Mortgages and other money matters


FOR
SALE

What about the money?

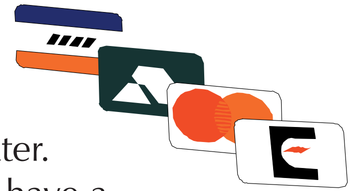
The first thing most people think about when they want to buy a home is — how much will it cost and where will I find the money for it? Not many people have all they need to pay for a home. So they must borrow. The money you borrow to buy a home is called a ***mortgage*** (sounds like *MOR-gaje*). You can borrow from a bank, a credit union, an insurance company or some other big lender. We will just say lender in this booklet.

Most often, a mortgage is money that is borrowed for 25 years. You must pay it back over that time, as well as pay ***interest***. This is the profit the lender makes. Often you sign a paper that says you will pay back so much over 3 years or 5 years (you and the lender together make a plan). After that, you need to make a new plan. The interest you pay may go up or down with each new plan.

Mortgage

A good first step when you think you may buy a home is to visit your bank and ask if they will give you a loan. The word used is ***qualify*** for a loan. That means you ask the bank to say how much you *might* be able to borrow if you buy a home.

Credit



The bank will ask about your ***credit***. Credit is when you buy something and pay for it later. If you use a credit card, or you have a car or TV that you make payments on each month, you have used credit. The money you owe is called a ***debt*** (sounds like *dett*).

*1. Credit rating***.**

This is what lenders check to see if you repay what you have borrowed.

If you have no credit rating (you have no credit cards and you do not owe any money to any company), lenders will not like that. They need to know that you will repay money you owe. So, you should ask your bank for a credit card, use it and pay back the money you owe each month. You can pay the whole bill, or you can pay part of it. If you pay less than the whole bill, you will have to pay a lot of interest on the rest. It is better to pay it all, if you can. Keep using the card and keep paying the monthly bills. That way, you can show you manage money and credit well.

If you have a poor credit rating, it means you have missed payments on what you owe. You must try to catch up on your payments. You will not get a mortgage if you have made mistakes with your money and not been able to make your payments each month. If you need help to sort out what you owe, ask your bank or a ***credit counsellor*** (someone trained to help you manage your credit problems).

Pay off what you owe as soon as you can. Then ask the bank for a ***secured*** credit card. With this card, the bank will put aside some of your money and then you can spend up to that sum on your card. You can choose how much or how little. You will not be able to spend money you do not have. A secured credit card will make your credit rating better, while there will be no risk to the bank.

2. *Income.*

The bank will want to know how much money you bring in each month. It may be money you earn from a job (wages), or government support like AISH (Assured Income for the Severely Handicapped).

3. *Equity.*

The bank will ask about your equity. This is what the bank calls money that you have put aside and do not use for part of your monthly costs. Maybe you have ***inherited*** money (been left it in someone's will). Maybe you have money that an insurance company has paid you after you had an accident. Maybe you have RRSPs (Registered Retirement Savings Plan — money put away for your old age). Or maybe you have saved money in a savings account. The more you have put aside, the less you will have to borrow. You need this money for the ***down payment*** (the first big payment you make when you buy a home). Lenders like to see that you can save.

The bank will look at your credit rating, your income and your equity. Then they will tell you if they think you may be able to get a mortgage and how much it will be.

It is not wise to spend more than one third (1/3) of your income each month on your home (on the mortgage, local taxes, insurance and electricity). ***Local taxes*** (sometimes called municipal taxes) pay for your roads, libraries, sewers (drains) and much more. Insurance is money you pay to a company which will cover some of your costs if your home has a big fire or other accident. If you spend more that one third, you may not be able to buy other things you need, like food.

When you know about how much you can borrow, you can make up your mind if you really want to buy a home, and what price of home you can look for.

How much will you need for mortgage payments?

At 7% interest, this is what you would pay each month:

- If your mortgage was $50,000, then each month you would pay $290.
- If your mortgage was $100,000, then each month you would pay $580.

Remember, the interest rates may be higher or lower than 7%. This is just to give you an idea.

If the lender will not give you as much as you need for the home you want, you may need to make new plans. Do not lose hope at once if you get bad news about a mortgage. Here are some other ways to make the mortgage easier to get:

A cheaper home

You may need to look at a cheaper home. It could be one that is smaller than you planned, or needs to be fixed up, or is in a cheaper part of town.

A shared home

Even if you wanted to live alone, you may need to make plans to share your home with someone. It does not mean you will never have the home you really want — just that it may take a bit longer to get it.

A shared mortgage

You may be able to get your mortgage if you share the home ownership. Here are some ideas:

- You and your partner (a husband, wife, boyfriend or girlfriend) who both earn money can buy a home together. Two incomes can make it easier to get a mortgage.
- You and your parents can buy the home together, even if your parents do not live with you.
- If you have children who live with you and have jobs, they can buy the home with you.
- You and a roommate can buy together.
- Two or even three families with children who have disabilities can buy a home together for their children.

- If you are disabled, maybe you and a support person can buy together.
- You can buy your home, and rent out part of it to a tenant. That helps with the bills each month.

The down payment

The more you can pay at the start, the less you will have to borrow. Usually the lender will tell you that you must pay at least 5% ($5 for every $100) of the full price of your home when you buy. That means, for a home which costs $100,000, your down payment must be at least $5,000.

Here is what a 5% down payment looks like for different homes:

If the home costs $80,000, your 5% down payment will be $4,000.

If the home costs $100,000, your 5% down payment will be $5,000.

If the home costs $110,000, your 5% down payment will be $5,500.

You will need to pay for ***mortgage insurance*** if you have borrowed more than three quarters (3/4) of the money you need for your home. The lender needs you to pay for this insurance. If you can no longer make your mortgage payments and you lose your home, the insurance pays the lender.

If you do not have money for a down payment, a lender may not want to give you money. Sometimes you can buy a home with no down payment, but it is much harder to find a lender.

So, you have been to the bank, it looks as if you have the money you need, and you want to go ahead and buy a home. What now?

Now you will need a team of people to help you. There is a booklet (called *Your home-buying team*) which will tell you who should be on your team. Here, we will just look at the costs.

Pre-approval for a mortgage

Even if you were told you would be able to get a mortgage, you still need to have a loan ready when you buy. This is called ***pre-approval***. You may be able to get loan approval after you have found a home, but it can take some time and someone else may buy the home while you wait.

You can go to your bank and they will tell you how much they will lend and what the interest rate is. But it is sometimes better to go to a ***mortgage broker***. This is a person who knows all the places you can borrow from and will help you find the best one. Now *this* lender will want to know exactly about the money you have. They will ask you to show how much money you get each month. You will need to show pay stubs (the paper

record of what you earn), or a tax return form. They will want to see how much money you have (bank statements, RRSPs, Canada Savings Bonds, or other savings). They will also ask how much money you owe and will make a check on your credit rating. Then they will say exactly how much they will lend you.

Now, you are almost ready to look for a home.

Are there other costs to remember?

Yes. There are **one-time costs** and **monthly costs**.

One-time costs

- *Mortgage broker*. You may need to pay the mortgage broker, but most are paid by the lender. Ask them when you first meet.
- *Form for mortgage insurance*. If you borrow more than three quarters (3/4) of the cost of the home, the lender will say you must take out mortgage insurance. You will have to pay to apply for the insurance.
- *REALTOR*. A REALTOR is a real estate agent (someone trained to help you buy or sell your home). REALTORS are members of the Canadian Real Estate Association and follow the rules of the Association. They can find information for you about many homes. The REALTOR will help you with many things. When you buy, you may not

have to pay the REALTOR, as he or she is usually paid by the person who sells the home to you. (This person is called the *vendor.*)

- *Land transfer fee.* This is a paper which says you own the land your home is on. You must have this. It will cost a few hundred dollars.
- *Lawyer.* A lawyer will cost at least $500. You must have one.
- *Home inspection fee.* This is between $200 and $400. You can skip this step, but it is not wise. There may be something wrong with your home that later will cost a lot to fix.

- *Appraisal fee* (sounds like *ap-RAY-sal*). Your lender may ask for this, to make sure the home is worth what they lend you. This costs about $150–$250.
- *Survey fee.* This is for a paper that maps where your home is. Sometimes the person who sells the home may have this paper. Usually the seller pays for this.
- *Estoppel certificate.* This is a paper you need only if you buy a condo. It says that the condo organization is legal and has the money it needs.
- *Service fees.* You will need to pay to have your electricity, gas and phone hooked up (connected) when you move into your new home.
- *Moving costs.* You may be able to move your things

yourself, or with help from friends and family. But maybe you will need to rent a truck. Or maybe you will need to hire a moving company. That can cost up to $100 an hour.

- *Fixing things*. You may need to pay for repairs to the home. If you have a disability, you may also need money to have things fixed so that your home is accessible.
- *Well water testing*. If you buy a home in the country, you may get your water from a well. If this is so, you must have the water checked so that you know there is as much as you need and that it is OK to drink.

Monthly costs

- Mortgage payments
- Local taxes. (These can also be paid once a year, if you like.)
- Property insurance (You must have this in case there is a big fire or accident.)
- Electricity and water (utilities)
- Gas
- Phone
- Condo fees (if you buy a condo)

Extras

Sometimes you will have extra costs, such as a new furnace, or a new roof, or just something small like a table lamp. It is a good idea to keep some money aside for these things.

As you can see, there are a lot of costs to think about. Some you may not need, but most of them you will.

What the words mean

Appraiser (sounds like *ap-RAY-ser*). Someone trained to look at your home and say what it is worth. You must pay an *appraisal fee* for this service.

Credit. Credit is when you buy something and pay for it later. You may have a credit card, or you may have a credit plan to help you buy something like a car.

Credit rating. This is a record about all the bills you pay and if you pay them on time. A lender will check your credit rating if you ask for a loan.

Condominium (often called a *condo*). In a condominium, all the owners in the building together own the land and the outside of the building. All the owners must pay condo fees each month to cover costs of looking after the shared parts. In condo apartments, fees also cover some inside parts, like the stairs.

Debt (sounds like *dett*). Money you owe.

Down payment. This is the first payment you make on your home. It is a lump sum, usually 5% of the total cost of the home.

Equity. This is any money or things you have that are not part of your day-to-day earnings. It may be money you have saved, or a car — anything that could be used by you if you needed more money.

Estoppel certificate. This is a paper you need only if you buy a condo. It says that the condo association is legal, has the money it needs and that the building is insured.

Income. Money you get each month to live on. It may be what you earn, or it may be from a pension or from a government support program like AISH (Assured Income for the Severely Handicapped).

Insurance. Money you pay to a company so that, if you have a big problem, the company will help you out. There are different kinds of insurance:

a) *Property insurance*. It covers the cost of your things and also your home. If you have a fire or a flood, or a burglar breaks in and steals things, you can get insurance money to repair or replace what is damaged or lost.

b) *Mortgage insurance*. If you borrow more than three quarters (3/4) of the money you need for your home, the lender will want you to pay this. The insurance will pay the lender (not you) if you cannot make your payments and lose your home.

c) *Life insurance*. If you die before you have paid all of your mortgage, life insurance will pay off the rest of your debt.

Local government. This is the council that makes the rules (by-laws) about the area where you live. It could be a city council, a town council or a rural (country area) council.

Local taxes (sometimes called municipal taxes). Money you pay to the local government for services like roads and road signs, sewers (drains), libraries and public transportation.

Lender. The company which lends you the mortgage you need to buy a home. It may be a bank, a credit union, an insurance company or some other big company.

Mortgage (sounds like *MOR-gaje*). The money you borrow from a bank or other lending company to buy your home.

Mortgage broker. A person who helps you find the best mortgage.

REALTOR. A REALTOR is a real estate agent (someone trained to help you buy or sell your home). REALTORS are members of the Canadian Real Estate Association and follow the rules of the association. They can find information for you about many homes. (REALTOR is always written like this.)

Secured credit. This is a credit card that can be used only as long as you have the money in the bank to cover your bill.

Utilities. Electricity (power) and water.

Here is a list of the booklets which
may help you buy a home:

- **The first steps when you buy a home**
- **Mortgages and other money matters**
- **What to check when you buy a home**
- **Your home-buying team**
- **Make an offer to buy a home**
- **When it is time to move...**

These booklets are for general information only.
They do not take the place of professional help.
You will still need to talk to
a REALTOR (this is a real estate agent), a lawyer, and a lender.

You can get copies of these booklets at:

The Home Program
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10242 105 Street NW, 6th Floor
Edmonton, AB T5J 3L5

phone: (780) 504-6161
fax: (780) 471-6831
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