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INSIDER SECRETS FOR BUYING
OR SELLING YOUR PROPERTY

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A CANADIAN GUIDE BY



SARAH
DANIELS



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 **WILEY**

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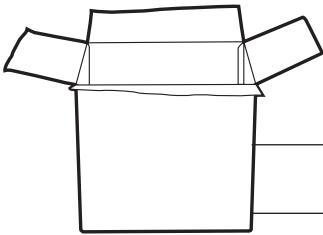
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There are many people to thank for their help and support in writing this book, and though I would love to mention everyone by name, I may forget a few, so suffice it to say that I would like to thank everyone I have ever met. There, I'm off the hook!

A big thanks to all my pals in the real estate community, in particular, my co-workers at Bay Realty, a truly great place to work. I'd also like to acknowledge the gang at Exclusive Mortgage for answering my many questions. I have to mention my realtor/lunch buddies Ron Robinson and Fern Abercromby by name—if only because it will gall both of them so much, it's worth it.

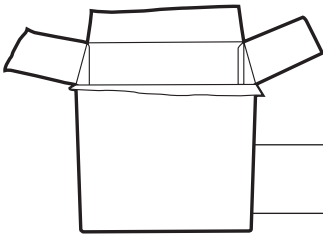
Special thanks to my book agent, Brian Wood, who first approached me with the idea of writing this book. (It's all his fault.)



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INTRODUCTION

So, you're thinking of moving. Congratulations! Just think: a brand new home, a fresh new start—hey, maybe even some new furniture. It's all very exciting, right?

Well, buying a home should be a lot of fun, and selling a home shouldn't be the main cause of your indigestion and crumbling marriage. Unfortunately, that's not always the case. In fact, when you're dealing with what is most likely the largest asset you will ever own, chances are the stress alone will take its toll. So, imagine how much better things might go if you actually had an understanding of the whole process. Sure, every province and territory follows different procedures as far as real estate is concerned: varying closing costs and commission rates for realtors—you name it. But that doesn't mean you can't go



into buying or selling your home (or both) without some helpful tools that can aid you in picking the right realtor, get your financing sorted and get the best deal regardless of whether you're buying or selling.

You don't think you need help? When I bought my first home, I actually bought it privately. The home owners didn't have a realtor to represent them and neither did I. In fact, the owners were family friends. So, you can imagine how that might make for an awkward negotiation. I wasn't a realtor at the time—I was a traffic reporter for a local radio station. Though I had always followed the real estate market, I didn't know the first thing about a real estate contract and the clauses I should include. I didn't order a house inspection, and that cost me at least \$1,000, as it turned out the place needed a whole bunch of re-wiring. (And it was just a 900-square-foot cottage. Can you imagine the cost for a larger home?) The wiring was, in fact, a fire hazard, and my first clue was that the cottage went dark when I plugged in a toaster.

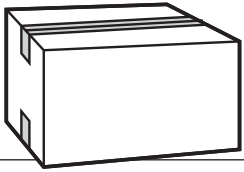
Being on a shoestring budget, that \$1,000 was a real financial strain. So was the surprise I had at closing: nobody had told me about the closing costs in British Columbia; the Property Transfer Tax here is 1% of the first \$200,000 of the purchase price and then 2% of the balance. I found myself paying an extra \$2,400 when I signed all the paperwork, simply because I didn't know about the transfer tax.

Unfortunately, ignorance of costs doesn't get you off the hook, and if you haven't budgeted for those expenses, you might find yourself in a great deal of hot water.

So, have I turned you into a nervous wreck yet? Well, don't be—because once you get the hang of some of the basics of real estate, you'll be good to go. You don't need your real estate license—all you need is the information in this book, and your own common sense. ENJOY!

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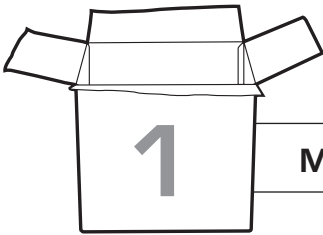
PART

1

GETTING READY

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MORTGAGE FINANCING 101

If you are buying or selling a home, chances are you're going to need a mortgage broker. If you've already been through the process before, consider this chapter a refresher course. But for first-time home buyers, this step is essential. In most cases, when you purchase a home, a portion of it will have to be financed. (For those paying for a home entirely in cash, please feel free to buy a second copy of this book for a friend. You can afford it!) So, exactly how do you go about getting a mortgage, let alone qualifying for one?

MORTGAGE BROKERS

In the last couple of years, there's been an upswing in the prevalence of mortgage brokers in Canada, and as far as



I'm concerned, that's a good thing. Why? Because a mortgage broker does all the hard work and negotiating for you. They shop you to various financial institutions and will help you find the best financing and terms to suit your needs. That's not to say you can't go to your neighbourhood bank and apply for a mortgage, but it has been my personal experience that you may not get the best rate. That's because banks don't post their best rates in the window, and many people who are looking to buy and are not experienced in the process will not challenge the posted rate, let alone know if there are other financial instruments available that might better suit their needs.

I had exactly such an experience. I owned a home in which I had more than 60% equity, and was planning to sell it in a hot seller's market. I had found the home I wanted to buy, and put in an offer, which the seller accepted. Like many people, I had been with the same financial institution for a long time, so with my accepted offer in hand, along with my income statements and recent tax returns, I trotted off to the bank. I sat down with the banker with whom I had the appointment, and handed her all my information. She sat, saying nothing, as she leafed through all my files. I could feel my cheeks getting warmer. You know that feeling like you're a naughty little kid caught with your fingers in the cookie jar? As I began to explain myself, she looked at me and left the room,

leaving me to sit, feeling nauseous, for what seemed like an eternity. Finally, she came back into the office and sat down. Looking across from me, she said that she felt that I would need to make my offer “subject to sale”—or have my father co-sign the mortgage for me! I could feel steam coming out of my ears.

I had a good income, savings and lots of equity in my present home. Was she kidding? No offense to my father, but he was retired at the time, I definitely had a higher yearly income, and I was 41 years old! Grabbing my folders, I stomped out of the bank and pulled out my cell phone. I called a mortgage broker who also happened to be a friend. It was a Friday afternoon at three o'clock, and I envisioned spending the weekend developing an ulcer, not knowing whether I would get financing. After talking to my friend and explaining my position, he told me not to worry—consider it done. In fact, he couldn't believe there was even an issue! It turns out that the branch manager of my bank was pretty surprised, too; he found out what happened from the head of my real estate firm. It turned out that my company did all its banking through that branch. Apparently, the branch manager was not impressed.

So, that might sound like a bitter, cranky realtor hitting her midlife crisis (probably true), but I have a truck load of similar stories. For example, the client who almost signed for a five-year closed rate of 6% when a mortgage



broker got her 4.65%; and the clients who went out house hunting thinking they were pre-approved by the bank (they even had the paper documentation), only to have the plug pulled on them. A mortgage broker came to the rescue, once again with a better interest rate.

Banks are becoming more proactive, realizing they are losing business, and have since set up mortgage broker divisions within themselves, using mostly their products. I firmly recommend that if you want to remain at the bank or financial institution you currently work with, that you do not deal directly with the branch; rather, talk to the mortgage broker arm of the institution.

Many prospective buyers try to go it on their own, but what they don't realize is that every time you apply to a different bank for a mortgage, you get "dinged" on your credit rating. That's because every time your credit rating is pulled by a bank or credit union, it's considered a credit application, regardless of whether you end up dealing with them. When you deal with a mortgage broker, your history is pulled just once; the broker uses that one "pull" to market you to prospective lenders.

I have had many clients who have gone to their bank and been offered a rate that has ultimately been bested by a mortgage broker. What amazes me is how many people will go back to their bank and ask them to match the better rate: when the bank does, they sign with them on the

dotted line. My question is this: if they weren't willing to do the best they could for you initially, why would you let them have your business?

Ultimately, a mortgage broker does all the heavy lifting for you. Once you have filled out a mortgage application and they have pulled your credit rating and history, they can also help you improve your overall rating by advising you on credit card use and the like. The best part is that all this costs you absolutely nothing. A mortgage broker is paid by the lending institutions. They are literally competing for your business, even in an uncertain credit market.

WHY DO I HAVE TO GET FINANCING STRAIGHT-ENED OUT NOW?

The reason you're doing all this now is so you don't have to be disappointed, frustrated and possibly even fuming later. If you're kicking around the idea of selling your home and buying another, you need to know exactly where you stand. For instance, you may be self-employed, and on your income tax return your stated income may actually be less than what you earn, since you're running income through your own company. You might think you can qualify for a larger mortgage, but the paperwork says otherwise. Similarly, you might be under the impression that you won't be able to qualify for much in the way of financing, when it turns out that because of low interest rates or



having 20% or more down, you might be able to spend a little bit more on a home than you thought—and it might actually cost you less. Confused? Your mortgage broker will explain it all, and tell you the maximum dollar amount you can consider paying for a house, and what your weekly, bi-weekly or monthly payments would look like. This will give you a feeling of confidence when you go out house hunting, and will prevent you from falling in love with a property you actually can't afford, or settling for one home when you could have had another.

So, how do you find a good mortgage broker? Realtors often work closely with several of these professionals, and they will happily provide you with referrals. Realtors are a good resource when looking for a mortgage broker, as they obviously have a vested interest in their clients getting the best rates and terms: a happy buyer is a *good* buyer! But you don't have to rely on realtors alone: friends, relatives and work colleagues who may have recently bought a home are also a good source of such information. Many mortgage brokers, much like realtors, have their own websites, and will be happy to supply a list of satisfied customers. Like any client, you want to be treated promptly and efficiently, so if you call a mortgage broker and don't hear back from them in 24 hours, move on. When you do find a mortgage broker who fits the bill and with whom you feel comfortable working, find out what financial institutions he or she

deals with and why. Ask the broker to give you different scenarios for your financing needs, and see what he or she comes up with.

INTEREST RATES, AMORTIZATION AND ALL THAT JAZZ

We've been pretty lucky over the last several decades; interest rates declined steadily throughout the 1990s, and have, for the most part, stayed at historic lows through much of this decade. The rise or fall of interest rates is vitally important, however, because even a one-point change can have a substantial impact on the mortgage amount for which you will qualify.

The interest rate will primarily be defined by your credit rating and the amount of money you have as a down payment (the more money down, the more equity you will have in your home—and often the more desirable you will be to lenders). A traditional mortgage in Canada requires a 20% down payment; if you were to purchase a home for \$500,000, you would then require a down payment of \$100,000—which would not include closing costs such as property tax and any other title transfer taxes that may be levied in your province. Both your mortgage broker and your realtor will be able to advise you of those costs, so make sure you keep them factored into your financial equation!

Any other property purchase that includes a down payment of less than 20% requires mortgage insurance. The



amount is calculated on a percentage of the total mortgage, and does not boost the actual interest rate charged on the mortgage itself. Currently, there are two major mortgage insurers in Canada: Genworth and the Canada Mortgage and Housing Corporation (CMHC). AIG still does insure Canadian mortgages, but they are now more on the fringes of mortgage insurers.

Here's an example. You've got a \$50,000 down payment, and your mortgage broker has approved you to carry a mortgage up to \$500,000. That gives you a total of \$550,000 to spend. We'll assume that you have a very good credit score, so the mortgage insurance rate you will be paying is the lowest available, 1.5%. We'll imagine that you actually purchase a home for that magic amount of \$500,000, which means that minus the down payment, your mortgage will be for the amount of \$450,000. That is the amount that needs to be insured. So, you would be charged a one-time fee of 1.5% on that \$450,000, which could be added to your mortgage and amortized into your payment. This is what it would look like:

\$50,000 = down payment

\$450,000 = mortgage

1.5% = interest rate charged on mortgage amount (one-time charge) to insure it

So: $\$450,000 \times 1.5\% = \$6,750$.

The insurance on your mortgage would add \$6,750 to the cost of the home. Like I said, you are not obligated to pay this in a lump sum; that cost can be added to the mortgage amount and factored into your mortgage payments.

Of course, that 1.5% rate is reserved for the best qualified clients—the rate can jump as high as 5% and beyond in some cases—often considerably higher than all other closing costs combined. Again, this is a great reason to be in touch with a mortgage broker as soon as you even consider purchasing a home. With their know-how and advice, you'll have an opportunity to improve your credit rating and ultimately reduce your costs and qualify for a better interest rate.

For a brief time in Canada, you could secure a mortgage with an amortization of up to 40 years—meaning that the cost of the amount you were borrowing would be spread over 40 years. Now, the maximum amortization is 35 years, with the average mortgage amortization falling between 15 and 25 years. When you take out a mortgage, you will agree to either a rate of interest to be paid over a set amount of time, meaning your payment will remain the same during that term, or a variable rate, in which case your payment may fluctuate depending on the interest rates. A lower interest rate means you will pay down your principal faster; higher interest means the opposite. In recent years, variable rates have been



very popular, with Canada's interest rates sitting at historic lows.

USING THE MONEY IN YOUR RRSP TO BUY A HOME

The Home Buyers' Plan (HBP) allows you to withdraw up to \$25,000 (or \$50,000 as a couple) from RRSPs to buy or build a qualifying home for yourself (as a first-time home buyer) or for a related person with a disability. It is important to thoroughly check that you meet the necessary qualifications. You may still be considered a first-time home buyer if you own a rental property or if you have not recently owned a home.

This is a temporary "loan" from your RRSP—you must pay back the amount you borrow within 15 years or it will be added to your taxable income. There are many exceptions to all of this: for the most part, you can use this program only once—a one-shot deal, so to speak. There are a variety of rules to be followed and qualifications to be met, but outside of that fact, you have to look at the possible negatives.

Yes, you will save, in a sense, by borrowing from yourself. But at what cost? The money that could be earned tax-free while in your RRSP will in most cases outstrip the cost of borrowing, which is why many investment counsellors will advise their clients to borrow money to

put in RRSP accounts. If you have taken losses in your RRSP account, cashing out would only permanently lock in those losses, and not give stocks or mutual funds any time to recover. The cost of borrowing is, in most cases, less than the earning potential the RRSP account would have otherwise. However, if you have no other funds to use for a down payment, this might be the way to go. The best solution here is to have a long discussion with a financial advisor, and another with your mortgage broker. They will be able to crunch the numbers to help decide whether using your RRSP is a wise idea.

INTERIM (BRIDGE) FINANCING

Interim financing, also known as bridge financing, is temporary financing required to complete the purchase of a new home, if the home you currently own has either not sold or has a firm offer, but has not yet reached its closing date.

If you will be using the money from the sale of your existing home as a down payment on a new property but don't yet have this money, then you will need interim financing to bridge the gap. Let's say you bought a new home that you absolutely love—and knew that you'd lose the opportunity to purchase it if you waited to sell your current home. So, now you technically own two properties—something that's going to be costly. If you have sold your first property by the time you have to complete the



purchase of the new home, but the closing date (the date you get paid) isn't until a month after you have to pay for the new one, you'll need interim financing. This type of financing can be expensive, so it's always best to have the sale of your existing home and possession of your new home coincide. Remember, as well: you *might* qualify for financing if you haven't got a *firm* offer on your current home by the time you're expected to close on your new home, but you also may not. Make sure that when you speak to your mortgage broker you ask what would happen if you ended up in this latter situation. Most lenders would classify this as buying a second property, and you would have to have enough equity in your current property, as well as qualify income-wise, to carry both homes. Lenders would generally not view this as interim financing, but instead as conventional financing. Any changes in the real estate market, particularly one that is trending downward, can significantly impact you in this case, as would any increase in interest rates.

Some lenders offer interim financing directly, while others will leave it to you to find the funding elsewhere. It is important to know—before you get into this situation—that interim financing can be reasonable, but in some situations it can be very expensive!

The bottom line is that no matter what: always discuss every possible scenario with your mortgage broker.

When your offer on a property you wish to purchase is accepted, make sure you fax a copy to your mortgage broker, and make sure that everything passes muster. The lender will most likely require an appraisal of the property to ensure the value matches what you've offered. If you are purchasing a strata property, in some cases the lender will want to see some of the financials. Always ask questions! Remember, your broker is there to help you purchase, not to put the kibosh on your new home. Work with your broker—and he or she will work for you.

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**STRESSED OUT OVER BUYING OR SELLING YOUR HOME?
RELAX YOUR WORRIES BY
INCREASING YOUR REAL ESTATE SAVVY.**

Buying or selling a home can be a complicated and frustrating experience, but as top-selling realtor Sarah Daniels explains, the process doesn't have to be painful—and people who receive sound advice and guidance can end up feeling very good about the outcome. While there's no magic bullet for making everything go smoothly, the keys to a positive real estate experience are gathering knowledge, using common sense, and removing emotion from the process.

Packed to the rafters with Sarah Daniels' insider secrets, and thorough and practical information, *Welcome Home* walks readers through the various stages of home buying and selling in a style as engaging as Sarah herself. Entertaining, instructive stories illustrate her helpful advice on mortgage financing and brokers, finding the right realtor, locating the right property, negotiating a fair deal, getting your own home ready to sell, and attending to the many other details along the way.

Whether you're a first-time home buyer or have been through the process before, *Welcome Home* will help ease your anxieties about buying or selling your home with strategies that fit any market.



Sarah Daniels is a BC-based Realtor with Bay Realty Ltd., who works in partnership with her brother, Philip DuMoulin. Following a successful career in both radio and television, she transitioned into the world of real estate. While still appearing on local TV shows like *Urban Rush*, Sarah has also written for *Surrey Now* and *The BC Mortgage Broker* magazine. Sarah also emcees a variety of charity events in her free time.

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