

RE/MAX[®] Real Estate Costs from A to Z

From deposits to moving expenses, and everything in between, buying your first home involves more than just saving for a down payment. That may well be the largest cost, but there are other things/items you'll need to plan and budget for.

Appraisal fee

Your mortgage lender will likely require an appraisal to ensure the property is worth what you are offering. The reason is two-fold: it prevents you from borrowing more than a property is actually worth, which might apply in cases where multiple would-be buyers enter into a bidding war; and it protects the lender from lending out more than the home's value, which becomes critical should you default on the mortgage. The fee for such an appraisal is typically between \$250 and \$350.

Deposit

A deposit is required when you're ready to make an offer to purchase. Let's say you've viewed a selection of properties with your REALTOR[®], found one you like, and are ready to get serious about purchasing the property. At this point, you might need to put down a deposit. The amount depends on your area, the purchase price of the home, and your situation. If a deposit is required, it will be held in trust and will be deducted from your total purchase price. It is considered part of your down payment.

Down payment

Generally speaking, the larger a down payment you're able to make, the better. Why? Because it means that you'll have to borrow less. But you also don't want to leave yourself so cash-poor you can't cover all of the other costs that come with closing a sale.

The minimum amount you can put down is 5% of the purchase price, assuming that you have made an offer to purchase and all conditions have been met. For example, a \$300,000 property would require a minimum down payment 5%: \$15,000. That said, if your down payment is less than 20% - often the case for many first-time homebuyers - you will also need mortgage loan insurance.

Harmonized sales tax

Beginning July 1, 2010, Ontario plans to implement a harmonized sales tax. The tax combines the GST with provincial sales taxes (PST). In Ontario, the new HST will total 13%.

The details of the tax are still being debated, as well as adjustments to personal income tax allowances, making it difficult to assess the precise impact of the HST on new and resale homes. So, if you're planning to buy before July 1, 2010, you'll likely escape the new taxes. If you're going to be in the market after that date, be sure to ask whether the new HST applies at each stage of the purchasing process.

Home inspection

Don't even think about buying a home without first having a proper inspection done. In fact, your lender may

insist on one to verify the condition of the home.

It's an excellent way to learn as much as you can about the various systems in the home, from the furnace and plumbing to the electrical and roofing. The inspection may identify essential repairs that you and your REALTOR[®] can either negotiate into the purchase price or insist be completed before you proceed with the deal.

The cost of an inspection is about \$350 and depends on the size, condition, and age of the property. This is money well spent, and is an expense that you simply cannot, and should not, avoid.

Land transfer tax

Most provinces have some sort of Land Transfer Tax and the rates vary. Your REALTOR[®] or lawyer can advise what the rate would be for the area you're considering buying in.

In Ontario, the city of Toronto has its own municipal land transfer tax, which is applied on top of the provincial one. However, first-time buyers of both new and existing homes receive a provincial tax rebate up to \$2,000 and a municipal tax rebate if you purchased in the City of Toronto. Talk to your RE/MAX REALTOR[®] for more information.

Legal fees

Legal fees for buying real estate range in price, depend on your situation, and must be paid upon closing. When purchasing brand new condos - since they can involve more paperwork - the cost might be higher.

Mortgage life insurance

Mortgage LOAN insurance is different than mortgage LIFE insurance. Mortgage LIFE insurance pays your mortgage in the event that something bad happens to you. Financial institutions recommend this type of insurance when arranging your mortgage.

Mortgage loan insurance

If your down payment is less than 20% of the purchase price of your home, you will need mortgage loan insurance, also known as high-ratio mortgage insurance. It protects your lender - not you - in case you default on your mortgage. Premiums are calculated as a percentage of the amount you put down, changing at the 5%, 10% and 15% thresholds but there is no break for anything in between. Premiums range from 0.5% to 3% and increase if you are self-employed. This type of insurance is mandatory for high-ratio mortgages, and is only offered through two carriers: CMCH and Genworth Financial.

Moving expenses and services connections

When you're totaling up all the costs of buying your first home, don't forget to include moving expenses and connection fees for services, such as phone, electricity, and other utilities. Moving expenses vary widely, depending on your personal circumstances and possessions. Ask your REALTOR[®] for a referral in your local area. Don't be fooled by the price! Reliability is key.

Property insurance

Your mortgage lender will require you to have property insurance in place on closing day. Since the property is actually the security against the loan amount, the lender wants to make sure insurance is in place to cover the cost of replacing the home and its contents, should something happen.

Title insurance

Title insurance is yet another type of insurance you will require. Your lawyer will advise you of this type of protection, which insures you against any defects of title to the property. For example, if the previous owners undertook major renovations of the property without proper permitting, you would be protected against any costs required to bring the house up to code. Typically, this one-time premium costs less than \$500.

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