

GUIDE TO BUYING A HOME



Understanding the market in which you're buying will help you make important decisions about your reasons and strategy, timing, net financial requirements and alternatives.

Understanding Market Conditions

MARKET CONDITIONS	CHARACTERISTICS	IMPLICATIONS
BUYER'S MARKET: The number of homes on the market is greater than the number of potential buyers.	High inventory of homes on the market, fewer buyers compared to availability; Homes on the market longer; House prices tend to drop in this type of market.	More time to look for a home; Buyer has more negotiating leverage;
SELLER'S MARKET: The number of buyer's exceed the number of homes available on the market.	Smaller inventory of homes; Many buyers; Homes sell quickly; House prices tend to increase.	May have to pay more; Homes on market might incur multiple offers; Buyer's have to make decisions quickly; Conditional offers may be rejected.
BALANCED MARKET: The number of homes on the market equal to demand or number of buyers.	Demand equals supply; Homes sell within an acceptable time period, if priced competitively; Prices generally stable.	More relaxed atmosphere; Buyers have a reasonable number of homes to choose from.

- > Understanding Market Conditions
- > Determining your Financial Situation
- > Determine What You Can Afford
- > Your Maximum House Price
- > Your Down Payment
- > Obtaining Pre-Approved Mortgage
- > Finalizing the Mortgage
- > Up Front Costs
- > The Offer



West Realty Inc., Brokerage

Each Office Independently Owned and Operated

1678 Bloor Street West, 4th Floor
 Toronto, Ontario M6P 1A9
 Office: 416-769-1616
 Fax: 416-769-1524
 Website: www.remaxwest.com



Determining Your Financial Situation

Buying a home is one of the biggest financial and lifestyle changes you will ever make, so it pays to make an informed decision.

First you need to know if you are financially ready—you need to determine your current financial situation, how much house you can afford and the maximum home price that you should be considering. Once you understand these variables, you can make the best choice for you.

Knowing your net worth is important because you will need this information when you discuss a mortgage with your lending institution. It will also give you an idea as to what you can afford to put as a **down payment**.

NET WORTH: Your financial worth, calculated by subtracting your total liabilities from your total assets.

ASSETS

Value of property you own	<input type="text"/>
Value of vehicles you own	<input type="text"/>
Amount in savings/chequing accounts	<input type="text"/>
Savings certificates, bonds, etc.	<input type="text"/>
Amount in other bank accounts	<input type="text"/>
RRSP funds	<input type="text"/>
Investments, stocks, mutual funds	<input type="text"/>
Other Assets	<input type="text"/>
Total Assets	<input type="text"/>

LIABILITIES

Any loans on property you own	<input type="text"/>
Car loans	<input type="text"/>
Personal loans or lines of credit	<input type="text"/>
Credit cards	<input type="text"/>
Other loans	<input type="text"/>
Total Liabilities	<input type="text"/>

NET WORTH (Total Assets minus Total Liabilities)

What You Can Afford

Now that you have a clear picture of your current financial situation, it's time to find out what you can afford in monthly housing costs. Lenders follow two simple affordability rules to determine how much you can pay.

First affordability rule: Gross Debit Service (GDS)

Your monthly housing costs shouldn't be more than 32% of your gross household monthly income. Housing costs include monthly mortgage principal and interest, taxes and heating expenses — known as **P.I.T.H.** If applicable, this sum also includes half of monthly condominium fees.

Lenders add up these housing costs to determine what percentage they are of your gross monthly income. This figure is known as your Gross Debt Service (GDS) ratio. Remember, it must be 32% or less.

Second affordability rule: Total Debt Service (TDS)

Your entire monthly debt load shouldn't be more than 40% of your gross monthly income. This includes housing costs and other debts, such as car loans and credit card payments. Lenders add up these debts to determine what percentage they are of your gross household monthly income.

GDS Calculation

Gross monthly salary (before deductions)	<input type="text"/>
Spouse's gross monthly salary (before deductions)	<input type="text"/>
Other monthly income (investments or other non-employment sources)	<input type="text"/>
(A) TOTAL MONTHLY INCOME (add all amounts)	<input type="text"/>
(B) Multiply total monthly income (A) x 0.32 = GDS	<input type="text"/>

TDS Calculation

(C) Multiply total monthly income (A) x 0.40 = TDS	<input type="text"/>
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Add up your monthly payments for loans, credit cards, and other debts . . .

Monthly auto payments	<input type="text"/>
Monthly credit card payments	<input type="text"/>
Monthly line of credit or personal loan payments	<input type="text"/>
Other monthly payments	<input type="text"/>
(D) TOTAL MONTHLY PAYMENTS (add all amounts)	<input type="text"/>
(E) MONTHLY INCOME LEFT FOR HOUSING (Subtract amount (D) from Amount (C)).	<input style="border: 2px solid red;" type="text"/>

Your Maximum Home Price

The maximum home price that you can afford depends on a number of factors but the most important are:

1. Your gross household income;
2. Your down payment;
3. Mortgage interest rate.

Your Down Payment

For most people the hardest part of buying a home, especially the first one, is saving the necessary down payment.

Conventional Mortgage: requires 20-25% of the purchase price as down payment. (Depending on the Lender)

Insured Mortgage: require as little as your deposit and the closing costs for the mortgage as down payment and must come from your own resources. This mortgage requires *mortgage loan insurance* that the borrower is required to pay either is a single lump sum or it can be added to your mortgage and included in your monthly payments. This is to protect the lender should the borrower default (fails to pay) on the mortgage, and the lender is paid back by the insurer. CMHC is a major provider of this type of insurance in



Obtain a Pre-Approved Mortgage

Obtaining a pre-approved mortgage will give you the confidence of knowing exactly what you can afford to spend on a home before you start looking.

This means that the lender will look at your finances to establish the amount of mortgage you can afford. At that time, the lender will give you a written confirmation or certificate for a fixed interest rate good for a specific period of time.

Finalizing The Mortgage

Once you've found the home you want to purchase, the following documents will be required by your lender to finalize your mortgage: a copy of the Agreement of Purchase and Sale, a copy of the real estate listing for the property, if the home is still to be built-you may need a copy of the builder's plans, and a copy of the survey. Also documents pertaining to your employment, income, source of down payment, etc. if not already provided when pre-approved or it not pre-approved.

The Mortgage

Mortgage: A mortgage is a security for a loan on the property you own. It is repaid in regular mortgage payments, which are usually blended payments. This means that the payment includes the principal (amount borrowed) plus the interest (the charge for borrowing money). The payment may also include a portion of the property taxes.

Principal: The amount that you borrow for a loan. Each monthly mortgage payment consists of a portion of the principal that must be repaid plus the interest that the lender is charging you on the outstanding loan balance. During the early years of your mortgage, the interest portion is usually larger than the principal portion.

Interest: The cost of borrowing money. Interest is usually paid to the lender in regular payments along with the repayment of the principal (loan amount).

Amortization: The period of time, often a maximum of 25 years, required to reduce the mortgage debt to zero when all regular blended payments are made on time and provided the terms (payment and interest rate) remain the same.

Mortgage Payment: A regularly scheduled payment that is often blended to include both principal and interest.

Up-Front Costs

There are a number of costs associated with buying a home. You need to be aware of these costs and plan ahead.

EXPENSES	DUE	COST
Mortgage Application (If Applicable)	Upon Application	
Mortgage Loan Insurance Premium (If Applicable)	On Closing Or Added To Your Mortgage	
Appraisal Fee (If Applicable)	Upon Application	
Deposit	Accompany Offer Or Upon Acceptance Of The Offer	
Down Payment	On Closing	
Estoppel Certificate (If Applicable)	At Time Certificate Is Requested	
Home Inspection Fee (If Applicable)	Upon Inspection	
Land Registration Fees (Also known as Land Transfer Tax)	On Closing	
Prepaid Property Taxes and/or Utility Bills	On Closing	
Property Insurance	On Closing	
Survey or Certificate of Location	Mortgage Lender May Request with Mortgage Application	
Legal Fees and Disbursements	On Closing	
Title Insurance (Optional)	On Closing	

Other expenses associated with buying a home include: moving costs, service hook-ups (telephone, cable, etc.), purchasing appliances, maintenance equipment, furniture, window treatments, cost of renovations and repairs, etc.



The Offer

Prior to preparing the Offer, unless your sales representative has already explained “The Agency Relationship” and had you sign the necessary forms pertaining to the relationship between both you and the sales representative, it is necessary to do so.

Prior to your sales representative preparing an offer for you, if you have not already done so when you first enlisted his/her services, the following forms need to be filled in and signed with respect to Agency Relationship: Buyer Representation Agreement or Buyer Customer Service Agreement and the Working with a Realtor Brochure. It is important that you understand who the Realtor is working for.

Your Re/Max West Sales Representative will prepare the offer for you and will walk you through the language of the offer, step-by-step, to ensure the details of the property are listed accurately, your conditions and terms are accurate and that you understand the offer completely. Once all the necessary documents are signed and witnessed, your sales representative will register your offer with the Listing Brokerage.

All offers are to be submitted on a subscribed and current “Agreement of Purchase and Sale” form created by the local real estate board. This pre-printed form has a series of blanks for the Brokerage’s use in detailing the specifics of the property and the conditions and terms on which you are basing your offer to purchase the property.

An appointment is made with the Listing Sales Representative to present your offer, unless the seller is accepting offers by fax only (then the offer is faxed to the Listing Brokerage’s office). Your sales representative will act as an intermediary between the seller and you.

Your offer contains a time limit, and if the Seller fails to respond within the specified time frame, the offer expires.

With any offer, the seller has three choices: accept it, reject it or sign it back to you the buyer (called a counter-offer). Your sales representative will inform you of the outcome.

If the seller accepts and signs your offer, you have formed a legally binding contract to purchase the home, subject to any conditions contained in the offer. The deposit, if not provided with the offer is required to be given to the Listing Brokerage within 24 hours the offer being accepted. All parties and their lawyers receive copies.

If the seller signs back the offer with proposed changes to your price and/or terms through a counter-offer, you then have the option of accepting their terms, rejecting them or submitting yet another counter-offer. This process of exchanging counter-offers continues until both parties agree completely, or until one of you ends the negotiation.

MAJOR ELEMENTS OF AN OFFER:

1. **PRICE**—depends on the market and what a buyer is willing to pay, generally the price offered is different from the asking price.
2. **DEPOSIT**—often in the 5% - 10% range, and shows good faith on behalf the buyer. This deposit is held in trust usually by the Listing Brokerage .
3. **TERMS**—terms and conditions include price, deposit, conditions on arranging financing for the property, conducting an inspection, etc.
4. **INCLUSIONS & EXCLUSIONS**—include appliances, fixtures, window coverings, etc.—those of interest to the buyer and that which you included/excluded on the listing agreement.
5. **COMPLETION DATE**—the day the title of the property is transferred to the buyer and the buyer takes possession of the property, and the funds are received by the seller.

