Villa HOMES

Financing Your New Home

Make your dream come true

Your first step in building a new home is to take a close look at your finances to see how much you can afford and decide how you are going to pay for it. Generally, this will involve obtaining a loan for your home; a ***mortgage***.

Mortgage Basics

Your home is legally registered as the security against this loan. The ***principal*** is the amount of the loan, or the cash actually borrowed. The ***interest*** is what the lender charges you for the use of the money, and interest rates vary from lender to lender. Many other factors are also taken into account including the mortgage's terms and conditions. Your mortgage payments get applied to both principal and interest amounts. Initially, more of it goes onto the interest, but over time more of the principal gets paid.

The ***amortization*** period is the actual number of years that it will take to repay the mortgage in full, and normally ranges between 15 to 25 years.

The ***term*** is the length of time a mortgage agreement exists between you and your lender. It often ranges between six months and seven years.

The ***maturity date*** marks the end of the term, at which point you can either repay the balance of the principal or renegotiate the mortgage at the going interest rate.

There are different types of mortgages and options you can choose from to best suit your needs.

In a ***conventional mortgage*** the loan amount does not exceed 75% of the property value. This is calculated on the either the purchase price or the appraised value, whichever is less.

High-ratio mortgages (or National Housing Act mortgage) can go up to as much as 95% of the property value. By law, this type of mortgage must be insured in case the borrow defaults. You pay and additional percentage of the total loan amount as a mortgage insurance premium. This can be added to the mortgage loan, or paid up front. In addition, there is also an insurance application fee.

What can you afford?

The amount of money you can afford to spend for a new home is determined by two factors:

A) Your ***downpayment***. This is a lump-sum amount of money you invest up-front. The minimum required to get a mortgage is 5% of the purchase price, but the more you can put down, the better. A large downpayment means you can:

- have lower mortgage payments
- pay of the mortgage faster, savings thousands of dollars in interest.
- buy in a higher price range, if you qualify

Caution is necessary to ensure you don't overstretch your budget when buying in a higher range. You also need money to cover the additional costs of buying a home.

First time home buyers can borrow up to $20,000 tax-free ($40,000 for couples) from their RRSPs for a downpayment and closing costs. You then have two years to begin repaying the funds, which must be repaid within 15 years.

B) Your ability to carry mortgage debt

Mortgage lenders use a simple two-step method to determine the mortgage amount that you can pay back on your income.

1) no more that 32% of your gross monthly income on monthly payments to cover principal, interest, property taxes and heating (PITH) and possibly condominium fees, or

2) 40% of gross income on all financial obligations. This could include car, credit card, and other payments in addition to the housing costs listed in 1).

Once your maximum monthly payment towards housing costs has been established, it is easy to determine the size of loan you can handle, depending on interest rates and amortization periods.

Be aware of the total costs
Be sure to ask your builder for a detailed cost itemization, consider any appliances/furniture you'll need or upgrades you'd like, and check with your lender and lawyer. We'll cover this more in depth further on.

Get pre-approved
Based on your financial situation, you can get pre-approved for a mortgage before you go further. Lenders may approve you for up to a certain amount, often at a guaranteed rate for a certain number of days before your pre-approval expires.

Having your financing in place before you negotiate with a builder enables you to proceed to purchase with confidence. Should interest rates drop during that time, you will get the lower rate, and should they rise, you will get the rate agreed upon at the time. The final mortgage amount and details will be established after negotiations with the builder.

Pre-approval does not require you to go ahead with the purchase, does not cost anything, and is simple to arrange.

Shopping for a Mortgage

A mortgage is a major purchase requiring research, comparison, and negotiation. Banks, trust companies and financial institutions are becoming quite competitive. Do investigate the borrowing process, financing options, and all the ways there are to finance a new home.

Begin by collecting information:

- The Internet—there's a wealth of information quickly and easily available online from lenders and insurers. Be sure to visit the Canadian Mortgage and Housing Corporation (www.cmhc.ca).
- Printed information—obtain brochures and worksheets at lenders' branches for copies.
- Personal consultation—meet with a mortgage specialist to get information and a mortgage pre-approval.
- New home builders—your builder should be able to refer you to lenders.

Settling on a Lender

You can either deal directly with a lender, or use a mortgage broker who will shop-around for you. In either case, you need to trust, have confidence in, and be comfortable with this person. They should take the time to answer all your questions and to understand your needs. Be sure to deal with a professional who knows the business of mortgages and who will work with you throughout your purchase. Visit and chat with several lenders before making your decision.

If you opt for a mortgage broker, they are usually paid a commission or fee by the lender, so their service is free to you.

Applying for your mortgage

You can apply for pre-approved mortgages quickly and easily in person, over the phone, and even through the internet.

If you are getting a high-ratio mortgage, you will have to make an additional application to insure the mortgage, but this can usually be done at the same time through the lender and you can anticipate a response within hours.

Mortgage Insurance

There is a small processing fee when submitting an application for mortgage insurance. The insurance premium rate itself is calculated as a percentage of the mortgage (0.5% to 3.75%). Your rate will depend on the size of your downpayment. Again, this premium can be paid in full upfront, or it can be broken down into monthly payments that are added to your mortgage.

Mortgage insurance is also portable, meaning, if you sell your home and transfer your mortgage to a new home, the insurance can be transferred as well.

Additional Costs Involved

Beyond the home and lot purchase price, there are other costs to consider and budget for. Be sure you know what the base price of the home is, and get a detailed list of all the upgrades you are getting. Also know your legal fees, taxes, and mortgage insurance premiums, if any. The last thing you'll want is unexpected expenses. Here are some additional costs to be aware of:

Sales tax
You may be eligible for a GST rebate (36%, up to $8,750) if your newly built home costs up to $350,000. For new homes between $350,000 and $450,000, the rebate is reduced on a sliding scale. Above $450,000 there is no GST rebate. The builder can claim the rebate at the time of purchase, or you can claim it yourself after, so find-out if the builder's price includes the rebate or not.

Appraisals
Your mortgage lender may or may not require a property appraisal. Appraisals are usually required for a new home that is already built before you buy it.

Surveys
Mortgage lenders sometimes request a property survey—be sure to ask and know if this will be an added cost for you.

Water certification
Water flow and quality may need to be tested if your new home will have its own well instead of using municipal services.

Legal costs
Title searches, mortgage documents, registration of new ownership, liens, and final disbursement of funds in the closing require legal services that will cost. It may also be a good idea to have the sales contract with the builder reviewed by a lawyer before signing it. These costs do vary and it is worthwhile to investigate different firms or to get referrals.

Land transfer tax
The Ontario government taxes the transfer of real estate. Currently, the method of calculation is as follows:

0.5% on the first $55,000 of the purchase price
1.0% of the amount from $55,000 to $250,000
1.5% of the amount in excess of $250,001 to $400,000
2.0% of the amount in excess of $400,000

This is provided for your information only, and could be subject to change at any time. Consult with your lawyer or banker at the time of purchase.

Home insurance
Mortgage lenders will not provide the funds for your purchase until your home is fully insured. Like everything else, be sure to shop around.

Moving costs
You may wish to do some (or all) of the packing and moving yourself. Know what you will need help with then get quotes from several movers. Be sure to have someone come to your home to make an accurate estimate.

Appliances, drapes, furnishings
Are appliances included, will you be buying them yourself, or bringing you current ones? How many window coverings will you need? Perhaps you will decorate the whole house from scratch, or maybe it's a good time to upgrade some furnishings. There are options you can discuss with your lender to help you finance the things you need and want.

Other equipment
It might also be a good time to think about other home maintenance equipment you will need such as a lawnmower, snowblower, tool shed, gardening equipment, etc.

Create a checklist of all possible costs to avoid last-minute surprises and help make the purchase of your new home as pleasant as it should be.