HOME BUYERS GUIDE

What to expect from buying to closing

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Closing Centre 1.800.288.5046

CLOSING LAWYER

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What are your next steps?

STEP 1

HOUSE HUNTING

- How Much Can You Afford
- Mortgage Pre-Approval
- Finding Your Dream Home
- Drafting a Purchase & Sale Agreement

Maximize your affordability on a new home

When you're house hunting in Ontario, it's important to determine the maximum mortgage you're eligible for. Mortgage companies consider two primary factors to evaluate your affordability:

- Your down payment amount
- Your debt service ratios

Max Mortgage + **Down Payment** = **Max Affordability**

Your down payment

On a home valued at $750,000 or less, the minimum mandatory down payment is 5% of the purchase price. For homes priced between $750,000 and $1,000,000 buyers are required to pay a minimum of 5% of the first $500,000 and then 10% of the amount over $500,000. Homes priced at $1,000,000 or more automatically require a 20% down payment.

Homes Valued	Minimum Down Payment
$750,000 or less	5%
$750,000 - $999,999	5% on first $500K 10% on amount over $500K
$1 million or greater	20%

DID YOU KNOW
It is mandatory for your down payment to be **at least 5%** of your buying price.

Your debt service ratios

Your debt service ratios include gross debt service ratio (GDS), and total debt service ratio (TDS)

GDS is calculated by taking the sum of your mortgage payments, property taxes, heating costs and 50% of your condo fees (if applicable) and dividing it by your gross monthly income. If that number is below 32% you can afford the mortgage according to your GDS.

To calculate your TDS, you take the housing expenses calculated in GDS and add any other monthly debt such as credit cards, car payments, student loans or other loans, and divide that number by your gross monthly income. If this number is below 40%, you can afford the mortgage according to your TDS.

What are your numbers?

GROSS DEBT SERVICE RATIO

Mortgage payments
+ Property taxes
+ Heating Costs
+ 50% of condo fees*

Annual Income

= This ratio should be **<32%**

TOTAL DEBT SERVICE RATIO

Housing expenses (per GDS)
+ Credit card interest
+ Car payments
+ Loan expenses

Annual Income

= This ratio should be **<40%**

* If applicable

The industry guidelines should not exceed these percentages. If you have a good credit score and a stable source of income, it's possible you may be permitted to go beyond these limits. But if the mortgage you're considering takes your GDS anywhere beyond 39% or your TDS anywhere beyond 44%, your approval will be rejected for that amount.

How to boost your maximum mortgage affordability

There are ways you can boost your mortgage affordability. Here's how:

1 **Pay off your debts** → Pay off debts to lower your TDS ratio and free up more income for your mortgage.

2 **Increase your down payment** → Increase your down payment so you can afford more.

3 **Increase your income** → Increase your income so you're able to carry a larger monthly mortgage payment.

What you should know about borrowing at your maximum affordability

Just because you qualify for a specific mortgage amount, doesn't mean that's what you need to borrow. It's a good idea not to overstretch yourself. Consider using the Total Debt Service + Savings (TDSS) ratio to make your calculations, which includes a 10% savings buffer. This puts you in a better position to handle the unexpected and save for the future.

Some industry experts say the traditional TDS formulas should be revised to include a **10% savings buffer**

This idea has some support behind it and it's even been nicknamed the Total Debt Service + Savings (TDSS) ratio.

UPFRONT COSTS WORKSHEET

Down payment
$

Home Inspection and appraisal fees
$

Insurance costs
$

Land registration fee
$

Prepaid property taxes and utility bills
$

Legal or notary fees
$

Potential repairs or renovations
$

Moving costs
$

GST/HST/QST*
$

TOTAL = $

Make sure you have this in your savings!

* If applicable

It's a good idea to get pre-approved for a mortgage prior to looking for a home.

What exactly does being "pre-approved" mean you ask?

A pre-approved mortgage lets you know how much you can afford, what your interest rate will be and what your mortgage payments will look like. Getting pre-approved can help you narrow your search down to a specific type of home, size or neighbourhood. A pre-approval is not a guarantee or a final approval for a mortgage. Once you find the home you want to buy, the property must be assessed to ensure the price and condition of the home are acceptable to your mortgage provider.

MORTGAGE CHEAT SHEET

AMORTIZATION PERIOD

The length of time you pay off your mortgage.

average: 25 years | 30 years

MORTGAGE TERM

The length of time you hold your mortgage terms and rate.

Between: 6 months | 10 years

PAYMENT SCHEDULE

How often you make payments.

weekly | bi-weekly | monthly

OPEN AND CLOSED MORTGAGES

OPEN Pay mortgage off whenever, no penalties

CLOSED Limited options to pay off mortgage early *- offers a lower interest rate*

PRE-PAYMENT OPTIONS

Make extra payments, increase payments or pay off your mortgage without penalty

+$

PORTABILITY

Transfer or switch mortgage to another home with little or no penalty when you sell existing home.

INTEREST RATES

%

Fixed This rate will not change.

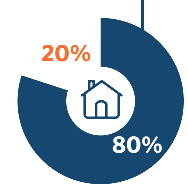
Variable Fluctuates with market.

Protected (Or capped) Variable rate Fluctuates but will not rise over preset rate.

CONVENTIONAL

A loan that is ≥ than 80% of home value.

20% deposit



HIGH-RATIO

A loan that is over 80% of home value.

Less than 20% deposit

Mortgage Default Insurance (CMHC Insurance): What Is It and Do I Need It?

In Canada, mortgage default insurance (also known as CMHC insurance) is mandatory for all homebuyers putting less than a 20% down payment on their home. CMHC insurance protects lenders against the risk of a borrower defaulting. As a result, lenders are not only willing to provide mortgages to Canadians that otherwise might not qualify, but they are also able to offer lower mortgage rates.

The Cost

Mortgage default insurance costs homebuyers anywhere from 2.8% to 4% of their mortgage amount, and the rates depend on the down payment percentage.

Down Payment (% of home price)	5% - 9.99%	10% - 14.99%	15% - 19.99%	20% or higher
CMHC Premium Rate	4%	3.10%	2.80%	0%

To Qualify

In order to be eligible for mortgage default insurance, you must have:

- A maximum mortgage amortization of 25 years
- A higher down payment on homes with purchase prices between $500,000 and $999,999, more specifically, 5% of the first $500,000 and 10% of the remaining amount

Keep in mind, if you're purchasing a home for over $1 million, mortgage default insurance is not an option because you're required to make a minimum down payment of at least 20% .

Canada has three mortgage default insurance providers:
1 . The Canada Mortgage and Housing Corporation (CMHC
2 . Genworth Financial Canada Guaranty
3 . Canada Guaranty

Calculating Your Mortgage Default Insurance

EXAMPLE DATA

- $350,000 Home Value
- $50,000 Down Payment
- 25 years Amortization

STEP 1: Calculate your down payment percentage

$50,000 Down Payment / $350,000 Home Value = 14.29%

STEP 2: Calculate your mortgage amount

$350,000 Home Value - $50,000 Down Payment = $300,000

STEP 3: Calculate mortgage insurance premium

$300,000 Mortgage Amount x 3.10% Insurance Premium = $9,300

How to Pay for Mortgage Default Insurance

Mortgage default insurance is funded through your mortgage, so you don't need to come up with the cash separately upon closing. Instead, your premium is rolled into your mortgage to be paid over the lifespan of your loan.

Is There a Way to Reduce Your Mortgage Default Insurance?
The only way to reduce your mortgage default insurance is to:
1) Increase the amount you put down or
2) Buy a less expensive property

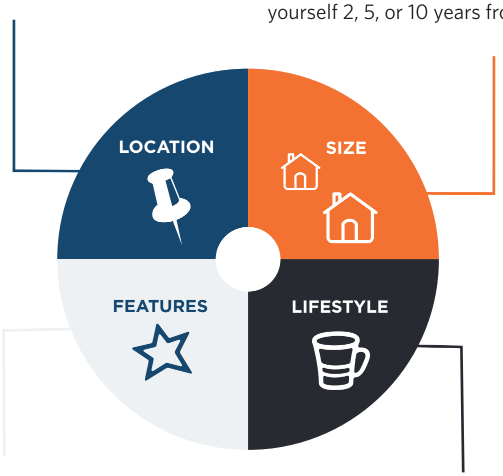
Finding Your Dream Home

Once you have an understanding of your home affordability and mortgage options, you can begin looking into the type of home you would like to purchase. There are a number of factors that go into when determining the best home option for you.

Factors to consider

Location:
Are you looking for a home in the city? Maybe a rural or urban neighbourhood suits your needs better. You need to consider things like distance from work, school, health services, recreational facilities and public transit.

Size:
Are you living independently, and a one-bedroom condo will do? Do you have a family or planning on having one in the near future? All these things should be considered when determining the size of your home. You don't only need to consider your most immediate needs, but think about where you see yourself 2, 5, or 10 years from now.



Features:
Do you or a family member have special needs? Do you want a place that has workout facilities or maybe a swimming pool? Do you require indoor parking or a concierge service? All these things should not go overlooked during your decision-making process.

Lifestyle:
Are you retiring in the near future or need to live close by a place of worship? Do you want to be in a place with lots of nature trails or are the shiny lights of a big city something that excites you? Some of these things can make or break how much you love your place.

Types of ownership

FREEHOLD

In a freehold residence you not only own the building but also the land and property it sits on. However, having full control of the land and property has some drawbacks. You are also responsible for the entire costs and maintenance of the property.

CONDOMINIUM

In a condo or strata you only own the unit your occupy. You are responsible to pay a monthly maintenance fee split with other unit owners which covers the cost to maintain the common areas. The common areas are considered to be jointly owned with the other owners.

The condo corporation maintains the building and ensures repairs to the common elements are completed.

LEASEHOLD

Leasehold is common for townhouses, mobile homes, or units built on city-owned land. In this type of ownership you own your unit but are only renting or leasing the land.

CO-OPERATIVES

Co-ops have become less common in Ontario but are still a great form of ownership. In a co-op you purchase a share in an entire building and are designated a unit to occupy. Mortgage loan insurance is not available for co-operative housing so a minimum 20% down payment is required.

WHO TO CALL

- Real estate agent ❍
- Insurance broker ❍
- Home inspector ❍
- Appraiser ❍
- Land Surveyor ❍
- Builder/Contractor ❍
- Lendor or Broker ❍
- Lawyer or Notary ❍

A document you'll want to have professionally reviewed

In Ontario, whether you're buying or selling a property, the Agreement of Purchase and Sale is the most important document related to your transaction.

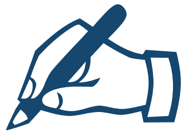
This document contains all the pertinent information specific to your deal including a list of conditions between the buyer and seller. It outlines the exact price the buyer agrees to purchase the property for, as long as particular terms and conditions are satisfied.

Common conditions can include:

There are several conditions that regularly make their way into Purchase and Sale Agreements.

STEP 2
SIGNING A PURCHASE AGREEMENT + PREPARING FOR CLOSING

- Lawyer’s Review + Sign Agreement
- Home Inspection
- Mortgage Finalization
- Home Insurance



MAKING AN OFFER

Your offer to purchase should include:

- ✔ Your legal name, the name of the seller and address of property
- ✔ The purchase price (your offer)
- ✔ The amount of your deposit
- ✔ Extra items you want to include
- ✔ The closing date (usually 30, 60 or 90 days)
- ✔ Request for current land survey
- ✔ The date the offer expires
- ✔ Any other conditions (see page 9)

The contract is only final when conditions are met.

Expect the possibility of negotiating terms

Retain Lawyer

Once you've have had your agreement reviewed by a lawyer and all the particulars of the transaction have been solidified, it's time to take out your pen and get ready to sign.

Not only will you be required to sign, but most sellers will require you place a deposit equivalent to 1%-3% of the purchase price. This deposit is later added to your down payment, but home sellers require it ensure the buyer is serious and ready to commit to their purchase.

What does a Real Estate Lawyer do during a purchase?

Home Inspection

A home inspection is a professional service that determines the condition of your home's major functioning systems. Inspections are usually performed during a real estate transaction, but you can order one any time. The truth is, property defects aren't always obvious to you or your realtor. A home inspection can actually protect you by giving you all the information you need to make an educated purchase decision.

Here's how it works

A certified home inspector completes a visual inspection of the home's accessible features which most commonly include the:

- ROOF
- STRUCTURE
- EXTERIOR
- ELECTRICAL
- HEATING + AIR CONDITIONING
- PLUMBING
- INSULATION + VAPOUR BARRIERS
- INTERIOR
- MECHANICAL + NATURAL VENTILATION

But home inspectors don't only assess the condition of the home and identify components that are not performing. They also point out items that are near the end of their life, give you approximate costs for repairs, and outline maintenance tips to protect your investment in the future.

So when do you need a home inspection?

For ANY home property purchase – resale, condo... even new builds!

What are the benefits

- **Assesses the condition of the home**
- **Identifies components that are not performing**
- **Describes items that are near the end of their life**
- **Includes ballpark costs for repairs**
- **Sets out maintenance tips to protect your investment**
- **Determine areas with inadequate repair from previous damage**

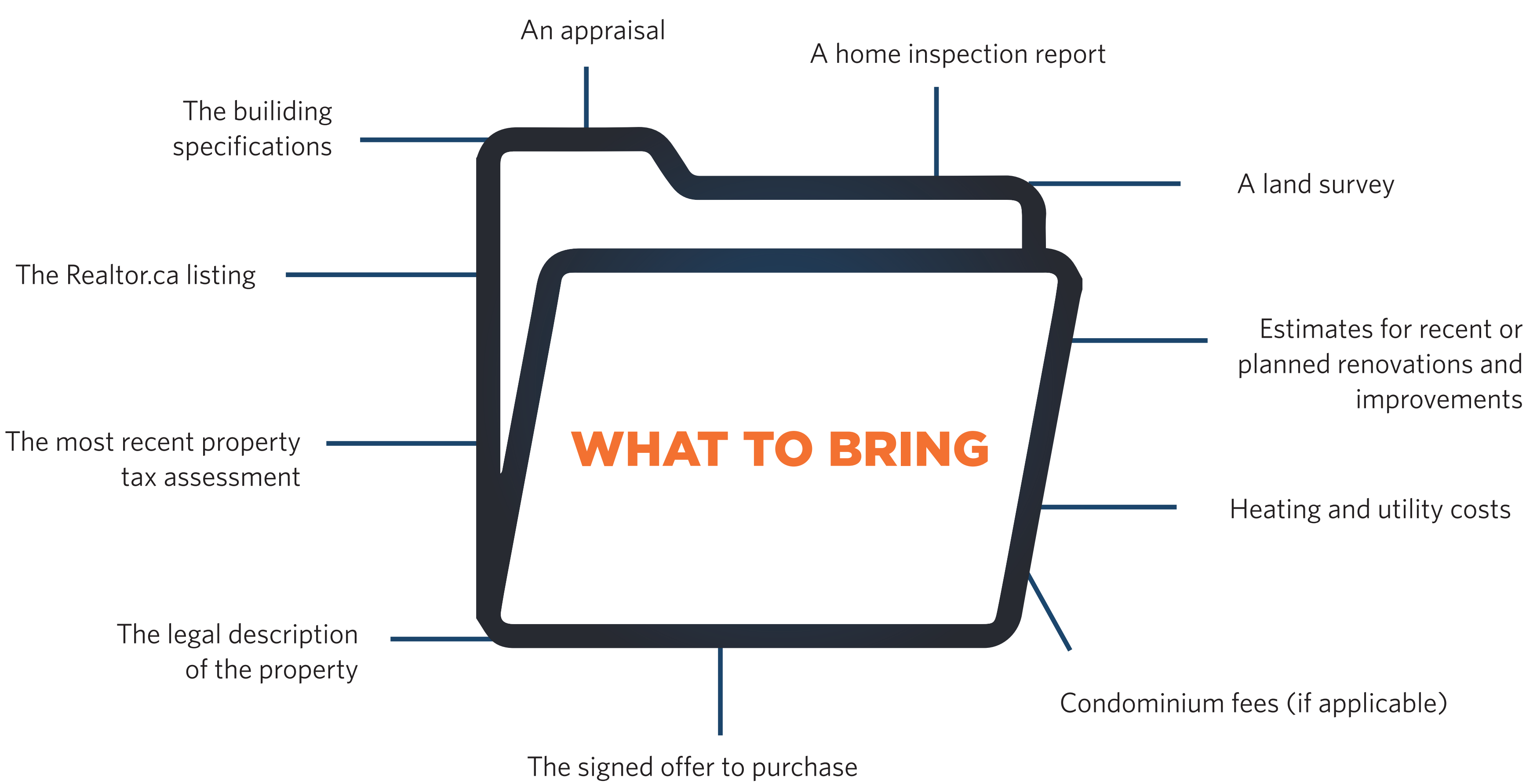
Waive Conditions

Once a satisfactory home inspection is complete you can waive this condition from your offer. If there are other conditions set out in your agreement they will also have to be satisfied prior to waiving all conditions. It's important to be fully satisfied as once your offer becomes unconditional, you are bound to complete the purchase and cannot cancel the agreement.

Mortgage Finalization

It is important to review any conditions that were part of your offer when speaking with your lender or broker to go over the details of your mortgage.

Here is a general checklist of what your broker or lender will require to proceed with your mortgage finalization:



Home Insurance

Homeowners insurance covers both your property and the contents inside of it from unexpected loss or damages. It pays the costs either to repair or rebuild your home in the event of damage from things like fire, lightening, falling objects, windstorms, hail, water damage, theft and vandalism.

Did you know that there are many other sections of an insurance policy that can protect your financial wellbeing even further?

1

Liability

Let's say you're held liable for bodily injury or property damage unintentionally caused to someone else. Personal liability protects you if this happens on your property or anywhere in the world.

2

Additional living expenses

This covers you for any additional expenses incurred as a result of you not being able to live in your home. It usually takes effect in situations where your home's damages must undergo a number of repairs, or when you are required to evacuate. Additional living expenses might include hotel stays and restaurant bills.

3

Identity theft coverage

Get coverage that provides financial support to restore your credit and reputation including expenses associated with identity theft, such as professional fees charged by lawyers or notaries, legal fees associated with defense against criminal charges, as well as charges for long distance calls and registered mail.

Is Home Insurance mandatory?

Home insurance is not mandatory by law. However, banks and other mortgage holders require that you purchase home insurance, and show proof, before they lend you money to buy a home. This way the lender's money is protected in the event that something happens to your home.

Coverage varies from one insurer to the next, so it's important to select a policy suited to you.

STEP 3
CLOSING

- Title Insurance
- Document Signing + Closing Day
- Closing Costs

What does “title” mean?

If you hold title to a property, this means you have legal ownership. When you buy a home, you legally obtain title when the owner signs the deed of the home over to you during the purchase transaction. A qualified lawyer with access to the Ontario Land Registration System must then transfers the title to you, the purchaser of the home.

What is title insurance?

Title insurance is an insurance policy that protects property owners and their lenders against losses related to the property’s title (in other words, its ownership). This policy provides protection even in situations where the defects existed prior to you purchasing the home, and it continues to cover you for as long as you own the home.

Title defects

A title defect is an issue with the title which prevents free and clear ownership of the home. A defect can actually prevent the owner from selling the home (even though they own it).

There are many types of defects including:

What to expect on closing day

What's closing day? It's the day you take legal possession of your property. It's essential that most (if not all) of your administration is complete at this stage of the game – including the transfer of your down payment to your lawyer. Keep in mind that transferring down payments can take time, particularly if they're coming from your RRSP. So consider making the transfer several days before you officially close.

Here is what happens on your official closing date:

1. **Your lawyer receives the mortgage funds from your lender**
2. **You provide your down payment (less the deposit) to your lawyer along with all closing costs**

See next page for closing costs.

3. **Your lawyer registers the home in your name, pays the seller, and gives you the deed and keys to your new home**

Examples of common closing costs are:

1) The Down Payment
The portion of the purchase price you pay upfront. The minimum down payment in Canada is 5% of the property purchase price.

2) Land Transfer Tax
This is calculated as a percentage of the purchase price of your home. In Ontario, it is between 0.5% to 2.5% of the purchase price. Toronto also has a municipal land transfer tax, meaning that property buyers in Toronto have two land transfer taxes to pay.

3) Legal Fees and Disbursements.
A real estate lawyer is required to close on any property purchase or sale. Average costs in Ontario for a standard home closing attorney with disbursements are between $1,000 - $2,000. A Real estate lawyers responsibility include conducting searches, getting title insurance in place, registering the home in the buyers name, creating a statement of adjustments, and to facilitate the financial transactions on closing day.

4) Title Insurance
Title insurance protects lenders against property ownership disputes. It costs anywhere from $100 to $300. Title insurance is purchased through your real estate lawyer.

5) Home Inspection
A professional service that determines the condition of your home's major functional systems. The average cost of a home inspection in Ontario is approximately $500.

6) Appraisal
Your mortgage provider will have hired an independent appraiser to determine the value of the property and whether it meets its lending criteria. Often times the mortgagee will cover this expense.

7) Property Taxes
Property taxes are calculated as a percentage of the value of your property. These taxes vary by municipality and must be paid each year. For example, the residential tax rate in Toronto is 0.83%, and on a $600,000 home, this is $4980. If the seller has already paid the property taxes for the entire year, you might be required to repay him or her.

8) Home Insurance
Covers both your property and contents inside of it from expected loss or damages. Mortgage providers require you have home owner's insurance to ensure property damage to your home is repaired.

9) CMHC or mortgage default Insurance
If you buy a house with a down payment of less than 20%, you must purchase mortgage default insurance, otherwise known as CMHC insurance. This insurance protects the lender in the event the buyer fails to repay the loan. CMHC insurance is added to the total mortgage amount and amortized over the life of your mortgage. It is important to know that the provincial sales tax on the CMHC premiums cannot be incorporated in the mortgage and the buyer has to pay the PST out of pocket at the time of closing.

10) An estoppel certificate (condo) indicates the condominium corporation's financial well-being and legal state. An estoppel certificate costs approximately $100.

Costs Financed Through Your Mortgage

CMHC insurance (or mortgage default insurance) isn't usually viewed as a typical closing cost because it's added to your total mortgage amount and amortized over the life of your mortgage.