DIANA OACHIS

REAL ESTATE GROUP

HOME **BUYER** GUIDE

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A HOME PURCHASE CAN BE A DAUNTING, COMPLICATED PROCESS, ESPECIALLY IF YOU ARE A FIRST-TIME HOME BUYER.

Not to worry however, this guide will walk you through the home buying process in extensive detail and answer any questions that you may have. By the time you're done going through this guide, you will be a seasoned home buyer, and you will have all the tools you need to prepare for the process.

SO, LET'S BEGIN!

The Steps

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BUILDING A FOUNDATION

STEP 1: Find a Realtor

- Enlist the help of a qualified realtor to find your dream home.
- Your realtor should meet the following qualifications:
    - Exemplary knowledge of the market.
    - Positive reviews from previous clients.
    - Financial acumen – they need to be able to walk you through the numbers.
    - Excellent communication skills – they need to communicate with you in a way that you can understand and be comfortable with, and do so throughout every step of the process so you have as much information as possible to make the best decision possible.
    - Great time management – they need to be prompt, always prepared, and reactive to swift market movements. In real estate, timing is everything!

Enlisting the help of a realtor to find your dream home is of no cost to you. Realtors on both the buying and selling side are typically compensated by the seller. A percentage from the sale price of the home is paid by the seller - typically between 2% and 2.5% - to each realtor.

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* If you are not financing your home purchase and plan to pay for it in full, skip this step and go straight to "Finding Your New Home".

STEP 2: Be Financially Prepared

- The most crucial step in the home buying process is being financially prepared. This entails:
  - Maintaining excellent credit, it is a requisite for mortgage loan approval.
  - Paying off as much debt as possible, this will maximize the value of the mortgage loan you get approved for.
  - Compiling important financial documents including proof of income & tax returns (up to 2 years), as well as 90 day bank statements.

STEP 3: Have your Downpayment Ready

- A downpayment is the minimum amount of money you put down towards a home purchase. The downpayment is deducted from the purchase price of the home, while the mortgage loan covers the remainder of the amount.
- Regulations in Canada stipulate that a **MINIMUM** downpayment amount is required when purchasing a home and that amount varies based on the value of the home. Refer to the table below for more information:

HOME VALUE	MIN. DOWNPAYMENT	EXAMPLE
≤ $500,000	5%	HOME VALUE: $450,000 DOWNPAYMENT: $450K * 5% = **$22,500**
$500,001 ≤ X ≤ $1,500,000	5% OF THE FIRST $500K 10% OF AMOUNT OVER $500K	HOME VALUE: $700,000 DOWNPAYMENT: $500K * 5% = $25,000 $200K * 10% = $20,000 $25,000 + $20,000 = **$45,000**
> $1,500,000	20%	HOME VALUE: $1,600,000 DOWNPAYMENT: $1.6 MILLION * 20% = **$320,000**

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- It is worth noting that if you choose to meet the bare minimum downpayment requirements as set out above (downpayment less than 20%), your mortgage will be considered a high ratio mortgage (more than 80% of the home value). Regulations stipulate that high ratio mortgages:
    - Must be backed by mortgage default insurance that protects the lender should the borrower default on the mortgage payments.
    - The cost of the insurance is the responsibility of the borrower
    - Mortgage default insurance is administered by 3 providers in Canada:
        - Canada Mortgage & Housing Corporation (CMHC) – Backed by the Canadian Government
        - Sagen (Formerly Genworth Canada) – Private Insurer
        - Canada Guaranty – Private Insurer
    - Mortgage default insurance ranges from 2.8%-4% of the mortgage amount. (For exact amounts click the following link to access the mortgage default insurance calculator: **https://www.ratehub.ca/cmhc-mortgage-insurance**)
    - The mortgage default insurance amount is rolled into the mortgage and is paid as part of the monthly mortgage payments.
    - The sales tax (PST) applicable to the value of the insurance cannot be rolled into the mortgage and must be paid upfront on closing.
    - While standard mortgages (80% or less of the home value) can be amortized up to a maximum of 30 years, high ratio mortgages (more than 80% of the home value) can only be amortized up to a maximum of 25 years to reduce risk. EXCEPTION; first-time homebuyers and buyers of newly constructed homes are eligible to amortize their high-ratio mortgages over 30 years.

HERE'S A QUICK EXAMPLE:

HOME PURCHASE VALUE: $800,000

- Min. downpayment required: ($500K * 5%) + ($300K * 10%) = $55,000
- Min. downpayment required to avoid mortgage default insurance: $800K * 20% = $160,000
- Any downpayment amount less than $160,000 will trigger the need for mortgage default insurance.
- You decide to put down $100,000 (12.5%) as a downpayment.
- Principal mortgage amount: $800,000 - $100,000 = $700,000
- Mortgage default insurance (use calculator above): $21,700
- Total mortgage amount: $700,000 + $21,700 = $721,700
- Total sales tax (PST) payable on closing (applicable to mortgage default insurance only): $21,700 * 8% = $1,736

If you and your spouse or common law partner do not own a home in the year of purchase, and have not owned a home during the 4 years prior to that, you may qualify for the Home Buyer Plan (HBP). For more details on this benefit, go to "Tax Benefits & Incentives for First Time Home Buyers".

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STEP 4: Get Pre-Approved for a Mortgage

- Once you've determined that you have the funds needed for the downpayment, it's time to get pre-approved for a mortgage!
- Mortgages are offered by a variety of lenders including banks, credit unions, insurance companies, trust companies, loan companies and credit companies. Different lenders will offer different mortgages with varying interest rates and conditions.
- You do have the option of working with a mortgage broker who facilitates the transaction with the lender. Mortgage brokers have access to a variety of lenders and can shop around for best rates available for you. Note that mortgage brokers do not charge for their services, they are compensated by the lender directly.
- In order to qualify for a mortgage, you will go through a pre-approval process with the lender. The lender will assess your finances during the process to determine the maximum amount of money they're willing to lend you, and the interest rate they will charge you for it. The lender will look at your assets, income, debts, credit history, and the downpayment amount you're offering.

  Once you've been pre-approved, you'll be able to:

  - Determine the maximum mortgage amount you qualify for
  - Lock-in an interest rate for 60-120 days

- When qualifying for a mortgage and comparing what is being offered by different lenders, make sure you are aware of the terms and conditions of each. these include:
  - Interest rate
  - Mortgage term
  - Amortization period
  - Applicable fees
  - Payment options
  - Pre-payment options
  - Life/illness/disability insurance
  - Penalties
  - Options to pay off mortgage before end of term
  - Transferring mortgage to a new property

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Choosing a mortgage that is right for you will depend on the following:

- **Open vs. closed mortgage:** An open mortgage allows you to do the following without paying a penalty: put extra money towards your mortgage above and beyond regular mortgage payments, pay off mortgage completely before end of term, renegotiate your mortgage before end of term, or refinance your mortgage with a different lender before end of term. A closed mortgage does not allow you to do any of the aforementioned without paying a penalty. Since open mortgages offer more flexibility than closed mortgages, typically the interest rate associated with an open mortgage is higher.

- **Amortization period:** It is the length of time it takes to pay off your mortgage in full. The longer the period, the lower the payments will be, but the more you pay in interest overall. The maximum allowable amortization period for high ratio mortgages is 25 years while the maximum allowable period for a standard mortgage is 30 years.

- **Mortgage term:** This is the length of time your mortgage contract is in effect. It can range from a few months, to 5 years or longer. At the end of each term, you can renew your mortgage for another term, this will give you the opportunity to renegotiate the terms and conditions should you wish to do so.

- **Fixed vs. variable interest rates:** A fixed rate will stay the same for the entire term of the mortgage. A variable rate is based on the Bank of Canada's prime rate; therefore, it may increase or decrease during the term of the mortgage in accordance with fluctuations in the prime rate.

If you don't know where to start when it comes to getting pre-approved for a mortgage, don't fret, we work with highly-qualified, seasoned mortgage brokers who can get you pre-approved and well on your way in no time!

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FINDING YOUR NEW HOME

STEP 5: Establish Your Search Parameters

- Once the financials are out of the way (the downpayment funds are ready and available and you've been pre-approved for a set mortgage amount) it's time to establish some search parameters:
  - **Determine the budget range that:**
    - Allows you to be comfortable with the monthly carrying cost of the home. Just because you're approved for a certain amount doesn't mean that you have to spend that amount.
    - Can realistically fulfill the must haves on your homebuying wish list.
  - **Location:** It's important to narrow down your criteria geographically based on multiple factors and what you value most, be it amenities, transportation, parks, school districts etc…
  - **Features:** Put together a list of "must-haves", a list of "nice-to-haves", and a list of "things to avoid"
  - **Timeline:** What is your ideal timeframe? How soon would you like to move in? Is there any urgency to find the perfect home?
- In summary, you should be able to answer 4 main questions before initiating the search for a home (what/where/when/how):
  - What are you looking for?
  - When are you looking to move?
  - Where is it located?
  - How much are you able to spend?

STEP 6: Find a Home

- Keep your "Must Haves" checklist in mind.
- Keep a journal or guide of the different houses you're interested in.
- Take plenty of pictures to look back at.
- Provide your realtor with ANY feedback regarding the properties that you view. Both positive and negative feedback can be very helpful for an agent to find exactly what you want.
- It is important to note that you may not be able to find everything you're looking for in one property; no one property will check all your boxes, but your realtor will work with you to the best of their ability to find you a home that ticks off most of the items on your checklist and still falls within your budget range.

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STEP 7: Make an Offer

- Once you've found your perfect home, it's time to submit an offer! Your agent will draft an offer which will include the following information:
  - **Purchase price**
  - **Deposit amount:**
    - This is the amount that you must pay if your offer to purchase a home is accepted by the seller/s. It is usually 5% of the value of the purchase price.
    - It must be paid within 1 business day of the acceptance of the offer and creates a firm and legally binding agreement of purchase and sale between the buyer/s and seller/s.
    - It is held in trust by the sellers' real estate brokerage and is deducted from the downpayment amount payable on closing.
  - **Closing date:** This is the date the transaction is completed. I.e., it's the date the seller/s receive the funds for the sale of their home, and you receive the keys to your new home.
  - **Irrevocable period:** This is the window of time given to the seller/s to review your offer and either accept, reject, or counter it. You are bound to the offer during this period and it cannot be withdrawn. Irrevocable periods can be as little as 4 hours and as long as 24 hours.
  - **Chattels included:** A chattel is a movable item that can be removed from the property. Any chattels that are included in the sale of the property such as appliances, light fixtures, window covering and other items, must be stated here.
  - **Fixtures excluded:** A fixture is a permanently fixed piece of furniture, which can include built-ins, permanent shelving, etc... Any fixtures that are excluded from the sale of the property must be stated here.
  - **Rental items:** Rental items are items that are usually not owned by the seller, rather they are rented from the utility provider and paid for on a monthly basis. These can include hot water tank, furnace, etc...
  - **Parking & Locker:** If you are purchasing a condominium unit, and the unit comes with a parking and/or locker included, the legal description of each is stated here to ensure that they are included in the agreement of purchase and sale.
  - **Common expenses:** If you are purchasing a condominium unit or a townhouse condominium, they are usually associated with maintenance fees that you pay on a monthly basis to cover the cost of maintaining the amenities and common elements. Maintenance fees payable on a monthly basis must be stated here.
  - **Conditions:** When purchasing a home, you can add specific contingencies which allow you to do your due diligence as a buyer, and only if these contingencies are fulfilled or waived within a certain time period will the agreement of purchase and sale become firm and binding. If the contingencies are not fulfilled or waived during the conditional time period, the agreement of purchase and sale becomes null and void, and your deposit is returned to you as the buyer in full without any penalties.

  Conditions include:
    - **Financing:** This is a condition that allows you to arrange for financing and get final approval usually within a 5-business day period. This condition is a safety net in case the lender does not approve financing based on the property that you have chosen or its appraisal value.
    - **Inspection:** This is a condition that allows you to conduct a full inspection of the home by employing the services of a certified home inspector. The conditional period is usually within 5-business days. If major issues do come up during inspection, you can choose to offer the seller/s the opportunity to repair said issues before closing, or amend the purchase price originally agreed to reflect the value of the home now that certain issues have been discovered which require attention.
    - **Status certificate:** This condition is specific to condominium units and townhouse condominiums. The amenities and common elements are usually managed and maintained by a condominium corporation, and it is always prudent to ensure that the condominium corporation is in good financial health. This can be done by requesting a status certificate which is a detailed financial report on the health of the condominium corporation. The conditional period to review the status certificate is usually 3 business days from the date it is received, and it is usually reviewed by your real estate lawyer.
- Work with your realtor to establish a strategy to get the most from your offer and have the best chance of it getting accepted. Decide on the terms and conditions of the offer based on the seller's preferences when reviewing the offer, and based on whether there is an offer presentation night.

> We work with highly qualified, seasoned home inspectors and real estate lawyers that can assist in home inspections, and legal reviews of status certificates.

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DUE DILIGENCE

· Your Offer is Accepted!

Ensure that the deposit is paid within 1 business day per the payment instructions provided by your realtor.

STEP 8A: Conditional Offers

- **If your offer is conditional on home inspection:**
  - Work with your realtor to find a reputable home inspector.
  - The inspector will conduct a thorough inspection (mechanical, electrical, plumbing, structural, appliances, etc...) and report any issues uncovered that would allow you to either ask for completion of repairs or adjust the price accordingly.
  - For rural properties and cottages, the inspection may also include the septic system, well water testing, WETT inspection, and underground oil tanks.
- **If your offer is conditional on financing:**
  - Work with your realtor to send all necessary documentation to the lender for final approval.
  - If the lender requires an in-person appraisal, work with your realtor to ensure the appraiser has access to the property.
- **If your offer is conditional on status certificate:**
  - Ensure that your realtor obtains an up-to-date status certificate from the seller.
  - Work with your realtor to have a real estate lawyer review the status certificate to ensure that the condominium corporation is in good financial health and that the subject property is not in arrears for any common expenses.
- Depending on the outcome of each condition, your agent will prepare a Notice of Fulfillment to move ahead with the transaction, an Amendment to The Agreement of Purchase & Sale to adjust the price or request repairs, or a Mutual Release to nullify the Agreement.

STEP 8B: Firm Offers

· Congratulations - You've bought a house!

- Work with your realtor to arrange the next steps and deliverables of the agreement.

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CLOSING

STEP 9: Prepare for Closing

- **Hire a real estate lawyer to execute the transaction on closing. They will:**
  - Conduct a title search to make sure there are no liens or encumbrances on the property.
  - Prepare all the documents, calculate adjustments, and handle the transfer of funds on closing.
  - Legally transfer the title of the property from the seller to you on closing.
- Arrange for homeowner's insurance, forward the insurance binder to your real estate lawyer as soon as possible.
- Meet with your lender to finalize terms of the mortgage and sign any necessary documents.
- Contact utility providers to setup utility service which should commence on the closing date.
- Arrange for movers to move your furniture and personal effects to your new home on closing.
- Setup mail forwarding to the new home address with Canada Post so that it starts on the closing date.

> We work with highly qualified, seasoned real estate lawyers who can look after the closing process.

STEP 10: Closing

- **Lawyer will provide a statement of adjustments which reflects the balance owed on closing. This will include:**
  - **Balance of the downpayment:** this is the downpayment amount that remains outstanding after the 5% deposit is deducted.
  - **Provincial Land Transfer Tax:** This is a provincial tax that the buyer must pay on closing to have the ownership title of the home transferred into their name. (Click the following link to access the land transfer tax calculator: https://www.ratehub.ca/land-transfer-tax-ontario)
  - **Municipal Land Transfer Tax:** If the property you are purchasing is within the boundaries of the City of Toronto, an additional municipal land transfer tax applies equal in amount to the provincial tax.
  - **Legal Fees & Disbursements:** These are usually the lawyer's fees for doing the work and are approx. $2,000.00
  - **Title Insurance:** This an insurance policy that protects you and the lenders against losses related to the property's title or ownership such as liens, fraud, encroachments, easements, etc. It is not mandatory, however, it is recommended and costs approx. $500-$700.
  - **Adjustments:** These are any amounts that may have been prepaid by the seller for the year (e.g. property taxes) that must be pro-rated per the closing date such that the seller is credited back accordingly.
- Meet with the lawyer to sign legal transfer and mortgage charge documents and to deliver the bank draft for the balance owed.
- **Final walkthrough of the home (buyer visit):**
  - This usually takes place the day before closing to inspect the state of the home and ensure that all inclusions in the Agreement of Purchase & Sale have not been removed.
  - Ensure that any repairs that were agreed upon in the transaction were completed. If repairs are difficult to inspect visually, call back your home inspector or a specialist to ensure the repairs were completed correctly.
  - Turn on all lights and appliances to make sure that they still are in good working order.
- Once the funds are disbursed and the title is officially transferred on closing day, the lawyer will reach out to you with instructions on obtaining the keys to your new home!

> If you are a first-time homebuyer, you may qualify for the land transfer tax rebate. For more details on this benefit, go to "Tax Benefits & Incentives for First Time Home Buyers".

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CELEBRATE!

CONGRATULATIONS!
YOU ARE OFFICIALLY A HOMEOWNER!

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TAX BENEFITS & INCENTIVES FOR FIRST-TIME HOME BUYERS

FIRST TIME HOME BUYER'S TAX CREDIT

- First-time home buyers who acquire a qualifying home can claim a non-refundable tax credit of up to $1,500. The value of the HBTC is calculated by multiplying $10,000 by the lowest personal income tax rate (15% in 2022).
- In order to claim this credit, the following must apply:
  - You (or your spouse or common-law partner) acquired a qualifying home.
  - You did not live in another home that you (or your spouse or common-law partner) owned in the year of acquisition or in any of the four preceding years (first-time home buyer).
- Talk to your accountant about claiming this credit when filing your taxes (Line 31270 – Home buyers' amount).

THE HOME BUYERS' PLAN

- The Home Buyers' Plan (HBP) is a program that allows you to withdraw funds from your registered retirement savings plan (RRSP) - without tax implications - to buy or build a qualifying home for yourself or for a related person with a disability.
- The maximum amount that can be withdrawn is $60,000
- In order to qualify you must meet the following criteria:
  - You are considered a first-time homebuyer and would qualify for The HBP as long as you and your spouse or common law partner do not own a home in the year of purchase, and have not owned a home during the 4 years prior to that.
  - You are a resident of Canada at the time of withdrawal, and you have an agreement to build or buy a qualifying home for yourself or a related person with disability.
  - You intend to occupy the qualifying home as your principal place of residence within one year after buying or building it.
- Talk to your financial advisor for clear instructions on withdrawing the funds from your RRSP (Form T1036, Home Buyers' Plan (HBP) Request to Withdraw Funds from an RRSP)
- You must repay the funds back into your RRSP. You have up to 15 years to repay the withdrawn amount, and your repayment period starts on the 1-year anniversary of the withdrawal date.
- Talk to your financial advisor about designating RRSP contributions as repayment of the HBP funds withdrawn (fill out "Schedule 7, RRSP, PRPP, and SPP Unused Contributions, Transfers, and HBP or LLP Activities" and enter the amount of the repayment on line 24600 and attach it to your Income Tax and Benefit Return).

FIRST HOME SAVINGS ACCOUNT

- The First-Time Home Savings Account (FHSA) is a tax-free savings account that allows you as a prospective first-time homebuyer to save up for the downpayment on your first home tax-free.
- In order to qualify you must meet the following criteria:
  - You are considered a first-time homebuyer and would qualify for The FHSA as long as you and your spouse or common law partner do not own a home in the year of purchase, and have not owned a home during the 4 years prior to that.
  - You are a resident of Canada.
  - You are at least 18 years and not more than 71 years of age.
- Your FHSA participation room for the year is the maximum amount that you can contribute to your FHSA and is denoted on your tax Notice of Assessment every year.
- The lifetime FHSA limit is $40,000
- Contributions that you make to your first home savings accounts (FHSAs) are generally deductible on your income tax and benefit return.
- If you meet the qualifying withdrawal conditions, you can withdraw all of the funds from your FHSAs tax-free. You can do this either in a single withdrawal or a series of withdrawals.

LAND TRANSFER TAX REBATE

- First time homebuyers may be eligible for a rebate on all or part of the land transfer tax payable.
- The rebate is instant and is deducted from the total land transfer tax amount owing on closing. The maximum rebate amount is $4,000 on the provincial land transfer tax, and an additional $4,000 on the municipal land transfer tax if the home purchased is located in the city of Toronto.
- The rebate will be reduced if one (or more) of the purchasers is not a first time homebuyer. The rebate amount will be proportionate to the interest acquired by the individuals who qualify for the rebate.
- In order to qualify you must meet the following criteria:
  - You must be at least 18 years of age, & a Canadian citizen or permanent resident at the time of purchase.
  - You must occupy the home the home as your principal residence within 9 months of the closing date
  - You cannot have ever owned an eligible home, or an interest in an eligible home, anywhere in the world, at any time.
  - If you have a spouse, the spouse cannot have owned an eligible home, or had any ownership interest in an eligible home, anywhere in the world, while they were your spouse. If this is the case, no refund is available to either spouse.
- Inform your lawyer at the time of closing if you are a first-time homebuyer so they can apply the rebate accordingly.

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HAVE ANY QUESTIONS?

LETS CHAT!

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