Soon at HomE

Property access made simple

3 Basic Questions

to help decide if you're ready to be a homeowner

Sutton

Here you are, at the start of your working life, and like some of your friends, you’re wondering what it would be like to become a homeowner.

When you think about it a little more, you realize that some of your friends already have taken the plunge and bought their first home. Some may have bought condos, others may have bought single-family homes where they plan to raise their kids, and still others may have bought duplexes or triplexes, where they will live in one unit and rent out the others to help pay the mortgage.

As you think about all this, the same question keeps popping into your mind:

Could I become a homeowner too?

Here are three questions to think about to help decide whether you’re ready to become a homeowner:

1. Do I have what it takes psychologically to buy a home?

2. Do I have what it takes financially to buy a home?

3. Am I like other people who made their first home purchase in the past year?

Question 1: Do I have what it takes psychologically to buy a home?

Another way to put this question would be, aside from the financial challenge of raising the down payment, how do you feel when you imagine yourself taking the steps to buy your first home? What emotions surface?

You need to take the time to think it through, but why not start the thinking process now?

To find out more about the emotions that people experience when thinking about buying a home, Sutton interviewed a number of people who, like you, are not homeowners yet. Here is a summary of their answers to the questions above.

About half of the people whom we interviewed said that thinking about the commitment that buying a house represents made them uncomfortable. When we questioned them further, it became clear that they were afraid about two main things: that the extra costs often involved in owning a home would limit their freedom, and that they might have trouble reselling their home if they lost their job, or were transferred to another city, or simply wanted to take a year off to travel.

In fact, besides the financial challenge of raising the down payment, the fear of losing one's freedom is the only downside, because everyone, without exception, regards buying their first home as a very exciting, rewarding event—a dream come true.

We also asked our interviewees the following question: "Imagine that you have just bought your first home and are now a homeowner. What feelings are you experiencing?"

All of the interviewees identified powerful, positive feelings, such as pride, achievement, self-actualization, and a sense of control over their lives. Not one of them mentioned fears of being trapped as they had in response to the first question!

In a nutshell, being a homeowner not only lets you build up your assets over the years, but is also an outstanding, rewarding experience in itself. Food for thought!

Chinese proverb: "Don't let fear decide for you."

Question 2: Do I have what it takes financially to buy a home?

This is the second question you need to think about. To answer it, you will need to calculate three amounts that your financial institution will be considering, and then look at how you would fit the costs of homeowning into your household budget.

3 amounts that your financial institution will consider

Cash required (down payment + other costs)

When you take out a mortgage with a financial institution, you are borrowing a specific amount of money from that institution to buy a home. But the institution will also require you to invest an amount from your own resources, known as the down payment. This amount may come from your savings account, or your RRSP, or from GICs or other investments that you hold outside of an RRSP. Under some conditions, financial institutions will also let you count toward your down payment cash gifts that you expect to receive from friends or family. But you cannot count other borrowed funds, or amounts that the institution may rebate to you under "cash back" programs, as part of your down payment.

The required down payment on a home can range from 5% to 20% of its purchase price. Some financial institutions will consider your application for a mortgage even if you can provide a down payment of only 5%, which means you will need a mortgage equal to cover 95% of that price. But when you need a mortgage greater than 80% of the purchase price, banking regulations require you to purchase mortgage default insurance through the Canada Mortgage and Housing Corporation (CMHC) or a private insurer such as Genworth Canada.

The premiums for this insurance vary, depending on the down payment, and represent 0.6% to 3.85% of the monthly mortgage payment. The financial institution will usually combine the premium and mortgage payments into a single, blended payment that you make each month.

In addition to the minimum 5% down payment required to buy your first home, you will need money to cover the various costs associated with the purchase, such as:

- ❑ Inspection fees
- ❑ Notary fees
- ❑ Land transfer tax.

These costs will vary, but you can estimate them at 2.5% of the price of the home. So, for example, if you want to buy a $200,000 home, and your financial institution approves a down payment of only 5%, you will need $10,000 for the down payment plus $5,000 for the associated costs, for a total of $15,000 in cash.

3 amounts that your financial institution will consider
Gross Debt Service (GDS)

Your gross debt service (GDS) is your total monthly housing cost, expressed as a percentage of your gross monthly household income.

Your total monthly housing cost consists of your monthly mortgage payment (principal, interest, and mortgage-default insurance premiums, if any), plus municipal and school taxes, heating costs, and 50% of any condo fees, all on a monthly basis.

The formula is thus:

GDS = (mortgage payment + municipal and school taxes + heat + 50% of condo fees) * 100 / gross monthly household income

According to the CMHC, your GDS should not exceed 32%. For example, if your gross monthly income is $5,000, your monthly gross debt service should not exceed $1,600 (32% of $5,000).

3 amounts that your financial institution will consider
Total Debt Service (TDS)

Your total debt service equals the total of your monthly housing cost and all of your other monthly obligations, again expressed as a percentage of your gross monthly household income

According to the CMHC, your TDS should not exceed 40%.

For example, if your gross monthly income is $5,000, your TDS should not exceed $2,000 (40% of $5,000).

Now that we've looked at the amounts that your financial institution will consider, let's look at the costs of home-owning from the standpoint of your own household budget.

Calculate your GDS and TDS online [here]

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Costs of home-owning as part of your household budget

Suppose that you can come up with the down payment that the financial institution requires and that it finds your calculated gross and total debt ratios acceptable, so it is ready to approve your mortgage.

The last essential step before you decide whether to buy a home is to consider whether you can actually afford all the monthly expenses that it will involve. If you become a homeowner, your housing-related expenses will probably be higher than they are now. You could very likely need to spend $300 to $500 more per month, even though your household income and your other expenses will not have changed.

You really need to ask yourself two questions:

1. From what parts of my current budget can I take the money to pay these additional housing costs?

2. Am I willing to rework my current budget to generate the extra funds that I need to be a homeowner?

If the answers to both questions are positive and you qualify for a mortgage, then you really are in a good position to become a homeowner.

But sometimes the financial institution may decide that your numbers don't add up—the problem may be with your down payment, or it may be with your GDS or TDS. If so, don't give up, and do stay motivated. There is certainly a solution for you !

Sutton’s 1800 brokers recommend

Soon at Home™

This program, exclusive to Sutton - Québec, is designed specifically for first-time buyers and can help you get ready to purchase your home within the next 24 months.

Your path to owning a home

First, working with your Sutton broker, you decide what kind of home you want, the ideal location, and all the other criteria that will make sure you find a home that you fall in love with before you buy it.

Once you find that home, your Sutton broker will refer you to one of the mortgage specialists participating in the Soon at Home™ program. Working with that specialist, you will develop a game plan that will enable you to become a homeowner within the next 24 months.

Finally, when you are ready to make the move, your Sutton broker will help you search for properties, plan visits, negotiate the price, prepare the purchase offer, and much more.

Question 3: Am I like other people who made their first home purchase in the past year ?

The following statistics will help you see how you compare with typical new home buyers.

1. 85% of all Canadians believe it is important to own their home.

2. Out of all Canadians who consider it important to own their home, 63% believe that it makes sense from a financial perspective and is a good way to save for retirement. Among members of Generation Y, 59% think that owning their home will give them a sense of personal freedom.

3. Only 10% of them do not want to own their home some day. The majority of those who are planning to move in the next two years are hoping to move into a home that they have purchased.

4. 73% of new buyers (people who made their first home purchase in the past year) had rented an apartment before buying their first home.

5. 58% of new buyers did not have children before buying a home.

6. 35% of new buyers made this investment alone.

7. 94% of new buyers said that price was important when considering their first home purchase.

8. Many new buyers also said that they had considered closeness to services, work and schools when deciding to buy their home.

9. The majority of new buyers (58%) chose a condo as their first home purchase. They also made an average down payment of 10% of the purchase price.

10. 60% of members of Generation Y want to become homeowners to enjoy a better quality of life.

The statistics presented above come from studies performed by various companies, such as : Genworth Financial Canada, Léger Marketing, APCHQ and CIBC.

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What was the top reason that first-time buyers cited for becoming homeowners?

To stop paying rent.

Other reasons frequently mentioned include changes in personal status, such as getting married or moving out of Mom and Dad’s house, or in financial status, such as having finally saved enough money for a down payment.

You don’t decide to become an owner just because you see an advertisement. The decision takes time, research, and careful consideration. But there are plenty of reasons to take the leap!

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5 Main Reasons Why Buying Is Better Than Renting

We recommend that people buy their home instead of rent it, because when they buy, they will be building an asset. Buying means more responsibilities and can also mean higher monthly payments, but it's definitely worth it.

Here's why:

1. When you buy a home, your principal (the amount you owe) decreases with every mortgage payment you make, while your equity (the amount you own) increases. That's like putting money in the bank without even noticing it—an easy way to save for your retirement or other dreams.

2. The real estate market is always growing. This means that the value of your asset will keep going up. And don't forget: the profit that you'll make when you sell your home is tax-free. We dare you to find a better investment!

3. You can also increase the asset value of your home substantially by doing renovations. Make your renovations wisely, and the value of your home can skyrocket.

4. If you do buy a home, then one day, your mortgage will be paid off. You'll have no more monthly payments to make, and it will be up to you what to do with all that extra money. But if you rent, you will never stop making rent payments. Even worse, they will keep rising every year. You can kiss that money goodbye.

5. When you own your home, you're the master of your domain. No one can take your home away or evict you unexpectedly. You can feel free to build lasting relationships with your neighbours. The future really belongs to you.

Take action and start building your wealth now!

Soon at Home™ guides you through all the steps of purchasing your first home. Our experts ensure you a comfortable, personalized experience. You get peace of mind at absolutely no extra cost!

You're closer to your dream home than you think!

With Soon at Home™, you're in good company!

With Soon at Home™, you get a team of experts who will guide you through every step of buying a home, free of charge, including:

- **Your real-estate broker:** your new best friend, always there to help you find the perfect home
- **Your mortgage representative:** your financing expert who knows everything there is to know about mortgage lending
- **Your home inspector:** who examines and analyzes every last detail of the home you're considering and leaves no stone unturned!
- **A notary:** the expert who authenticates all the documents and protects your legal rights.

Now that you've read this e-book, you know how comforting it is to be well informed. We're so glad that you found us. Now together let's set out on your wonderful journey to home ownership !

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Property access made simple

Visit the Soon at Home™ platform

We hope that you enjoyed this eBook.

If you have lots of questions and concerns, that's totally normal. When the time comes, all of the experts who have decided to take part in Soon at Home™ will be more than happy to answer them.

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