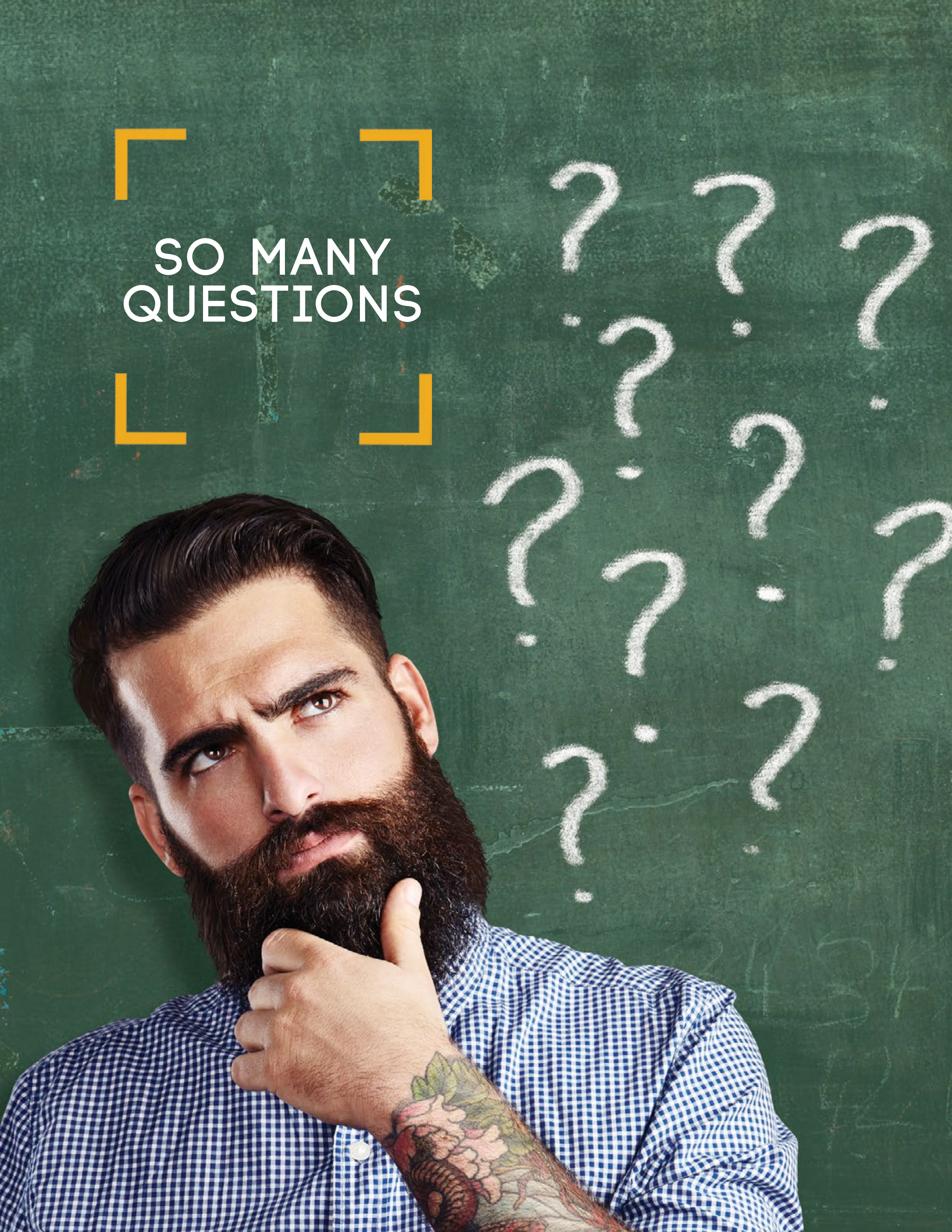
First Timer's Guide

PREParing First Time Homebuyers

CREDIT UNIONS

SO MANY QUESTIONS



Maybe you live in the best apartment with a great landlord and don't want to change a thing. Or maybe you've looked at the rent going into someone else's pocket and decided that you're ready to look at your options.

Home ownership... are you ready for this?

So you think you might be interested, but where do you start? Condo or house? In the city, or out in the 'burbs? Fixed rate or variable? Open or closed mortgage? What's an amortization period?

So many questions. And your credit union is here to help you get the answers you need to help make this big decision.

The best place to start is right here. Our First Timer's Guide will lay out all of the stages of home ownership for you. From helping you understand how much buying a home really costs with tools to help you decide how much you want to spend, to walking you through the entire process all the way to moving day. Even though the credit union's role in the purchase of your new home might be limited to financing and financial planning, we want to make sure you have all the information you need to make the right decision. We understand this is probably the single biggest investment you will make in your life, and we want to help.

What's your stage?

- If you've already done a lot of research and reading and want to talk to an expert about the realities of buying your first home, **click here** to contact your closest credit union.

- If you want to start at the very beginning, read on. You'll find lots of helpful information, advice and links to other excellent sources for first-time homebuyers.

Do you think you're *ready* for home ownership?

Four questions to help figure that out.

1. Can I afford to buy a home?

The actual cost of a house goes beyond the selling price and the mortgage payment. Aside from your monthly mortgage payment, there are several fees involved in the process, including closing costs, inspections, appraisals, taxes, maintenance, legal fees and your down payment. You should make sure you factor these costs into your up-front budget.

AFFORDABILITY RULE #1

Your monthly housing costs (which include your monthly mortgage payments, property taxes and heating expenses) should not be more than 32% of your gross monthly income.

AFFORDABILITY RULE #2

Your entire monthly debt load (including housing costs plus all other debt payments such as car loans or leases, credit card payments, lines of credit payments, etc.) should not be more than 40% of your gross monthly income.

2. Can I afford not to?

Think of home ownership as an investment in your future. If you have a stable, secure income and are ready to start building equity, home ownership is definitely something you should investigate further. Over the last few years, homes in Canada have appreciated in value considerably, adding to homeowners' financial bottom lines. At this stage of your life, home ownership might be just the right way to start building equity.

3. Am I ready for the responsibility?

When you're the homeowner, there's no landlord to keep you from making your new house your own, so go ahead and paint that powder room bubble-gum pink. On the other hand, you'll be on your own when it comes to fixing a clogged sink or a light switch that has suddenly stopped working. There's no sugar-coating the fact that owning a home can be a lot of work. At the same time, there is great reward in making a new house your own, taking care of it properly, and turning it into a real home.

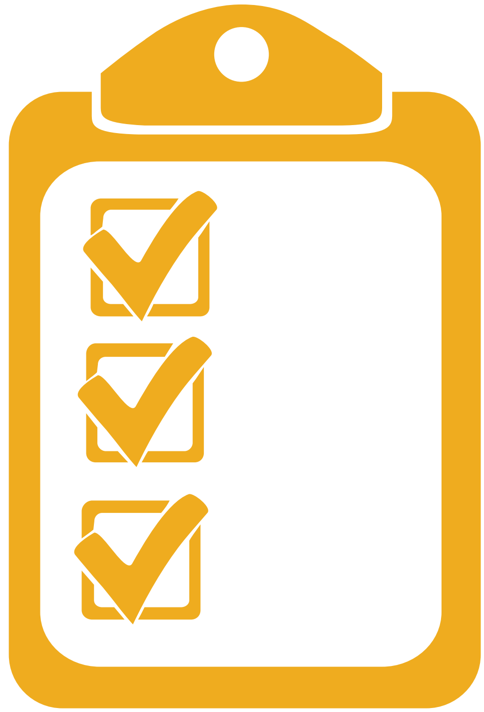
4. What exactly do I want/need in a home?

Are you looking for a home with a yard big enough to plant all the kale you could ever want or would a condo suit your lifestyle better? What kind of neighbourhood do you want to live in? Are schools or public transit a consideration? Will you want to live within walking distance of your favourite shops and restaurants? Do you want it move-in ready or are you willing to roll up your sleeves and do some renovations? Take the time to think about everything you're looking for in a home, from size to location to property tax rates and write it all down. Take your list with you when you start looking at homes with your real estate agent. It will help keep you on the right track.

GOOD TO KNOW

In Canada, most homebuyers stay in their first homes for several years, so consider your options carefully before you make your decision.

Things to consider when looking at a potential new home.



Location is everything. While you can potentially add a room or even a floor on to an existing house, you can't really change the neighbourhood it is in. Is it more important for you to have lots of house, a big yard around it, or to be in a location that is close to shops and schools? Are you looking for peace and quiet or hustle and bustle? When you're narrowing down neighbourhoods to explore, keep these things in mind.

Size is huge (see what we did there?). Just as there is such thing as a house that is too small, there is also such a thing as too much house. Think of what you need now but consider what you might want a couple of years down the road too: Home office? Children's rooms? Formal dining room? A finished basement to which you can banish teenagers? Make a list of the things you can't live without and take it with you as you look.

Keep an open mind. Look past the surface. Don't be put off by wall colours you don't like or furniture that is not your style. Paint, light fixtures, window coverings and landscaping are all details that can all be changed once the house is yours. The same goes for a home that has been professionally staged: don't fall for it. Look beyond the presentation at the home's structural features—that's what you're actually buying.

Peek into the cupboards and into the closets. Look up at the ceiling and down at the foundation. Check out every nook and cranny. If there are unexplained water marks on floors or ceilings or hasty repair jobs, you might want to have your home inspector take a closer look.

Ask a lot of questions. The only question you will regret is the one you don't ask. While you are walking through the home, ask the agent (yours or the seller's) as many questions that pop into your head. How long did the previous owners live in the house? How old are the appliances? What are the neighbours like? When was the last time the roof was re-shingled? The agent might not know all of the answers, but they're all questions worth asking.

Take photos and video. You think you'll remember the details, but you won't. When you get home, print out the photos and make notes on them, likes/dislikes, pros/cons. This is a good way to process what you've seen and will also come in handy when you've narrowed your search down to a couple of possibilities and want to look at them side by side.

OK. Consider yourself ready to get out there and start looking!

HOW DOES IT WORK?

How does the financing work?

Pre-approval.

It all starts with a pre-approval meeting with a trusted financial institution. We recommend taking documents with you to this meeting, to give the lender information about your assets, your debts, your employment and your overall financial situation.

Getting approved for a mortgage to purchase your first home is a big deal—a big financial commitment and a big emotional decision. The first step in finding your way through the mortgage maze is getting a financial institution's pre-approval on a mortgage amount. A pre-approved mortgage gives you a frame of reference for how much house you can afford.

The amount you are able to put forward as a down payment on your new home will be one of the factors that determines your pre-approval number. Down payments range from a minimum of 5% up to 25% of the purchase price, but most experts recommend saving as much as you can towards a down payment. A larger down payment could save you thousands of dollars in interest over the life of your mortgage.

What is a mortgage?

A mortgage is essentially security for loan used to purchase a property. It is the purchaser's agreement that guarantees repayment of the loan, using the property as security.

How does it work?

Interest vs. Principal

The interest on a loan is essentially the "cost" of borrowing money for a set period of time. The borrower (you) pays interest to the lender (your financial institution) in installments, along with the payments on the principal loan amount.

Principal refers to the amount of money borrowed.

Together, interest and principal make up your house payments.

What is a Conventional vs. High Ratio Mortgage?

A Conventional Mortgage is a mortgage that is not more than 80% of the purchase price or the appraised value of the home (whichever is less). This option doesn't require insurance against default. The benefit of a conventional mortgage is this: if you can save at least 20% for your down payment, you will save the added expense of mortgage insurance that is required with a high ratio mortgage.

A High Ratio Mortgage is a loan over 80% (up to 95%) of the purchase price, or appraised value of the home (whichever is less). This mortgage option requires the value of the mortgage to be insured by an approved mortgage insurer like the Canada Mortgage and Housing Corporation (CMHC), a Federal Government Corporation, or Genworth Financial Canada, a private insurer. There will be a premium paid for this insurance, which can be paid up front or included in the principal portion of your mortgage. The benefit of a high ratio mortgage is this: If you are unable to secure a 20% down payment, this option allows you to purchase a home sooner.

What are my other mortgage options?

There are many different kinds of mortgages. Each features different benefits or risks by offering different interest rates, flexibility in payment schedules and options for renegotiation. Your Credit Union Mortgage Specialist will discuss these options with you, and answer any questions you might have on choosing the right mortgage for your circumstances.

The Mortage Basics

The chart below outlines the features and benefits of your mortgage options. A Credit Union Mortgage Specialist can help you determine which options are best suited for your needs based on a full assessment of your financial situation, goals, and realities.

TYPE	FEATURE	BENEFIT
Fixed Rate Mortgage	Interest rate locked in for the term of the mortgage.	Security and peace of mind. The interest rate will not increase over the term of the mortgage. Monthly payments do not change. If interest rates go down you risk paying more interest over the term of your mortgage.
Variable Rate Mortgage	Interest rate changes with the market.	Low interest rate. Potential interest savings. If interest rates go down you could pay off your mortgage faster. If interest rates go up, you risk paying more interest over the term of the mortgage. Monthly payments would fluctuate with an "uncapped" or "adjustable variable mortgage." Payments will remain constant if the mortgage is "capped."
Open Mortgage	Pay off your mortgage in part, or in full, at any time without penalties.	Flexibility. Short-term option. An open mortgage offers flexibility to pay off your mortgage in part, or in full, at any time without penalty. It also allows you to renegotiate at any time. This option comes at a higher interest rate and therefore is likely only considered for the short-term. This could be a great option if you plan to sell again in the short-term.
Closed Mortgage	Cannot pay off your mortgage in part or in full without penalty.	Lower interest rate. Long-term option. A closed mortgage does not offer the flexibility to pay off or renegotiate your mortgage at anytime. However, you do receive a lower interest rate reducing the overall interest cost of your mortgage over the term.
Mortgage Secured Line of Credit/Home Equity Line of Credit	Use the equity in your home to secure up to 80% of the purchase price or value of your home.	Low interest rate. Flexibility. This is a great option for anyone who is confident in their ability to manage the line of credit responsibly. And, anyone who can ensure that a payment schedule will be put in place to manage the funds. Funds can be used for any reasonable purchase, such as home renovations, a new car, etc.
Collateral Mortgage/ Collateral Charge Mortgage	Register your mortgage for up to 125% of the value of your home at closing.	Access to more funds after closing without extra costs. A collateral charge mortgage generally doesn't allow a lender to change a fixed rate or the discount on a variable-rate mortgage. However, it does allow the lender to change the rate if you ask for more money later or if you have a line of credit portion with a floating rate. It makes it easier to refinance by avoiding legal costs.

How can I save money?

Amortization is one way to save money.

The amortization period is the length of time (in years) that you choose to pay off your mortgage completely. Mortgages typically come in 25 year amortization periods. However they can be as short as 5 years. Choosing the amortization period is an important step in the home-buying process, as it will determine how much interest you pay over the life of your mortgage—the shorter the mortgage period, the less you will pay in interest.

Payment schedules can also save you money over the lifetime of your mortgage. Using an accelerated weekly or bi-weekly payment schedule, you can pay off your mortgage years sooner, saving you interest over the life of your mortgage. Increasing the frequency of your payments is a great strategy to help pay off your mortgage faster. Making lump sum payments is another way to save—depending on your mortgage type, you could make lump sum payments when additional funds become available to you.

There are a number of additional programs available with incentives and financing options you can choose that will make buying or renovating a home easier.

Where do I start my search?

Once you've done some research and have an idea what price range you're comfortable with, it's time to meet with a financial institution. A Credit Union Mortgage Specialist can help you find your way through this maze of options—whether they are related to financing or simply figuring out your next move.

TIP

Drive around the neighbourhoods you're interested in living in. Look at listings in your newspaper. Spend a lot of time on **www.realtor.ca** looking at homes in different price ranges. Get a feel for what's out there and how much it costs.

Then put your home-buying team together. Ask your friends and neighbours for a recommendation on a good realtor and then meet with at least two of them before you choose one who understands what you're looking for. Real estate agents, paid by the seller, can do a lot of your legwork for you, but only if they understand exactly what you're looking for.

Similarly, you should find a lawyer you trust to help guide your decisions and give you confidence in the choices you make. Buying a home involves a whole lot of paperwork, much of which will be handled by your lawyer. Look for a referral from friends and family members.

A trusted home inspector is another important ally in this process. Once you've made an offer on a home, it is a good idea to have it inspected by a trained and certified home inspector. They will go over the house from top to bottom, looking for overall soundness and any hidden defects. They will look at the chimney, the roof, the basement and everything in between to gauge the general structural of the home. Their report will highlight potential problem areas, suggest solutions and provide a sense of possible costs for the work required.

Back to the original question, are you ready for home ownership?

It's a huge decision to make, whether or not to buy a home. And the more informed you are, the more likely you are to make a decision you will be happy with for years to come. If you've read this First Timer's Guide and still have questions or want to discuss any part of the process with an expert, get in touch with your local credit union. We will go beyond the numbers in order to help because we understand the human side of this big decision. Yes, it's about dollars, but it's also about you building your future. We want you to make the right decisions because we're focused on your success.

If you have any additional questions about the First Time Homebuyers program or any of the information that is included in this guide, please contact your closest credit union.

HonestMoney.ca/first-timers

CREDIT UNIONS