Making the Mortgage Decision

Renting vs. Home Ownership

This is a decision which many people face, and the decision is not as easy to make as it may sound.

As a homeowner, you can reasonably expect the equity in your home to increase over time as your mortgage is paid down. That, combined with regular appreciation in property values, can be a rapid and rewarding way to increase your net worth. In contrast, the person renting over the same amount of time is left with no property investment but may have enjoyed lower living expenses and the opportunity to invest in other opportunities. When comparing owning to renting, you have to add up all of the figures, including the cost of your home, the size of your down payment, utilities, immediate repairs, interest rates and insurance, and compare them with how much you are currently spending on rent.

Of course, you also have to place a value on the enjoyment and satisfaction that you will derive from owning your own home.

The Home-Buying Decision

There are pros and cons to home ownership, and when you weigh them carefully you'll likely come to your own conclusion about whether home ownership is right for you. Start by asking yourself these basic questions.

What can I afford?

Home ownership should fit into your lifestyle, but it should not become your lifestyle. Many first-time buyers take on more debt than they can manage and quickly find themselves "house-poor" - meaning they have nothing left over at the end of the month.

Know What You Can Afford.

Shop With Confidence.

Choosing a home that you can afford will allow you to enjoy the rewards of home ownership with comfort and peace of mind. Follow these three steps:

- Determine your debt load
- Use your debt load to determine your price range
- Establish a realistic budget for other expenses

Determine your debt load

To determine what you can afford, use these two simple calculations:

Gross Debt Service ratio (GDS)
The GDS looks at your proposed new housing costs (mortgage payments, taxes, heating costs, and 50% of condominium fees, if applicable). Generally speaking, this amount should be no more than 32% of your gross monthly income. For example, if your gross monthly income is $4,000, you should not be spending more than $1,280 in monthly housing expenses.

Total Debt Service ratio (TDS)
The TDS ratio measures your total debt obligations (including housing costs, loans, car payments, and credit card bills). Generally speaking, your TDS ratio should be no more than 40% of your gross monthly income.

Keep in mind that these numbers are prescribed maximums and that you should strive for lower ratios for a more affordable lifestyle.

Before falling in love with a potential new home, you may want to obtain a pre-approved mortgage. This will help you stay within your price range and spend your time looking at homes you can reasonably afford. The pre-approval meeting is the time to find out about different mortgage products that are available to suit your particular needs. First-time buyers may want to ask about special programs such as the CMHC 5% down payment option and the federal government's "RSP Home Buyers' Plan".

A pre-approval meeting can also be treated as a fact-finding mission to go over closing costs. For example: land transfer tax, legal fees and other disbursements. A good rule of thumb is to budget about 2% of the purchase price for closing costs. People who buy new homes from builders pay 7% GST, which is often included in the purchase price.

Once the mortgage is pre-approved, we commit to the interest rate for 90 days.[1] You can shop with confidence, knowing how much you can spend for the home of your choice. And there's no obligation. If you don't find a home you like in the first 90 days, you can renew your pre-approval at the interest rate in effect at that time.

Figure out a purchase price you can handle

How much house is affordable?

Ideally, new home buyers should create a budget and calculate their debt service ratios. However, here is a rule of thumb that some choose to follow:

It works like this: Start with the household's gross annual income (salaries, wages, and taxable income before taxes). Multiply by 2.5. Example: people with an annual household income of $60,000 can reasonably afford a $150,000 home.

Home Price Guide

On a family income of:	Can afford a house of:	And the 5% down payment would be:
$50,000	$125,000	$6,250
$60,000	$150,000	$7,500
$70,000	$175,000	$8,750
$80,000	$200,000	$10,000
$90,000	$225,000	$11,250
$100,000	$250,000	$12,500

Leave yourself money for other expenses

Home buyers be prepared: Some people are surprised when they discover that the purchase price and mortgage payments are not the only costs associated with owning a home.

A financial buffer should be kept in case of cash emergencies, home repairs or other unexpected events. Monthly take-home pay should also comfortably cover living expenses such as food, clothing, insurance, gas, car repairs, entertainment, vacations and other debts.

Everything seems to cost more than expected, from paint, wallpaper and curtains to general upkeep and property taxes. Ask a real estate agent (or your Mortgage Specialist) to help you estimate some of these additional costs for houses in your preferred area.

Finding the right home

Owning a home is more than just a financial commitment. When it's your home, you're responsible for all of the upkeep and maintenance, so it's wise to choose one that matches your lifestyle.

Houses versus condominiums

	Houses	**Condominiums**
Pros	• You have more freedom to renovate or upgrade your home as you wish • You only pay for the amenities and utilities that you use, instead of a lump-sum condominium fee that	• One monthly fee usually covers all of your maintenance costs, and you're free from yard work and other outdoor chores • Steady, predictable expenses make it easier for you to budget for your costs

	may include services or features you do not want or need	
Cons	• Houses require a lot of work, and you are solely responsible for all of the upkeep, repairs and maintenance • Expenses may vary by month, making it more difficult to budget for your costs	• As a condominium owner, you are subject to the rules of your condominium. Plus, you have little control over the amount of your monthly condo fees, which are in addition to your mortgage payments • Condo fees are subject to change and you may have no choice but to accept increases as they occur

New home from a builder versus resale home

	New home from builder	Resale home
Pros	• You may have more flexibility when it comes to upgrading the features in your new home, such as finishing materials, flooring, plumbing and electrical fixtures • In most provinces, a builder warranty is usually available and covers major household systems like plumbing and heating • New homes are built to meet modern comfort and safety codes, using the latest building materials and technologies - the result is often greater cost- and energy-efficiency	• You are most likely moving into an established neighbourhood, so you can see which amenities and services are already available • Your property may already have landscaping, fencing and mature trees • It may already have some upgraded features, such as a finished basement
Cons	• Homes in a newly developed area may not be completed on schedule and may not have immediate access to amenities such as schools or shopping centres - these are generally built after the residential	• An older home could mean higher maintenance costs in the short term, especially on major systems such as heating, electrical and plumbing • Resale homes come as they are, and you may

	population is complete • Noise and dust from ongoing construction may affect the comfort of your new home until the development is complete • Brand new homes seldom come with landscaping or fencing, which can both be substantial expenses for any homeowner	have the added expense of changing wall colours, flooring or other interior design elements that don't suit your taste

Community checklist

Your home is the place where you're going to live for a long time, so make sure that the neighbourhood you choose provides the right combination of services and amenities to meet your long-term needs. Here are some of the lifestyle and financial considerations you'll want to think about -

· Proximity to schools and public transportation
· Real estate taxes
· Recreational facilities
· Distance of commute to and from work
· Traffic flow and availability of parking
· Planning and zoning laws that may limit your long-term plans (for example, building an addition)