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Owning your own home is an exciting proposition. But before you can know whether homeownership is right for you, it's important to understand what's involved.

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Learn before you leap

The worst mistake you can make as a new homeowner is to buy a house that ends up over-extending you financially. The key is to make sure that you can comfortably afford the mortgage payment and other monthly expenses that come with homeownership.

How much can you afford?

The first thing you need to do is figure out your net worth. Your net worth is the amount left over once you've subtracted your total debts from your total assets. This can work as a guide to show you how much you can afford as a down payment.

Prepare a budget

Next, prepare a budget. Detail all of your current monthly expenses and debt payments. Be as accurate as possible. Add everything up and then subtract this amount from your monthly take home amount. This will then give you a clear idea of how much you can truly afford for a mortgage payment each month.

Monthly mortgage payments

Just like when you rent, as a new homeowner, you will have a monthly payment to make on your mortgage. The size of your mortgage payments will depend on your down payment, the amortization period (25, 30 or 35 years), the term (fixed rate, variable rate) and your payment schedule (bi-weekly, bi-weekly accelerated or monthly).

The down payment

In order to buy a home, the first thing you will need is a down payment. The more money you put down, the less interest you will pay over the life of your mortgage. The minimum mortgage down payment amount that is typically required in Canada is 5%. In order to put less than 20% down, mortgage default insurance is required. Mortgage insurance premiums are paid once, but can be added to the principle of the mortgage.

Before you start looking at homes, visit your lender for a pre-approved mortgage. The lender will look at your finances and determine the amount of mortgage they are willing to give you. The maximum amount you can qualify for depends on a number of factors but the most important are your household income, your down payment and the mortgage interest rate.

Quite often you will qualify for more than you expected. This is where preparing your budget beforehand is so important. Remember, your goal is to not over-extend yourself financially. Let your budget be your guide in determining how much mortgage to take on.

You now know how much you have to spend, but not all of it can go towards the purchase price of your new home. Some of it will have to be used to cover costs associated with buying a home.

Information courtesy of Genworth Canada

ROYAL LEPAGE

Helping you is what we do.™

Upfront costs

- Deposit: up to 5% of the purchase price, made when you make an offer to purchase.
- Down Payment: 20% of the purchase price is required for a conventional mortgage.
- Home Inspection Fee: generally $500.
- Prepaid Property Taxes and or Utility Bills: to reimburse the vendor for prepaid costs such as property taxes, filling the oil tank etc.
- Property Insurance: covers the cost of replacing your home and its contents. Property insurance must be in place on closing day.
- Survey or Certificate of Location Cost: $1,000 to $2,000 range.
- Legal Fees and Disbursements. Must be paid upon closing. Minimum of $500.
- Land Registration Fees: a percentage of the property's purchase price. Check with your lawyer/notary to find out the current rates.
- Property Appraisal Fee: between $250 and $350.
- Moving Expenses.

Other costs

- Appliances
- Service connection fees: Charges for utilities, telephone, gas, electricity, cable TV, satellite TV, Internet etc.
- Renovations or Repairs
- Window treatments
- Decorating materials
- Snow-clearing equipment
- Gardening equipment
- Dehumidifier

Condo costs

If purchasing a condominium, there will be some fees in addition to the ones mentioned above. They are:

- Estoppels – Certificate Fee: up to $100
- Initial payment of the monthly condominium fees

Sources for your down payment

First-time homebuyers have a variety of options for funding their down payment:

- **Accumulated savings**
- **Money gifted from immediate family**
- **Money from your RRSP**

Using your RRSP for your down payment

With the Home Buyers Plan provided by the Canadian government, you can withdraw up to $25,000 from your Registered Retirement Savings Plan (RRSP) and use the money for a down payment. To find out more visit www.servicecanada.gc.ca.