

GUIDE FOR PROSPECTIVE PURCHASERS OF REAL ESTATE

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This guide for new purchasers is intended to help explain the process for buying real estate and identify the expenditures that may be necessary for a home purchase. For current costs and specific information, contact the mortgage lender and lawyer/notary who will be handling your purchase transaction.

1) PRE-ARRANGED MORTGAGE

Before looking at any properties, talking to a Mortgage Lender about a pre-arranged mortgage is a good first step. Based on the prospective purchaser's current financial situation and a satisfactory credit review, a pre-arranged mortgage will determine the amount that can be borrowed, the interest rate guaranteed for 60 - 90 days, and how much the payments will be. Being a qualified purchaser may also help in negotiating the Contract of Purchase and Sale.

For a mortgage application, the lender will require the following:

- 1) Name, age, marital status, dependents, and social insurance number.
- 2) Name and address of financial institution and balance of accounts.
- 3) Credit card account numbers and current balance.
- 4) Stocks, bonds, mutual funds and RRSP value.
- 5) Outstanding debts and loans and remaining balance on each.
- 6) Assets such as a car, boat, etc. and estimated value.
- 7) Letter from employer identifying length of service, position, gross income, and future employment prospects.
- 8) T-4 slips or page of the tax returns that show income for the last two years.
- 9) One current pay stub.
- 10) Any other income: such as rental income, spousal support, and pensions.
- 11) If self-employed, three years income statements and balance sheets, Revenue Canada assessments and tax filings.
- 12) A 'gift' letter for any funds received from relatives to purchase your home.

The lender will also require confirmation that the purchaser has a down-payment of at least 5% of the purchase price and expect to see statements of any income sources planned to fund the down-payment.

To avoid any surprises, a few calculations can assist in working out the affordable price range before contacting a Mortgage Lender:

- 1) Calculating **Gross Debt Service Ratio** – the total home-related expenses should not exceed 32% of the gross monthly household income. This includes mortgage, property taxes, heating costs, and 50% of any strata fees.

32% of \$5,500 gross monthly income = \$1,760 in maximum monthly home-related expenses.

- 2) Calculating **Total Debt Service Ratio** – the total debt load should not exceed 40% of the gross monthly household income. This includes all debts; credit cards, loans, etc.

40% of \$5,500 gross monthly income = \$2,200 in maximum monthly debt load.

2) WHERE TO BUY

Before looking at any properties, narrow the decision by considering the size and requirements of the family, the preferred style of the future home, and the preference for location. Taking a drive, or walk, through prospective neighborhoods and talking to local residents is beneficial.

A potential purchaser will need to look at market conditions such as house price trends, mortgage rates and new home construction. If the future resale value is a concern, buying a modest home in the best neighborhood may be wiser instead of the most expensive in a modest neighborhood. The advantages, and disadvantages, of purchasing a new home or a resale should be considered. A Real Estate Sales Representative will provide professional expertise in this decision-making process.

3) THE SALES REPRESENTATIVE

Once the general requirements are determined, a Sales Representative can offer immediate access to a wide range of properties including all properties listed on the MLS (Multiple Listing Service). For listed properties, the Representative receives a portion of the commission paid by the property owner when the home is sold. The Representative will advise the purchaser on the current selling price of comparable homes, arrange appointments to view homes, provide information on the area, obtain details concerning specific properties, negotiate with the selling representative and follow the process through to the purchaser taking possession.

After making the major decision on which property and the price the purchaser is prepared to offer, the Sales Representative will assist in the transaction by preparing a Contract of Purchase and Sale.

4) THE CONTRACT OF PURCHASE AND SALE

The Contract will identify the property and the value of the offer. A consideration is the possible inclusion of Harmonized Sales Tax in the purchase price. HST of 12% is payable on the purchase of any new home. HST is not paid on a previously-occupied home.

If the new home is priced below \$350,000 and the purchaser, or a relative, will be making the home their permanent residence, the purchaser may be entitled to a Federal HST (5% of the 12%) rebate. Between \$350,000 and \$450,000 there is a gradually reducing rebate. The maximum rebate is \$6,300 or 36% of the Federal HST amount; whichever is less.

There is also a rebate of 71.43% of the Provincial portion (7% of the 12%) of the HST paid up to a maximum rebate of \$26,250. Homes priced more than \$525,000 will be eligible for the flat rebate of \$26,250.

A Deposit of approximately 5% to 10% of the purchase price will be required on acceptance of the offer and/or when the subject conditions are removed. Usually, it is the purchaser's Real Estate Brokerage who holds the deposit in trust until the contract is completed or terminated. The deposit forms part of the Purchase Price.

The Completion date will be identified. This is when the balance of the purchase price must be paid. This usually occurs approximately one month from the date of the agreement, depending on the requirements of the seller and the purchaser.

The Possession and Adjustment dates are also indicated and are usually a day or two after the Completion date to allow time for the title registration to be completed. On this day, the purchaser takes possession of the property and also assumes responsibility for all taxes, utility costs, insurance, and any other charges associated with the property.

Subject Conditions are a critical part of the contract as the sale may be dependent upon the purchaser receiving financing, a satisfactory home inspection or reviewing strata documents. The purchaser and the seller need a clear understanding of the commitments stated in the contract before the contract is signed. If the purchaser requires time to sell his existing home, the seller may include a clause allowing him to void the contract within a specified time if another purchaser presents an acceptable offer. This specified time is usually between 24 and 72 hours.

The seller may reject or accept the offer presented to him. Even if the initial offer is rejected, the seller may submit a counter-offer. Various adjustments to the price and conditions may be negotiated before agreement is reached and both parties sign the final contract.

5) HOME INSPECTION AND APPRAISAL

The purchaser would be advised to hire a Certified Home Inspector to fully inspect the property, no matter the age of the home. The inspection ensures the purchaser is made aware of the home's condition and any predictable up-coming expenditure. Although the inspection cost may be around \$500, it is beneficial for protecting the purchaser's investment and ensuring they are prepared for the on-going maintenance costs associated with the property. An independent Appraisal to confirm market value may be required for obtaining a mortgage. In most cases, the mortgage lender covers the cost. If not, the purchaser will be charged for the appraisal.

6) MORTGAGE LOAN

Many different institutions lend money for mortgages including banks, trust companies, credit unions, etc. The cost of mortgages can vary and various alternatives exist for borrowing funds. For most people, a residential mortgage is the largest financial contract they will ever sign and exploring options with different institutions, or using a mortgage broker, can be beneficial.

Basic Monthly Payments to Repay \$100,000

Interest Rate	Amortization Period			
	10 years	15 years	20 years	25 years
4.00%	\$1,011	\$738	\$604	\$526
4.50%	\$1,034	\$763	\$630	\$553
5.00%	\$1,059	\$789	\$658	\$582
5.50%	\$1,083	\$814	\$685	\$611
6.00%	\$1,107	\$840	\$713	\$640
6.50%	\$1,132	\$867	\$741	\$670
7.00%	\$1,156	\$894	\$770	\$701

A first-time purchaser may be able to withdraw up to \$25,000 tax-free from a Registered Retirement Savings Plan to add to a down-payment or to cover other purchase-related costs. To avoid paying tax on the withdrawal, the funds must be repaid to the RRSP within 15 years.

A down-payment of at least 20% of the purchase price provides eligibility for a Conventional Mortgage. If the purchaser provides less than 20%, the lender will require mortgage insurance as protection against any payment default and this is called a High-Ratio Mortgage.

Note: borrowing to purchase a mobile home is not always provided as a mortgage for real property, especially on an older mobile. The down-payment required may be as much as 20% and the amortization period is often shorter, depending on the expected life of the mobile. Also, the interest rate on the loan (approx. 3% over prime) will generally be higher than a mortgage. Discussion with the lending institution will be required.

7) MORTGAGE LOAN INSURANCE

If the down-payment is less than 20% of the purchase price, the loan must be insured. The insurance premiums vary with the percentage of the down-payment and generally are between 1% and 3.15% of the mortgage amount. The premiums can be included in the monthly mortgage payment and an application fee will be charged.

8) INSURANCE

Mortgage lenders also insist on insurance on the property because your home is security for the loan. Your lender may suggest mortgage life insurance to provide coverage should you die before the mortgage is paid. This type of insurance is often available through your lender and the premiums added to your regular mortgage payments.

9) LEGAL FEES

Once an offer is accepted and all the subject conditions identified in the contract have been removed, the purchaser will hire a lawyer or notary to draw up the mortgage documents and tend to the closing details. There is a charge paid to the Land Title Office to register the property into the purchaser's name. There is also a charge for each mortgage that will be registered against the title of the property. The legal fees will be around \$1,000, depending on the number of transactions and disbursements involved. The seller will also have a lawyer/notary to represent their interests.

10) DISBURSEMENTS

The purchaser will be required to pay the out-of-pocket expenses incurred by the lawyer or notary on the purchaser's behalf. This will include various Land Title searches, tax searches, courier costs, photocopies, postage, etc.

11) PROPERTY TRANSFER TAX

The Property Transfer Tax is payable on the purchase of all real property in British Columbia. The tax is calculated based on 1% of the purchase price up to \$200,000 and 2% of any amount over \$200,000. There is a First-Time Home Buyers tax exemption program for homes with a fair market value below \$425,000. A proportional exemption is provided for homes valued between \$425,000 and \$450,000.

To qualify, the purchaser must be a permanent resident of Canada and have previously never owned real property. They must have lived in B.C. for at least one year prior to the application or, have filed at least two income tax returns as a British Columbia resident during the last six years. The purchaser must also occupy and use the property as a principal residence for one year following the purchase and the property must be less than 1.24 acres. The lawyer or notary will determine if the purchaser qualifies for the exemption.

See www.sbr.gov.bc.ca/documents_library/brochures/FirstTimeHomeBuyer.pdf for more information.

12) FIRST-TIME HOME BUYER'S TAX CREDIT

A first-time buyer may also qualify for up to \$750 of income tax relief for eligible costs associated with buying their first home. The credit must be claimed in the same taxation year as when the home was purchased.

13) SURVEY CERTIFICATE

Generally, a mortgage lender will require a Survey Certificate to confirm that the house is within the boundaries of the property, especially if Mortgage Insurance is involved in the financing. The current owner will sometimes have a Survey, especially if there is an existing mortgage on the property. Alternately, the purchaser can obtain Title Insurance, which will usually cost less than a new Survey. A Survey is not required for strata properties as they have a Strata Plan, which identifies the property and boundaries.

14) SERVICE CHARGES AND ADJUSTMENTS

There may be charges to hook up new services and utilities, such as the telephone and cablevision. Reimbursements to the seller may also be required if some bills have been prepaid beyond the closing date. Typical adjustments are property taxes, utility expenses and strata maintenance fees. These adjustments will be calculated by the lawyer or notary and included in the closing costs.

15) MOVING COSTS

Fees for a professional mover, or hiring a moving truck, are usually more for month-end. Availability is also a consideration and arrangements need to be made as early as possible.

REAL ESTATE OWNERSHIP BY NON-RESIDENTS OF CANADA

Lending policies vary depending on the lender and the type of property. Generally, for Non-Residents of Canada, the down payment for a mortgage is 35% on the first \$400,000 and 50% on the remainder. Beside the mortgage and lawyer's fees, other fees to consider are Property Transfer Tax, Goods and Service Tax, Property Insurance and Monthly Strata Maintenance Fees and Levies.

Non-Residents who earn rental income in Canada are subject to tax by the Canada Customs and Revenue Agency. Persons or businesses paying rent to Non-Residents are required to withhold and remit 25% of the gross rental income. The tax withheld can be reduced below 25% of the net rental income if an NR6 form is filed. The form is an undertaking:

- 1) The Non-Resident will file the appropriate tax return and
 - 2) The Property Manager will remit 25% of the gross rental income if the return is not filed on time.
- There can be an exemption from the tax if the projected rental income is less than the projected expenses. Expenses include management fees, interest on mortgage, repairs and maintenance, utility costs, property taxes, etc.

If the rental accommodation is on a short-term basis, a 5% Goods and Service Tax may be applicable which would also enable the owner to claim/defer payment of GST on the purchase of the property and expenditures relating to property.

When real estate is sold by a Non-Resident, Canadian Income Tax will be payable if the selling price is greater than the original cost of the property. A Clearance Certificate from the Revenue Agency must be applied for and given to the buyer. It can take six weeks for a Clearance Certificate to be issued. If the Certificate is not available, the buyer must holdback one-third of the sale price until the Certificate is provided or until the sum is remitted to the Revenue Agency. Then the buyer and the property are protected from further liability. This can be complicated if the existing mortgage exceeds two-thirds of the sale price. Also, if the property has been used as a rental, the buyer's lawyer may request a holdback of up to 50%. It is important that the original property purchase documentation, improvement invoices, etc. are available at the time of sale prior to applying for the Certificate. Non-Residents should contact their accountant or lawyer as soon as an accepted offer has been received on the property.

This guide is for general information only and all material should be verified with the appropriate lawyer/notary/mortgage lender.

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