



REAL ESTATE BUYERS GUIDE



What can you afford?

Homes come in every size, style and price range. Knowing what you can afford at the beginning of your search saves you time and disappointment later on. The following calculations outline the process financial institutions use to determine what you can afford.

FIRST AFFORDABILITY RULE

Lenders such as banks and trust companies allow you to spend approximately 32%* of your gross monthly income on housing costs (including property taxes, heating and, if applicable, 50% of condominium fees. The ratio of debt to income is referred to as the **Gross Debt Service** ratio or **GDS**.

The following calculation will show you how much you can afford monthly for housing.

Your gross monthly income _____

Spouse's gross monthly income _____

Other monthly income _____

Total monthly income _____

Monthly income x 32% = GDS _____

SECOND AFFORDABILITY RULE

The second affordability rule is that your entire monthly debt load shouldn't be more than 40% of your gross monthly income. This includes housing costs and other debts, such as car loans and credit card payments. Lenders add up these debts to determine what percentage they are of your gross household monthly income. This is your Total Debt Service (TDS) ratio.

The following calculation will show you what you can afford for housing including your outstanding debts:

A) Monthly Income from your GDS
Calculation Above x 40% = TDS _____

B) Add up your monthly payments for
loans, credit cards and other debts _____

Monthly income left for housing costs (subtract the amount from (A) from the amount in (B)).

In addition to GDS and TDS ratios, financial institutions base their lending decision on your credit history, job stability and the amount of your down payment. Interest rates also affect the amount of financing you will be able to obtain.

**Please note that many lenders are prepared to exceed these guidelines.*

EXAMPLE

David earns \$40,000 annually and his partner Ruth earns \$43,500. They have a car payment of \$350 per month and a credit card payment of \$150 per month.

How much can they afford monthly for housing?

David's monthly income (\$40,000 divided by 12)	\$3,333
Ruth's monthly income (\$43,500 divided by 12)	\$3,625
Total	\$6,958
GDS (\$6,958 x 32%)	\$2,226.56

They can afford to spend no more than \$2,226.56 on monthly housing costs. How much can they afford with their other monthly payments?

Monthly debts

Car payment	\$ 350
Credit card payment	\$ 150
Monthly housing cost	\$2,226.56

Total

TDS (\$2,726.56 divided by \$6,958) = 39%

Because their total debt including housing costs and all other monthly debts does not exceed 40%, they can afford to purchase a home.

Understanding Financing

PRE-APPROVAL

It is important to be qualified or pre-approved for financing before you start looking for a home. This lets you and your REALTOR® know what you can afford as well as providing a written confirmation or certificate for a fixed interest rate good for a specific period of time. To obtain pre-approval, contact your REALTOR® or mortgage broker. The benefit of a mortgage broker is that he or she operates independently of the lender and therefore can assist you in finding the best financial product at the best rate from a variety of sources and usually at no expense to you.

CONVENTIONAL MORTGAGES

The maximum amount of conventional mortgage is 80% of the purchase price. The amortization or length of time in which to repay the loan is usually 25 years. The term of the mortgage is the number of months or years, usually six months to five years, for which the rate of interest is set.

HIGH RATIO MORTGAGES

For most people the hardest part of buying a home – especially the first one – is saving for the necessary down payment. With mortgage loan insurance, you can put as little as 5% down. Mortgage loan insurance, protects the Lender and, by law most Canadian lending institutions require it. The cost of high ratio mortgage loan insurance is in the form of a premium. The premium is calculated as a percentage of the principal and can be paid in a single lump sum or be added to your mortgage and included in your monthly payments.

DOWN PAYMENT

5% to 9.9%
 10% to 14.9%
 15% to 19.9%
 20% to 24.9%
 25% to 34.9%

LOAN INSURANCE

2.75%
 2.00%
 1.75%
 1.00%
 0.65%

***loan insurance may vary due to mortgage product and amortization length*

HIGH RATIO MORTGAGE EXAMPLE

Purchase price	\$350,000.00
5% down payment	\$ 17,500.00
Mortgage required	\$332,500.00
Insurance premium	\$ 9,143.75 (\$332,500 x 2.75%)
Total mortgage amount	\$ 341,643.75 (\$332,500 + 9,143.75)

THE 5% DOWN PAYMENT

The down payment is usually derived from a Buyer's accumulated savings or a gift from an immediate relative. The Buyer may also be eligible either, one to receive a "cash back" from the lender, which can be used as the down payment, or two to borrow the required funds.

USING YOUR RRSP TO PURCHASE A HOME

This program allows each RRSP plan holder to borrow up to \$25,000 from the plan to use toward the down payment of a home. Couples with separate plans can borrow up to \$25,000 each to a total of \$50,000. Home buyers using this program have up to fifteen years to return the monies, interest free, to their RRSP. Using these funds towards the purchase of a home does not deregister the plan unless the monies are not returned as agreed, thereby allowing participants to retain the tax advantages the RRSP offers.

HERE ARE THE MAJOR GUIDELINES FOR THIS PROGRAM

- You are a first-time home Buyer or have not owned a principal residence in Canada during the past four years;
- The RRSP must have been in existence for at least 90 days;
- You must be a resident of Canada both at the time the funds are withdrawn and at the time the home is acquired;
- A minimum of 1/15 of the amount is withdrawn has to be repaid annually;
- Repayment of more than 1/15 of the borrowed amount in any particular year will be carried forward and can be applied towards a future year's repayment.

Not every RRSP is eligible under this program. Check with your investment firm to see if you qualify. Also, advise your lawyer well before closing that you will be using these funds.

Home operating costs

The following is an estimate of the costs involved in the normal operation of a home in the Toronto area. Costs vary from one area of the city to another so these figures should be used only as a guide.

REALTY TAXES

Property owners have the option of paying their property taxes in eight installments over the course of the calendar year. Mortgage companies may insist that they pay the property tax and collect it with your monthly mortgage payment. Realty taxes range from \$1,000 to \$5,000 a year depending on the size and location of the property. Taxes are reassessed on an ongoing basis.

HEATING

Home heating will usually be provided by natural gas, oil or electricity. Costs vary depending on the type of fuel, size of home, amount of insulation, exposure and usage.

ELECTRICITY

Costs vary greatly depending on usage, e.g. how many people you have in the home, the size of your home, how many energy efficient cost measures you have undertaken such as Energy Saver appliances. Usually billing is every second month or you can go on equal billing and pay monthly.

INSURANCE

Insurance is essential for all homeowners and is required by your mortgage company before it will release the funds to close the deal. Premiums are based on the replacement cost of the building and start at around \$350 to \$700 per year.

WATER & SOLID WASTE MANAGEMENT

Most properties in Toronto are now on water meters and are billed according to usage. As of November 1st 2008, your water bill will also include a fee for Solid Waste Management. Your Solid Waste Management fee will pay for garbage, recycling, green bin, litter prevention, landfill management and other diversion programs. These utility bills will be sent about three times a year.

Additional costs of buying

HOME INSPECTION

A home inspection is strongly recommended for most residential properties and will usually be a condition of the offer. Your Sales Representative can assist you in choosing your home inspector. This ranges from \$350 - \$500 depending on the size and value of the property.

TERMITE INSPECTION

You may wish to hire a termite inspector as well as a home inspector if you are buying in an area of the city where termites are known to be a problem. This could add \$200 - \$300 to the cost of your inspection.

APPRAISAL FEES

When you apply for a mortgage, the lender will want to see an appraisal on the property to ensure that the price you are paying falls within the accepted range of value for that type of property and that area of the city. The fee for this is usually between \$250 - \$350.

LAND SURVEY

When you make an offer on a freehold property you will usually ask the Seller to provide a copy of the survey for the property. The purpose of this survey is to show the boundaries as well as the footprint of the building on the site. If there is not survey available, you may wish to hire a surveyor to prepare one at a cost of approximately \$1,000 to \$2,000.

TITLE INSURANCE

Title insurance provides insurance against the future costs of remedying most problems with the title on your property. Ask your Sales Representative to explain the benefits and cost of this service.

LAND TRANSFER TAX

See Completing the Sale (page 8)

The condominium alternative

Condominiums have grown in popularity over the past three decades as an alternative form of home ownership. If you are considering this option, the following information should prove helpful.

A condominium can be an ideal starter home, since it may cost considerably less than single family homes in the same neighbourhood. However, a condominium can restrict your freedoms through a list of rules and bylaws governing how you may use the unit. It's important to be fully aware of the corporation's bylaws before you buy.

HOW DO CO-OPS AND CO-OWNERSHIPS DIFFER FROM CONDOMINIUMS?

In an equity co-operative the owner is not registered on title but receives a form of proprietary ownership. The corporation is registered on title and issues a share certificate to each owner. The corporation owns the property and the rights of occupation come from a separate agreement that sets out the exclusive right of each owner to occupy a certain unit. This agreement also sets out the owner's obligations to pay a proportionate share of the building's mortgage, operating expenses and property taxes. Since responsibility for payment of taxes and mortgage in a co-op is joint, if one owner goes into default, the other owners must make up the shortfall or risk losing their equity. Many older co-ops have no mortgage and Buyers must pay cash since most banks are reluctant to finance share certificates. However there are some institutions that provide financing for these types of properties.

In a co-ownership, each Buyer has his or her percentage interest in the property registered on title. Possession of an individual unit in the property comes by way of a separate agreement which sets out each owner's rights and responsibilities. Mortgages are often available for this type of property through credit unions and trust companies. Have your Sales Representative check with the Listing Sales Representative.

As a result of these factors, reselling a co-op or co-ownership is often more difficult than selling a condominium. Make sure you work with a lawyer who is familiar with this area of real estate law.

HOW ARE CONDOMINIUMS OWNED?

Condominium ownership is generally divided between two or more parties, each of whom owns a portion of the structure separately and a portion of it in common. For instance, if you are an owner in a high rise apartment building where there are several other owners, you own a unit individually and it is legally registered in your name. You also own a proportionate share of the common areas in the development. These generally include the outside grounds, recreational facilities, lobby, stairs, halls and elevators, 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, balconies, parking spaces and storage lockers.

As a unit owner, you are automatically a member of the condominium corporation. In essence, you're a voting member of a self-governing community with one vote per unit.

WHAT IS INCLUDED IN THE MAINTENANCE FEES?

In addition to the costs associated with owning your own unit (mortgage payments, taxes and so on), you are also required to pay your shared cost of maintaining the common areas in a monthly maintenance fee. It's important to know what is and is not included in your maintenance fee. For example, heat may be included while the cost of electricity may not be.

WHAT IS A RESERVE FUND?

In Ontario, at least 10% of this maintenance fee must be held in a reserve fund to pay for minor repairs on items like heating systems, roofs and plumbing. If you are considering buying a unit in an older building, be sure that the reserve fund is sufficient to pay for any anticipated major repairs. Newer buildings may not have had time to accumulate a large reserve fund. Information on the status of the building's reserve fund is contained in the Status Certificate.

Making an offer

You've found that perfect house! What do you do now? Your Sales Representative will prepare and Agreement of Purchase and Sale, including any custom clauses you may require. Most Buyers will make an offer provided certain conditions are met. These may include:

FINANCING

Even if you have been pre-approved for a mortgage, the property will require an appraisal to assure the lender that the price you are paying falls within accepted market value. Once your financing has been approved you are required to provide written notice to the Seller in the form of a waiver of amendment before the expiry of the condition.

CONDOMINIUM STATUS CERTIFICATE

This condition applies only to the purchase of a condominium. It allows your solicitor to review the condominium's documents to ensure the corporation is financially sound and meets all the requirements of the Condominium Act. Under the Condominium Act, the property management company has up to 10 days to prepare the Status Certificate and can charge a maximum of \$100 for the service.

HOME INSPECTION

This condition provides an opportunity to have the property inspected by a qualified person who will look for any major defects in the building prior to your entering into a firm agreement. Many Buyers choose to have a termite inspection done as well.

FINTRAC (THE FINANCIAL TRANSACTIONS AND REPORTS ANALYSIS CENTRE OF CANADA)

As of June 23, 2008 for every Purchase and Sale in real estate, the Brokerage must obtain an Individual Client Information Record. This record sets out the Buyer/Seller name and address, and the nature of your principal business/occupation and date of birth. You will need to show a piece of identification that you confirm your identity. For example birth certificate, driver's license, passport. For more information go to www.fintrac.ca



Elements of the offer

IRREVOCABLE DATE

For the offer to be valid, it must contain a number of specific dates and times. Your initial offer will be valid for a specific period of time, usually until midnight of the same day or the following day, after which the offer is deemed to be dead. This time frame is called the irrevocable period.

COMPLETION DATE

This is the date set for the transfer of ownership of the property negotiated between you and the Seller and can also be referred to as the closing date.

REQUISITION DATE

This is the period in which your lawyer must determine if there are any problems with the title of the property and is usually set 30 days prior to the completion date.

THE DEPOSIT

A deposit cheque must accompany the offer to the Seller. The amount of the deposit will vary depending upon the value of the property but usually represents between 5% and 10% of the purchase price.

FIXTURES

Fixtures are any items permanently attached to the property. For example, a bathtub, sink or toilet permanently plumbed in would be a fixture. Technically, anything nailed to the building is a fixture while items screwed in (because screws can be removed) are chattels. This is often an area of contention when buying a resale home. So be aware of this distinction and, if in doubt, put it in the offer.

CHATTELS

Chattel, unlike fixtures, are not deemed to be part of the property and must be specified in the offer if you want them included in the sale. The following are some items you may wish to include in the offer: area rugs, ceiling fans, chandeliers and other light fixtures, draperies, wood burning stoves and accessories, microwave ovens, refrigerators/freezers, stoves and ovens, washers and dryers, window air conditioners, garage door openers, storage sheds, swing sets and other playground equipment, garden furniture, barbecues, central vacuums and equipment.

NEGOTIATING THE OFFER

After signing the offer, your Sales Representative will register it with the listing broker. A time will be set for the listing Sales Representative and your Sales Representative to meet and present the offer to the Seller. The Seller has a number of options available:

- Reject the offer;
- Accept the offer exactly as presented, making no changes;
- Make a counter-offer back to you with whatever changes the Seller wants, such as price, closing or conditions. You then have the option of accepting the Seller's counter-offer or making your own changes and signing the newly amended offer back to them. This is where your Sales Representative's negotiation skills come into play.

Completing the sale

THE ROLE OF YOUR LAWYER

Your lawyer's job is to certify good and marketable title to the property, free of encumbrances, liens and judgments. Your Sales Representative will deliver all documentation related to the sale to your lawyer.

REGISTERING THE MORTGAGE

The lawyer receives instructions from the mortgage company, prepares the draft mortgage document, forwards the draft to the lender, makes amendments if required and arranges for you to sign the documents. The mortgage company then releases the funds to your lawyer. Some lenders prefer to pay the property taxes on your behalf to ensure the taxes are never in arrears. In this case, the mortgagee will hold back a certain amount from the advance on closing to start a tax account. Your payment will include the taxes in addition to the regular principal in interest. Check with your mortgage representative to see how your taxes will be handled.

INSURANCE

You are required to place fire insurance on the property. The coverage should be for at least the amount of the mortgage to be acceptable to the mortgagee. A guaranteed replacement clause is usually acceptable and must take effect on the closing date.

STATEMENT OF ADJUSTMENTS

The closing balance to be paid by the Buyer is "subject to the usual adjustments." The statement of adjustments is a system of credits and debits whereby amounts are added to or subtracted from the balance to be paid by the Buyer, depending on whether or not the Seller has paid certain items in advance. The day of closing is assigned to the Buyer, who is responsible for taxes and utilities from 12:01am of that day. For example, taxes might have to be paid up to the date after the scheduled closing, so the Buyer will credit the Seller for the exact number of days "overpaid." The same applies to water rates and fuel. Utility companies are notified of the change of ownership by your lawyer and final meter readings are arranged for the date of closing.

LEGAL FEES

A lawyer will usually charge between \$750 and \$1,000, plus disbursements, for a straightforward real estate transaction. This is payable prior to closing.

LAND TRANSFER TAX

Payable by the Buyer on closing, the tax is based on the purchase price.

DAY OF CLOSING

The lawyers or clerks exchange documents and funds to close the transaction. You can expect to get access to your new home by late afternoon on that day, but check with your lawyer. Changing locks is recommended after closing as a safety precaution. If you have any dead-bolt locks on your doors, it is a simple matter to remove the cylinder and replace it with a new one.

Frequently asked questions

Many Buyers do not fully understand the home buying process and what role a real estate Sales Representative plays. The following are some of the most frequently asked questions that Buyers ask or don't fully understand.

WHAT DOES IT COST AS A BUYER TO USE A SALES REPRESENTATIVE?

The compensation that a Sales Representative receives typically comes from the Seller's proceeds. In other words, there is no cost for a buyer to use a Sales Representative in a tradition Sales Representative/Buyer relationship. In a Buyer agency agreement, there may be some cost to the Buyer, but even these agreements are usually worded so that the Sales Representative is compensated from the Seller.

CAN MY SALES REPRESENTATIVE GIVE ME INFORMATION REGARDING PROPERTIES FROM OTHER COMPANIES?

Yes, if that other company is a member of Multiple Listing Service (MLS) – which most real estate companies are. For Sale By Owner (FSBO) properties are not listed in MLS so a Sales Representative likely would not be able to provide information regarding them. However, with a Buyer Representation Agreement, your Sales Representative may be able to help you purchase a FSBO.

WHAT IF I FIND A PROPERTY ON MY OWN?

You should contact your Sales Representative and not the property owner or the Sales Representative listing the property. Having the address or the MLS number is very helpful and will assist your Sales Representative in gathering information regarding the property.

WHAT TYPE OF INFORMATION WILL MY SALES REPRESENTATIVE NEED FROM ME?

A Sales Representative will need any type of information regarding the property you are looking for that is important to you. For example, number of bedrooms, garage size, price, location and number of bathrooms are common criteria. Other consideration include the school district, type of home (ranch, tri-level, etc.) and room sizes. Keep in mind that a search that is too specific may narrow your list of properties too much while one that is too broad may give you more properties to look at than you have time to go through!

CAN I GO TO A OPEN HOUSE WITHOUT MY SALES REPRESENTATIVE?

You can go to open houses without your Sales Representative. However, you must inform the attending Sales Representative that you already have you own Sales Representative working for you.

HOW CAN I FIND OUT ABOUT NEW PROPERTIES?

Your Sales Representative should be able to accommodate your particular situation whether it be via e-mail, phone calls, etc. Clients with e-mail capability can receive automatic updates from the MLS system as soon as new listings are entered.

WHAT IF I AM UNHAPPY AND WANT TO SWITCH SALES REPRESENTATIVES?

Let the first Sales Representative know that you are unhappy and the reasons why. See if you can work out the issues with them.

SUMMARY

When purchasing real estate, a Sales Representative can be an invaluable resource if you remember your responsibilities:

1. Work with just one Sales Representative
2. Make sure you tell your Sales Representative everything
3. Always tell other Sales Representatives you are already working with a Sales Representative
4. Have a Buyer Representation Agreement Signed

From now until closing

Top Five Priorities

- Moving Truck – Book It Early
- Lawyer – Do they have all the documents they need?
- Bank/Mortgage Broker – Do they have all the documents they need?
- Home Insurance Company – Either obtain home insurance or
- Schools – Set up or change registration for children

To Set Up Or Disconnect

- Gas and/or Oil
 - Hydro
- Landline phone and/or cellular
 - Internet
 - Cable or Satellite
 - Alarm System
- Lawn care providers

Notify of Address Change

- Canada Post
- Car insurance
- Credit cards
- Magazine and newspaper subscriptions
 - Child Tax and/or Tax Credit Program
 - Banks
 - Revenue Canada
 - Vehicle Registration
 - Doctor and Dentist
 - Health Card
 - Family and Friends
 - Pharmacy

OFFICE LOCATIONS

Beach Office

2237 Queen Street East
 Toronto, ON | M4E 1G1
 P: 416-699-9292
 F: 416-699-8576

Richmond Hill Office

9555 Yonge St. Suite 201
 Richmond Hill, ON | L4C 9M5
 P: 905-883-4922
 F: 905-883-1521

College Office

968 College Street
 Toronto, ON | M6H 2N4
 P: 416-531-9680
 F: 416-531-0154

Leslieville Office

785 Queen Street East
 Toronto, ON | M4M 1H5
 P: 416-465-7850
 F: 416-463-7850

Central Office

723 Mount Pleasant Rd
 Toronto, ON | M4S 2N4
 P: 416-486-5588
 F: 416-4866988

Riverdale Office

724 Pape Avenue
 Toronto, ON | M4K 3S7
 P: 416-462-1888
 F: 416-462-3135

Yonge Street Office

3434 Yonge Street
 Toronto, ON | M6H 2N4
 P: 416-489-3434
 F: 416-489-5445

Bayview Village Office

685 Sheppard Ave. E. 4th fl.
 Toronto, ON | M2K 1B6
 P: 416-494-7653
 F: 416-494-0016

RE/MAX Hallmark York Group Realty Ltd.

15004 Yonge Street
 Aurora, ON | L4G 1M6
 P: 905-727-1941
 F: 905-841-6018



