of a condominium fee that is set aside to cover major repair and replacement costs.

Second Mortgage A second financing arrangement, in addition to the first mortgage, also secured by the property. Second mortgages are usually issued at a higher interest rate and for a shorter term than the first mortgage.

Secondary Financing Second, third, fourth, etc., mortgages, secured by a property "behind" the first mortgage.

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Seller's Agent The licensed brokerage (including its broker, all associate brokers and agents) who represents the seller.

Take-Back Mortgage See Vendor Take-Back Mortgage.

Term See Mortgage Term.

Title The legal evidence of ownership in a property.

Title Search A detailed examination of the ownership documents to ensure there are no liens or other encumbrances on the property, and no questions regarding the seller's ownership claim.

Unit Term used to describe the individual home or apartment held by the owner within a condominium development.

Variable-Rate Mortgage A mortgage for which payments are fixed, but whose interest rate changes in relationship to fluctuating market interest rates. If market rates go up, a larger portion of the payment goes to interest. If rates go down, a larger portion of the payment is applied to the principal.

Vendor The seller in a real estate transaction.

Vendor Take-Back Mortgage When sellers use their equity in a property to provide some or all of the mortgage financing in order to sell the property.

Weekly Payments Mortgage payments made weekly or 52 times per year.

Zoning Regulations Strict guidelines set and enforced by municipal governments regulating how a property may or may not be used.

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