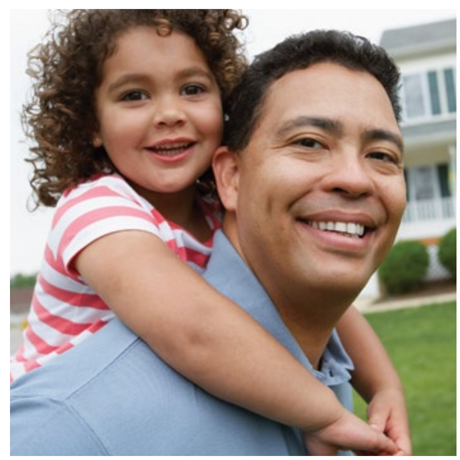
BUYING YOUR FIRST HOME IN CANADA

What Newcomers Need to Know



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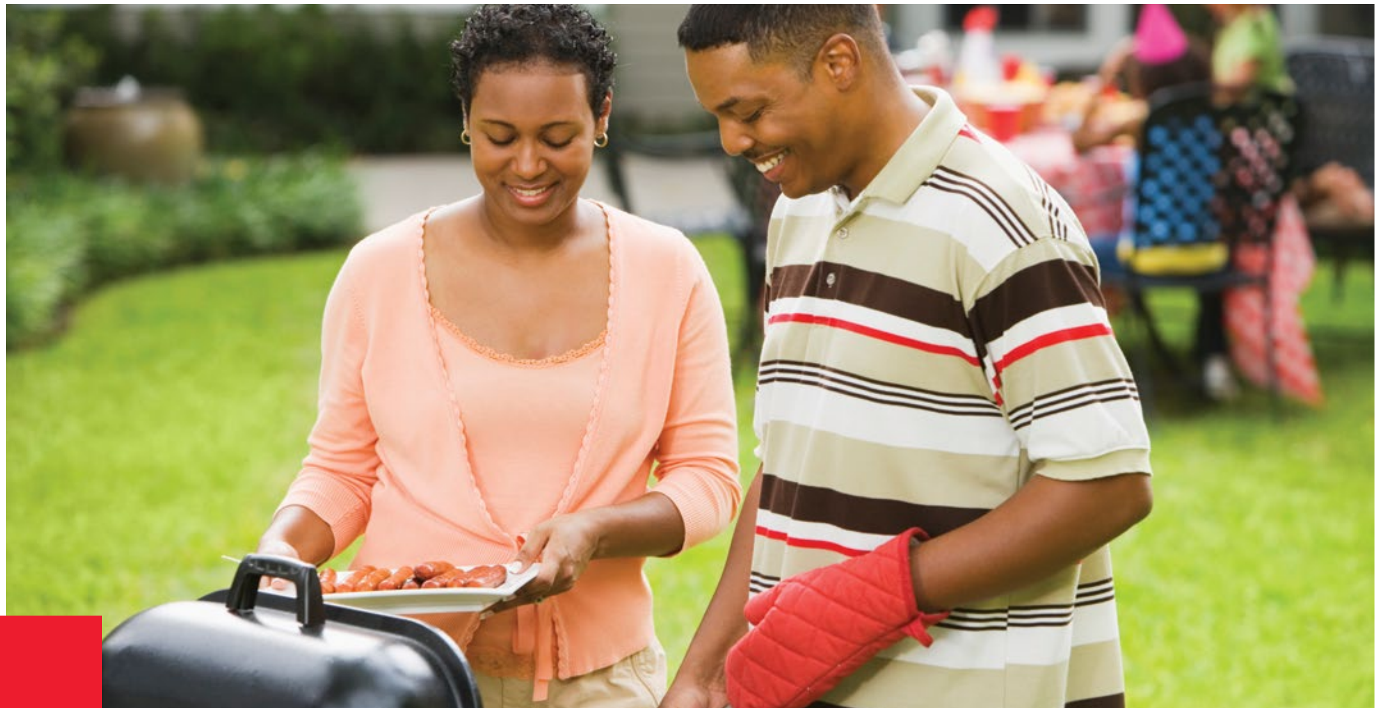


A PLACE TO CALL HOME. A PLACE OF YOUR OWN.

You've made Canada your new home and now you're looking for a place of your own. Buying a house is an exciting experience that can be both rewarding and challenging. As Canada's national housing agency, Canada Mortgage and Housing Corporation (CMHC) has been helping Canadians – including new Canadians like you – access a wide choice of quality, affordable homes for over 70 years.

We've designed this guide to make homebuying decisions easier for you by providing the information you need.

WHAT CAN YOU AFFORD?

Before you begin shopping for a home, it's important to know how much you can afford to spend on homeownership. You will want to plan ahead for the various expenses related to homeownership. In addition to purchasing the home, other main expenses will include heating, property taxes, home aintenance and renovation as required. Lenders and mortgage brokers are homebuying financial specialists who can work with you to establish how much you can afford.

For more on this, refer to *Getting Pre-approved Before Shopping in the Financing Your Home* section of this guide.

If you want to do some calculations on your own, simple calculators and worksheets are available on the Web to help you determine your maximum home price and related monthly payments. Visit www.cmhc.ca and type "mortgage calculator" or "financially ready" in the search box.

THE RIGHT HOME FOR YOU

Before you start shopping, know what you're looking for in a home. Consider what you want now, and what you might want in the future.

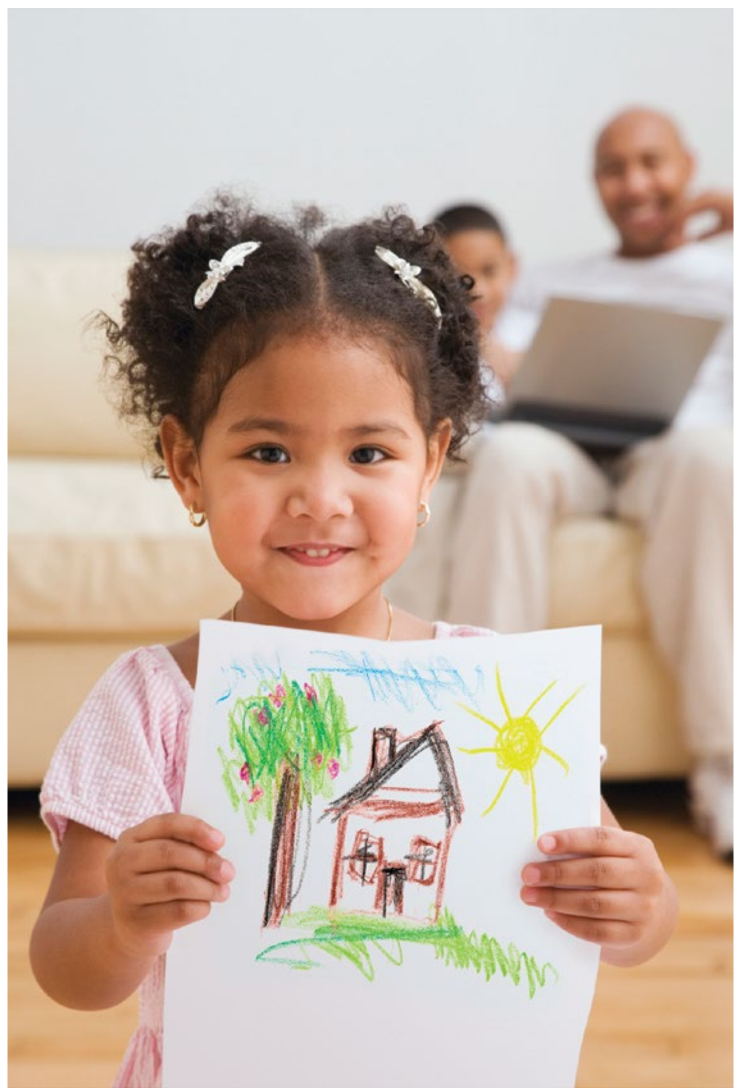
- **Size requirements:** Do you need several bedrooms, more than one bathroom, or a garage?
- **Special features:** Do you want air conditioning, storage or hobby space, a fireplace or a swimming pool? Do you have family members with special needs?
- **Lifestyles and stages:** Do you plan to have children? Do you have teenagers who will be moving away soon? Are you close to retirement?
- **Setting:** Do you want to live in a city, the suburbs or a rural environment?
- **Work:** Are you willing to take on a long commute every morning?
- **School:** Where will your children go to school and how will they get there?
- **Hobbies:** Do you need a neighbourhood where you can walk? Take the kids to a park or indoor recreation facilities?
- **Family and friends:** How important is it to live close to them?
- **Cultural:** Do you want to be close to a place of worship or cultural community centres?

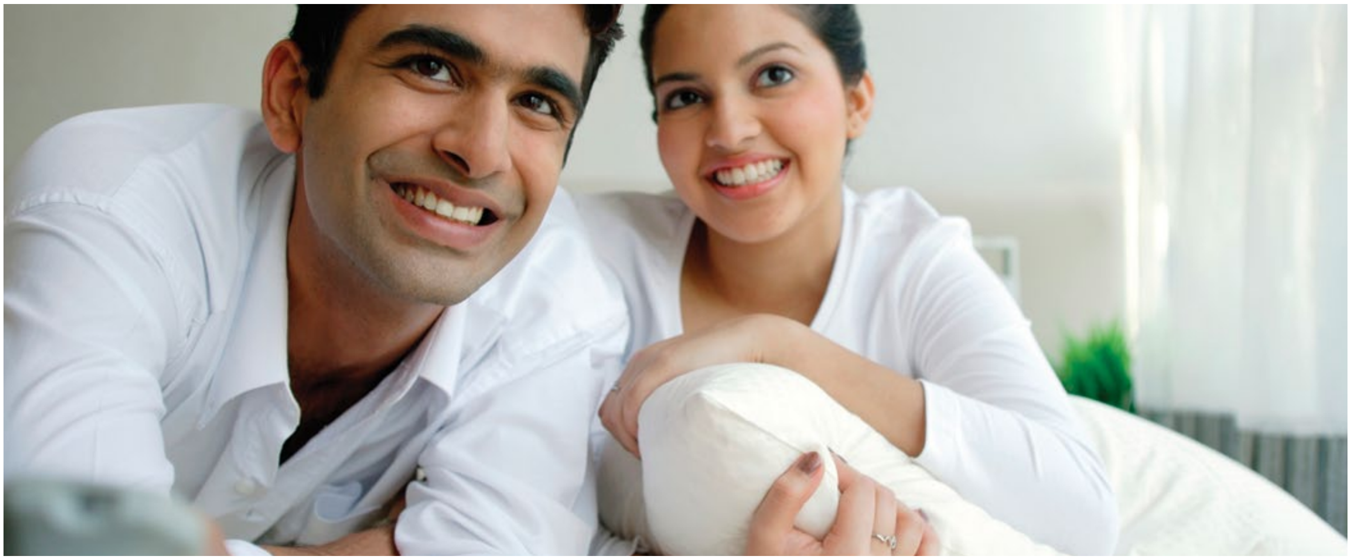
Get more information from CMHC. CMHC offers worksheets and checklists to help you out. Simply visit www.cmhc.ca and type "home hunting" or "home feature" in the search box.

Canada Mortgage and Housing Corporation (CMHC) is the Government of Canada's national housing agency. We help Canadians access affordable and suitable housing. CMHC is your trusted source of information and advice on housing in Canada.

REAL ESTATE AGENTS CAN HELP

Unless they're looking for a brand new home (see the *A Brand New Home* section on page 3), most homebuyers will rely on a real estate agent to help them with the home selection and purchase process. Real estate agents will listen to your needs, show you suitable homes to visit, and negotiate on your behalf to help you get the best possible deal. They can also provide you with previous sale prices of comparable homes and information about neighbourhoods, as well as arrange the home inspection. Real estate agents are typically paid through a commission from the seller of the home.





FINDING A REAL ESTATE AGENT

Ask your lender or mortgage broker, friends and family if they can recommend a real estate agent. Look at real estate signs for names of real estate agents in your preferred neighbourhood and write them down. You may also want to visit the Multiple Listing Service® (MLS®) website at www.mls.ca. It lists real estate agents and thousands of properties for sale across Canada.

A BRAND NEW HOME

If a brand new home, one that has never been occupied before, is what you're looking for, you have two choices: purchase a residence in a new development or contract a builder to construct one to your specific needs.

FINDING A BUILDER

- Check phone listings, visit model homes in new developments, and ask friends, family and colleagues.
- Ask for references and talk to other customers. Visit other housing developments that the company has built.
- Check with the New Home Warranty program in the area.
- Ask builders or contractors if they are members of a local homebuilders' association or ask for a provincial licence number.
- Make sure to specify exactly what's included in the price of your home and what is extra – for example, paved driveway, trees, fireplace.

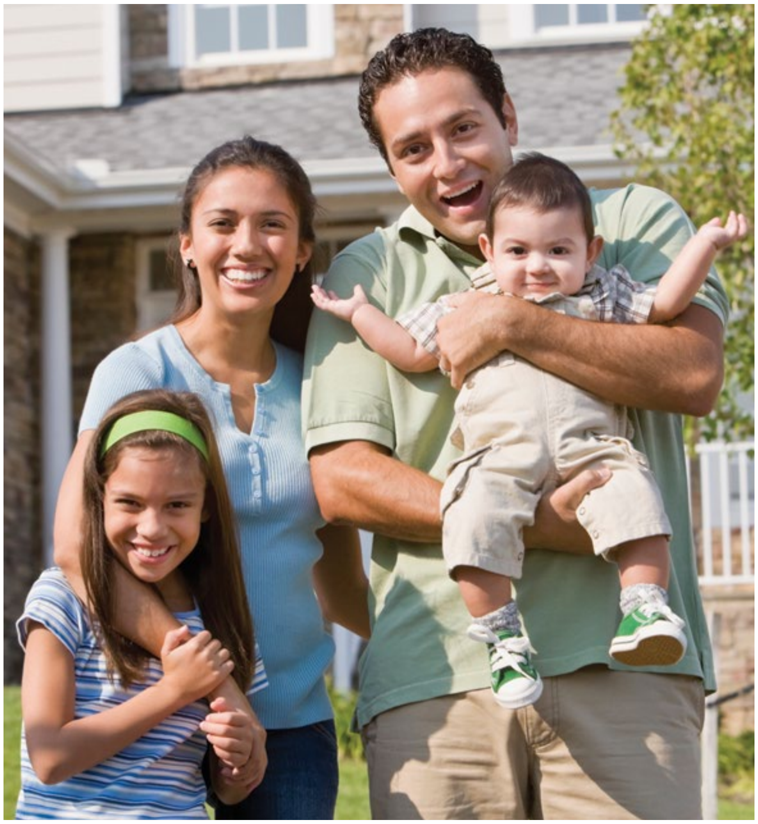
Get more information from CMHC. Simply visit www.cmhc.ca and type "selecting a new home builder" in the search box.

DO YOUR RESEARCH

It is important to learn as much as possible about the home that you want to buy. It is also important to research the people and organizations that are helping you buy your home, including your: real estate agent, lender (the bank, trust company, credit union or other financial institution that provides your home loan), mortgage broker, lawyer or notary, or home inspector.

Ask for their references. Call the people who have done business with them before. Ask about their qualifications; are they a member of a professional association? Ask how they can help you with your special needs as a new Canadian. Do they speak your first language?

Remember, the more information you have, the better prepared you will be.



TIPS FOR FINDING A HOME

- Tell friends, family and work colleagues that you're looking for a house. You might hear about homes that are on the market.
- Check the new homes section in daily news - papers or look for real estate magazines available at newsstands, convenience stores and other retail outlets.
- Check out real estate websites, such as www.mls.ca, for information and photos on a wide range of properties.
- Drive around a neighbourhood that interests you and look for "For Sale" signs or visit new developments (areas where new homes are being built).

TYPES OF HOMES

Canadian homes come in a variety of shapes, sizes and costs.

Condominium
Condominiums (also called "condos") are a type of ownership rather than a type of home. Most commonly, condos exist in multi-unit buildings. These buildings might consist of only a handful of units or they could be high-rise towers. The idea is that you own the condo unit, but not the rest of the building or the land. You pay monthly fees to a condo corporation that handles maintenance and repairs as required. Condominiums are attractive to first-time homebuyers because they are usually one of the less expensive options.

Get more information from CMHC. Simply visit www.cmhc.ca and type "condominium buyer's guide" in the search box.

Townhouse
A townhouse is a home attached side by side to a series of other homes. Each unit has its own outside entrance but shares a common wall.

Semi-detached
Semi-detached homes have separate land and separate entrances but share a common wall and sometimes common parking. Owners are responsible for their side of the property.

Single/Detached
A single/detached home is free-standing. You own the land and the home. Because you are responsible for all related costs yourself, it tends to be the most expensive type of housing. The benefit is that you have more space and more control.

Duplex/Triplex
A duplex/triplex looks like a single home but has been reconfigured into multiple units. One individual typically owns the property and the additional units are rented out. Many buyers see this as an opportunity to earn immediate income from the house they own.

MAKING THE OFFER

So you've found the home that fits your budget, your lifestyle and your family. Now it's time to make it official by making an **"Offer to Purchase"**. If you're using the services of a real estate agent, he or she will help you prepare the Offer to Purchase. If not, you may want to prepare this document with the help of a lawyer (or a notary in Quebec).

Either way, it's appropriate to engage the services of a lawyer or notary to research the title (property ownership) and prepare all final documentation. You'll also need legal assistance for a property transfer if your Offer to Purchase is accepted.

Expect to negotiate. The process of making an offer, receiving a counter-offer and then revising it again until it is accepted is not uncommon. The whole process can seem like a roller-coaster ride, exciting, but it can be stressful. It's all part of making the deal work best for you and the seller.

Your Offer to Purchase is likely to include:

- The purchase price offered.
- The amount of the deposit.
- Extra items such as window coverings, refrigerator, stove, washer and dryer that you might want to negotiate into the purchase price (also called chattels).
- The closing day (date you take possession of the home) – usually 30 to 60 days from the date of agreement.
- A request for a current land survey of the property.
- The date when the offer becomes null and void.
- Any other conditions that go with the offer, including approval of **"mortgage financing"** and a **"home inspection"**.

For more on this, see the *Home Inspection* section of this guide.

FINANCING YOUR HOME

Most homebuyers rely on lenders (banks, credit unions, caisses populaires, pension funds and insurance companies) to lend them money to finance the purchase of their home. This loan, called a mortgage, is repaid by you through regular payments over a period of time, typically 25 years (see "Amortization Period" on page 7).

Lenders will charge interest to lend you this money. Interest is the cost of borrowing money. It will be added to your regular payments.

As a newcomer to Canada, it may be difficult to finance the purchase of a home because you may not have an established credit history. See the *Credit History* section of this guide for alternative ways to show that you are able to manage credit in Canada.

GETTING PRE-APPROVED BEFORE SHOPPING

It's a good idea to sit down with your lender or mortgage broker to discuss your needs and get mortgage pre-approval. Pre-approval means that your lender commits to giving you a mortgage up to a specified amount, at certain terms and conditions, including the interest rate. This commitment will be valid for a specific period, usually up to 90 days. Preapproval doesn't lock you into the mortgage. You are still free to pursue other arrangements. That way, you know exactly how much you can spend on your new home.

If you are buying a home using CMHC Mortgage Loan Insurance, you will need to get your home loan from an approved lender. For a complete list of banks, trust companies, credit unions, and other financial institutions approved to give loans insured by CMHC, visit www.cmhc.ca and type "approved lenders" in the search box.

MORTGAGE BROKERS

Mortgage brokers don't actually lend you the money; they provide you with mortgage advice, help you choose a lender, and work on your behalf to secure you the best mortgage terms and conditions. When looking for a mortgage broker, visit www.caamp.org to find out if the broker is a member of the Canadian Association of Accredited Mortgage Professionals and is an Accredited Mortgage Professional (AMP). You can find a mortgage broker by visiting the websites of the following provincial associations: www.mbabc.ca (British Columbia), www.amba.ca (Alberta) and www.imba.ca (Ontario). If you're using a real estate agent, he or she may also be able to recommend a mortgage broker.

DOWN PAYMENT AND MORTGAGE LOAN INSURANCE

The amount of your mortgage will be determined by the price of the home minus an initial cash payment (called the down payment) made up front. If the down payment is less than 20% of the value of your new home, your lender will probably require **"Mortgage Loan Insurance"**.

In addition to a lower down payment, Mortgage Loan Insurance will help you access interest rates that you otherwise wouldn't have been able to negotiate. The cost for Mortgage Loan Insurance, called a premium, is usually offset by the savings you get from lower interest rates.

CMHC is Canada's leading mortgage loan insurer. We have helped newcomers with permanent resident status become homeowners with **a minimum down payment starting at 5%*** – regardless of how long they have been in Canada. Non-permanent residents can also purchase a home with a minimum down payment of 10% of the value of the home.

Ask your lender about features and associated premiums related to CMHC's Mortgage Loan Insurance or simply visit www.cmhc.ca and type "mortgage loan insurance" in the search box.

Mortgage Loan Insurance is not the same as mortgage life insurance, which pays off your mortgage in full if you or your spouse dies.

CREDIT SCORE AND HISTORY

Credit and work history are very important when trying to obtain a mortgage. Unfortunately, as a newcomer to Canada, you may not have a credit history that is accessible to Canadian lenders. If you want to buy a home, it is important to begin building a new credit history as early as possible. Talk with your bank. They will be able to help you get a credit card and plan to build a credit history that will help you buy your home.

Here are some tips that will help you show that you are able to repay a mortgage:

1. Open a bank account and use it regularly.
2. Consistently pay your bills on time, including rent, utilities, cable, and insurance premiums.
3. Apply for small loans from your bank to begin proving that you can pay on time.
4. Apply for a credit card.
5. Try to remain with the same employer for an extended period of time.

Get more information. For a fee, you can obtain your credit score and report. Visit the website of one of the following credit reporting agencies to find out how to obtain your credit report:

Equifax: http://myservices.equifax.ca/CDN40_prdlist
TransUnion: www.transunion.ca

SOURCES OF CREDIT HISTORY FOR MORTGAGE LOAN INSURANCE

CMHC will consider factors other than a traditional credit history when processing the application for Mortgage Loan Insurance from your lender. For example, CMHC will consider the payment of rent or room and board for a 12-month period, plus proof of one additional payment (for example, a utility or cable bill) or documented regular savings for a 12-month period. If this is not available, CMHC will consider payment of any three bills for 12 months. These could include: utilities, cable, childcare, insurance premiums, or documented regular savings. CMHC will also consider factors that show you are able to repay debt, such as a history of dealing with your bank.

* The minimum down payment requirement for mortgage loan insurance depends on the purchase price of the home. For a purchase price of $500,000 or less, the minimum down payment is 5%. When the purchase price is above $500,000, the minimum down payment is 5% for the first $500,000 and 10% for the remaining portion. Mortgage loan insurance is available only for properties with a purchase price or as-improved/renovated value below $1,000,000.

MAKE YOUR MORTGAGE WORK FOR YOU

Your lender or broker will offer you several choices to help find you the mortgage that best matches your needs. Here are some of the most common.

Amortization Period

Amortization refers to the length of time you choose to pay off your mortgage. Mortgages typically come in 25 year amortization periods. However, they can be as short as 15 years. Usually, the longer the amortization, the smaller the monthly payments. However, the longer the amortization, the higher the interest costs. Total interest costs can be reduced by making additional (lump sum) payments when possible.

Payment Schedule

You have the option of repaying your mortgage every month, twice a month, every two weeks or every week. You can also choose to accelerate your payments. This usually means one extra monthly payment per year.

Interest Rate Type

You will have to choose between "fixed", "variable" or "protected (or capped) variable".

A *fixed rate* will not change for the term of the mortgage. This type carries a slightly higher rate but provides the peace of mind associated with knowing that interest costs will remain the same.

With a *variable rate*, the interest rate you pay will fluctuate with the rate of the market. Usually, this will not modify the overall amount of your mortgage payment, but rather change the portion of your monthly payment that goes towards interest costs or paying your mortgage (principal repayment). If interest rates go down, you end up repaying your mortgage faster. If they go up, more of the payment will go towards the interest and less towards repaying the mortgage. This option means you may have to be prepared to accept some risk and uncertainty.

A *protected (or capped) variable rate* is a mortgage with a variable interest rate that has a maximum rate determined in advance. Even if the market rate goes above the determined maximum rate, you will only have to pay up to that maximum.

Mortgage Term

The term of a mortgage is the length of time for which options are chosen and agreed upon, such as the interest rate. It can be as little as six months or as long as five years or more. When the term is up, you have the ability to renegotiate your mortgage at the interest rate of that time and choose the same or different options.

"Open" or "Closed" Mortgage

An *open mortgage* allows you to pay off your mortgage in part or in full at any time without any penalties. You may also choose, at any time, to renegotiate the mortgage. This option provides more flexibility but comes with a higher interest rate. An open mortgage can be a good choice if you plan to sell your home in the near future or to make large additional payments.

A *closed mortgage* usually carries a lower interest rate but doesn't offer the flexibility of an open mortgage. However, most lenders allow homeowners to make additional payments of a determined maximum amount without penalty. Typically, most people will select a closed mortgage.

HOME INSPECTION

Your offer has been accepted and your financing is in place!

As mentioned in the *Making the Offer* section of this guide, it's wise to make your purchase conditional on the home passing a professional home inspection. For a fee ($300 and up), an inspector will make a detailed inspection of the property. When you receive the home inspection report, you and your real estate agent will have to discuss how required repairs, if any, may affect the sale price that was agreed upon.

Get more information from CMHC. Simply visit www.cmhc.ca and type "hiring a home inspector" in the search box.

CLOSING DAY

This is the day that you get your keys and start to settle into your new life as a homeowner. Typically, you will meet in the lawyer/notary's office to sign final documents. The real estate agent(s) and/or the seller of the home may be present. Your lawyer or notary will ensure that money is transferred to the seller, along with any additional money the seller has prepaid on the home, such as heating expenses or property taxes. Usually, you pay the lawyer or notary at this time. Make sure to include in your initial home purchase budget all costs associated with closing the sale. These costs, which include lawyer or notary fees and land transfer taxes, may be from 1.5% to 4% of the home's selling price.

CMHC wishes you great success with your new home. We will be there to help you along the way. We have information to help you plan your move and other information that Canadian homeowners trust to maintain, renovate or adapt their homes.

Don't hesitate to call CMHC at 1-800-668-2642 for more information on homeownership, including the homebuying worksheets and checklists in printed format, or visit our website at www.cmhc.ca.

CMHC. Everything you need to open new doors.

www.cmhc.ca/newcomers

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