



# **FIRST TIME HOME BUYERS GUIDE**

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## **Did you know.....?**

There are 3 tax credits available for First Time Homebuyers!

1. First Time Home Buyers Tax Credit
2. Ontario Land Transfer Tax Credit
3. HST New Housing Rebate

Ask Homeguard for more details!





**Buying your First Home** can be exciting and intimidating all at once. At Homeguard Funding Ltd. (Verico) we have access to a large network of resources including lenders, appraisers, lawyers and investment advisors who all help ensure that your home buying process is as smooth and timely as possible.

# Who is a First Time Home Buyer?



Being a first time home buyer can provide you with a variety of benefits. But **who exactly qualifies** as a first time home buyer?

A true first time home buyer is when neither you or your spouse have owned a home before. This qualifies you for three possible benefits:

## **Land or Property Transfer Tax Refund**

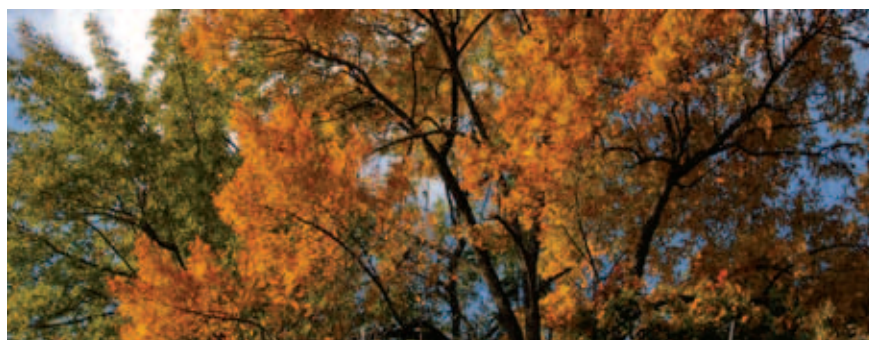
Qualified first time home buyers may be entitled to up to a maximum refund of \$2,000 on Land or Property Transfer Taxes. There is also a first time buyer's refund for homes purchased in the City of Toronto.

## **First Time Home Buyers' Tax Credit:**

Qualified first time home buyers could receive a 15% income tax refund on a maximum of \$5,000 on home purchase closing costs.

## **RRSP Homebuyers Plan**

Usage of tax-free withdrawal from RRSP of up to \$25,000 without penalty. Your partner can contribute an additional \$25,000 to double it. However, you must begin repayment to the RRSP within two years of withdrawing the funds.



## FTHB Exceptions

### **First Time Buyer for RSP withdrawal**

If you / spouse/ co-applicant have not owned your principal residence since 4 years before the year of funds withdrawal and provided that there is no balance on any previous RSP withdrawals. You and your spouse, or co-applicant, may still use the RSP withdrawal provision (see above RRSP Home Buyers Plan).



# Considering Home Ownership

Determining if Home Ownership is right for you!



## Why Should I consider Home Ownership?

Buying a home allows you to build home equity, mainly through price appreciation. Home equity is the difference between the market value of the house and the remaining mortgage payments. Therefore, the sooner you purchase a home, the faster you can start to build your equity which can facilitate the purchase of a larger home in the future.

## Is Home Ownership right for me?

Homeownership is one of the largest commitments you will ever make. It requires a large financial investment along with a lot of time and energy. Make sure a home purchase fits in with your lifestyle and financial needs, goals and obligations. Visit our website calculators to calculate whether you should rent or buy!

## How Much Can I Afford?

After just completing a brief overview of the cost associated with buying a new home it is time to figure out how much you can afford to spend on a new home. To calculate the maximum mortgage you can afford, based on your income, visit our easy online calculator at [www.homeguardfunding.ca](http://www.homeguardfunding.ca)

## Your Credit

If you have less-than-perfect credit rating, finding a mortgage can be very challenging. Our agents are specialists in this market; we will provide you with support throughout the entire process to make it as simple and painless as possible. We deal with over 59 lenders and can help you re-establish your credit to make sure you get the very best deal available, relative to your situation.

- **Excellent credit** is defined as a credit score of 680 +
- **Good Credit** is defined as a credit score between 625 & 679

# Mortgage Basics



## Down Payment

The amount of money necessary to create your initial purchase. Minimum down payment can be as little as 5% of the purchase price of your home. If your credit score is excellent funds may be borrowed from credit sources or alternative sources such as cash back. This means you agree to pay the lender a higher rate and in return they will lend you the down payment.

## Term

The amount of time that your mortgage is initially contracted for; term may vary from 6 months, 1 year to 5 years, 7 years or 10 years. The negotiated fixed rate of interest will not usually change unless a variable or adjustable rate mortgage is specifically requested. If a term of less than 5 years is selected or variable rate is requested, qualification is based on a 5 year posted rate.

## Variable Rate

A mortgage for which the rate of interest may change if other market conditions change. This is sometimes referred to as a floating rate mortgage. The interest rate is determined by the prime rate of interest.

## Amortization

The hypothetical time period that your mortgage would be paid in full provided the interest rate remains constant. Amortizations of up to 30 years are still available, shorter and longer amortization periods are also available. Amortization periods may be irregular to suit optimum payment plans. e.g. 19 years, 6 months.

## Pre-Payment Options

Usually in each calendar period you may be allowed to pay an additional amount of money up to 10, 15, or 20% of the principal balance without penalties or obligation. This reduces your principal dramatically and saves thousands of dollars in interest over the life of the mortgage. Most lenders allow prepayments to be made on each payment usually with a minimum of \$100.

## Repayment Options

Normally most first time home buyers elect to pay their mortgage on a monthly basis. However, semi-monthly, bi-weekly or weekly payments may be arranged to suit your budget, which can save you thousands of dollars in interest the more frequently you pay your mortgage. Ask our mortgage consultants to provide you with a computerized comparison.

# Income Required

## Type of Income that can be used to Qualify

- Salary - can be yearly, weekly or hourly. Overtime/ bonuses can be used but only if there is history at an average over the last 2 years.
- Pensions including disability if it is permanent.
- Investment income.
- Part-time income (if it has been established for 2 years).
- In most cases, child tax credits can be included
- May require more documentation
  - Commission income - will use net after allowable expenses & ad backs if applicable.
  - Self-employed income - will only use net income. But can be grossed up on certain items written off can be added back in.
  - Child Tax Credits, Universal Child Care Benefit.
  - Self declared income – If you have been in your own business for at least 2 years and can produce something that says no income tax is owed, you can state your income but it must be reasonable. This method carries a substantially higher insurance premium.



# Qualifying Ratios

## Gross Debt Service Ratio (GDS)

Payments on the mortgage, including taxes and heat cannot exceed 35% of your qualifying income

$GDS^* - 35\% \text{ max} = \text{Principal} + \text{Interest} + \text{Taxes} + \text{Heat}$

## Total Debt Service Ratio (TDS)

Payments on the above, plus outside debt payments (loans, credit cards, lines of credit, etc.), cannot exceed 42% of the qualifying income.

$TDS^* - 42\% \text{ max} = \text{Principal} + \text{Interest} + \text{Taxes} + \text{Heat} + \text{Debt Pmts}$

\*If you have an excellent credit score and have at least 5% down there is no GDS requirements and a TDS maximum of 44%.



# Costs

Now that you have a general understanding of mortgages you are probably wondering how much will it all cost? The majority of first time home buyers under estimate the cost of buying a new home as there are many associated expenses involved. These expenses can be separated into two categories: upfront costs and after-purchase costs.

Upfront costs can be expensive and should be properly planned for to ensure you can cover the cost when needed in the home buying process. Your Homeguard agent can help you plan for these costs and even secure financing options if you think you will be unable to cover them. Below are list of common approximate upfront costs.

- **Down payment:** At least 20% of the purchase price is required as down payment to obtain a conventional mortgage. With mortgage loan insurance the down payment can be as low as 5%, this is called a high-ratio mortgage.
- **Mortgage Loan Insurance Premium:** If you are obtaining a high ratio mortgage, as mentioned above, your lender may require mortgage loan insurance. The cost of this insurance is up to 3.15% of the mortgage amount depending on down payment and the premium is added on to the mortgage.
- **Appraisal Fee:** Often required by lenders to determine how much they are willing to lend on the property. Average cost is between \$250 & \$350.
- **Home Inspection Fee:** It is highly recommended that a home inspection be completed prior to purchase to ensure that there are no hidden defects that you were not made aware of. Average cost is between \$300 - \$600, depending on size of the house and if there are any suspected issues.
- **Land Transfer Tax:** This fee is payable to the provincial or municipal government upon closing, it is commonly a certain percentage of the purchase price on the property.
- **Property Insurance:** Your lender will require you to obtain property insurance, as the home acts as collateral for the mortgage. The insurance must be in place on closing day.
- **Title Insurance:** Provides coverage in case of problems with the property title among other things. The cost is relatively low, usually a few hundred dollars. Title insurance can insure the borrower over any discrepancies that a survey may show.
- **Legal Fees & Disbursements:** These fees will be due at closing and can cost between \$500 - \$1,500.

After covering all of the upfront costs and purchasing your new home there are still many associated expenses that will need to be covered including but not limited to:

- **Appliances:** May or may not be included in the purchase of the home.
- **Moving Expenses:** Cost will depend on the amount of stuff that will need to be moved. Cost can be lowered by doing some of the moving yourself.
- **Renovations or repairs:** Some repairs can be negotiated to be paid for by the seller, but some immediate and future repairs or renovations you will need to cover.
- **Service connection fees:** You will have to pay to set-up utilities such as electricity, telephone, gas etc. This will also likely include an initial deposit.
- **Furniture & Decorating:** Depending on what comes with the house this can be expensive for items such as window treatments, main pieces of furniture & painting.



# The Mortgage Process

Buying your first home and obtaining a mortgage can seem complicated, but here at Homeguard Funding Ltd. (Verico) we can make the process as simple as possible, and ensure you get the perfect mortgage that is tailored to your needs.

## 1. Get Educated!

Before you begin the search for your perfect home it is important to become educated about the mortgage industry. This will allow you to be aware of the options in the marketplace and ensure you are an informed consumer when finalizing your mortgage. However, it is also important to be educated on your personal financial situation, this includes knowing your credit score and any other regular expenses that you incur. This will ensure that there are no surprises along the mortgage process!

## 2. Obtain Pre-Approval

Obtaining a mortgage pre-approval is an important initial step in securing a mortgage. The lenders will analyze your current income, debt situation and credit history in order to qualify you for a maximum loan amount. This gives a clear picture of your financial parameters and an idea of your purchase price range.

## 3. Find a Home to Buy

This step could either be the easy part or the hard part, depending on your circumstances. There may be a big difference between the kind of home you want and the kind of home you need. In today's market there are a wide variety of options, depending on your preferences and price range. There are several main characteristics in a home that you should consider when deciding what type of home to buy. Below are just a few to keep in mind.

## 4. Make an Offer to Purchase & Gain Full Approval

After you have found the home you would like to purchase you will need to present the seller with an Offer to Purchase. As this is a legal document, it is advised to work with your real estate agent and/or lawyer in preparing your offer.

While you may already be pre-approved it is at this stage you still need to become fully approved. You will need to provide your Homeguard Agent with proof of income, your identification documents, your offer to purchase and a copy of the real estate listing.

At this time your down payment, which was verified in the pre-approval process, will determine what type of mortgage you will have, whether it's a high ratio (less than 20% down payment) or conventional mortgage (20% + down payment). The larger the down payment, the smaller your mortgage amount will be and the less interest you will pay over the mortgage term. In addition, the size of your down payment will also determine if you will be required to purchase mortgage insurance from CMHC or Genworth. If you don't want to purchase mortgage insurance you will be required to have a down payment of at least 20% of the purchase price, thereby holding a conventional mortgage.



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## About

Homeguard Funding Ltd. (Verico) is one of Ontario's oldest and most respected mortgage brokerages they have been in business since 1983, and have served over 69,000 clients in that time.

Homeguard is proud of the professional relationships that have been developed with all of our lender partners, due in no small part to the fact that day in and day out, we operate our business with honesty and integrity.

Trying to make sense of all the ins and outs of your mortgage can be quite confusing; especially considering it is one of the biggest investments you'll make. A mortgage brokerage is not your alternative to a bank; it should be your first choice. Many people turn to their banks for solid advice without knowing the services a good mortgage broker provides.

With access to an extensive network of lenders in Canada, we are able to arrange your mortgage with an unbiased view, ensuring your mortgage best fits your specific needs.

Whether you are purchasing a home, transferring your mortgage, refinancing to consolidate, or simply want to review your financial situation, we can find the perfect solution for you. Providing you with personal and customized service to ensure you enjoy a smooth and efficient mortgage process. Call Homeguard today to speak with one of our agents or visit our website for more information!



**Let Your First  
Mortgage Broker  
Be Your Last!**