Kamps Realty Guide for First Time Home Buyers

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Guide for First Time Home Buyers

By Eddie Kamps

Introduction

Buying your first home is an exciting and intimidating experience. It will be the first place you can truly call your own and endless images and ideas will circulate in your head to make your new house a home. It is also a major financial commitment and investment. This guide will prepare you for buying your first home and give you confidence with the process so you can enjoy the experience.

Your Team

Imagine you are the leader of a gang of bank robbers planning a heist. To pull off the job, you need a team composed of individuals with a diverse skill set: a lookout and getaway driver, an alarm specialist, a vault wizard, an inside man, and so on. A team comprised of diverse skill sets and working together helps the plan succeed.

You will need to assemble a similar team to buy your first home:

- Realtor – your realtor represents you in the transaction, helps find properties that meet your criteria, organizes showings, drafts the purchase contract, negotiates on your behalf, coordinates with other members of the team, and assists with closing.
- Lender – your lender, typically your bank or a mortgage broker, provides financing through a mortgage. Your lender will tell you how much you can afford, will scrutinize your finances, and secure funding for your home purchase.
- Lawyer – your lawyer will execute the purchase contract agreed upon by you and the seller, prepare all of the legal documents to support the sale, and dispense legal advice should you require it.
- Home inspector – is a qualified professional who will examine the condition of your home and provide an independent assessment as to its condition.
- Condo checker – if you are buying a condominium, your condo checker will examine the records and financial statements of the condominium and will identify any issues with its financial picture, such as low reserves or prior special assessments.

Overview of the Home Buying Process

The home buying process is the events and activities that need to occur for you to find and buy your first home. It can be a bit complicated, especially with some of the legalese, so it is best to think about it in five broad phases:

- Preparation - the best insurance policy against high stress and a potentially blown deal is preparation. Before you seriously look on MLS and with me, get your ducks in a row to ensure a smooth process later. Get all of the documents your lender requires (listed later), check your credit score and credit report for fraud, create a budget for owning a home, and know how much you can afford. This will focus your search optimize your time, and give you the confidence that you are ready to make an offer and buy a home. Getting a pre-approval from your lender allows you to transition to the next phase
- Prospecting, Home Search and Making an Offer - this is the most fun part of the process before walking across the threshold for the first time. You will visit showhomes, go to open houses, and tour listings. I'll be with you and provide you with all the information and advice needed to get you into the home of your dreams. Once we find your home, I will draft an offer in a legal contract in accordance with your wishes, with the
  - Purchase Price
  - Possession date/closing date - the date when you will get the keys and officially own your home
  - Conditions - these are conditions that need to be satisfied for the contract to come into effect. They protect you and make sure you can walk away from the deal should you not be able to get financing from a lender or if there is something wrong with the property. We need to discuss the details further beyond what is in this guide
  - Deposit - you need to provide a deposit to the seller (usually $1000-$10000) to make the contract legal and enforceable. Should you need to walk away from the deal if you can't get financing or the property is in worse condition that you thought, this will be returned to you. Again, we need to discuss the details beyond what is in this guide.
  - Chattels - if the seller has appliances, furniture, or any item you want included in the purchase price, we can list it in the contract

  Once you and the seller agree to the terms of the contract, you transition to the next phase.

- Waiving Conditions - this is the most stressful phase as there is a limited time for you to satisfy the conditions in the contract and I will help you every step of the way. There are many things that need to happen, but among the most important is a home inspection and getting a mortgage. A home inspector will need to go through the property to make sure there are no hidden problems and to advise you of the condition of the property. This protects you from buying a lemon of a house. You also need to secure a commitment from your lender for financing in the form of a commitment letter. This is a document from the lender stating that they will give you a mortgage. Once you are satisfied with the home inspection and have a commitment for financing, you can waive conditions and the deal is secure and the contract is enforceable.
- Preparing for Possession Date - once the deal is secured and you are locked in to owning your home, there will be a period of several weeks before you can get the keys. Lawyers will need to prepare the documents for you to sign and financing needs to be arranged. You will need to arrange for utilities to be hooked up, to provide proof of fire insurance, and to sign documents with your lawyer.
- Taking Possession and Enjoying Your New Home - on possession day, I will meet you at your new home at noon with the keys. Once your lawyer advises you that the banks provided the funds and that there are no last-minute snags, you can open the door to your new home. I will do a walkthrough to make sure that the contract was followed. All you have to do is enjoy!

	Main Idea	What You Need to Do	Costs to You
Preparation	Ensuring you are ready for the home buying process	Start to list needs and wants Gather all documents that the lender will require. Properly name and organize them	Travel expenses to see homes
Prospecting, Home Search and Making an Offer	Searching for properties and making offer	Go to showings, open houses, and show homes Communicate with your Realtor, provide feedback on properties Have fun!	Travel expenses to see homes
Waiving Conditions	You agree to terms with the seller, such as closing date, purchase price, but subject to conditions	Get bank draft for initial deposit Submit documents to lender, provide whatever information is required Arrange home inspection (I will assist you with this) Arrange for condo document verification	Initial deposit - This will be subtracted from the amount required for your down payment Home inspection Condo document verification Home appraisal (may be required by and/or covered by your lender or mortgage broker)
Preparing for Possession Date	You waive conditions and secure the deal. Await closing day	Get bank draft for second deposit (if required) Arrange for home insurance. Provide proof to lawyer Arrange for utilities hook up Get a bank draft for the balance of the down payment, legal costs, and adjustments. Your lawyer will advise you of the amount Arrange moving	Second deposit (if applicable). This will be subtracted from the amount required for your down payment Home insurance premium Cost to start utilities and services Title insurance premium (if applicable) Mortgage default insurance (if applicable, added to your mortgage)
After Closing	Closing Day – the day when you get the keys to your new home and begin home ownership	Ensure property taxes are paid by verifying with the city or municipality Submit school election form File legal documents Create home maintenance plan and budget	Moving expenses Cost to change the locks Cost of any improvements you would like to make

Financing

The purchase price of a home is in the hundreds of thousands of dollars and most people will require a mortgage to buy one. A mortgage is a loan against a real asset, like a house, which the borrower has to repay over a certain period. Unless you are buying your first home with cash, you will need to obtain financing from a lender like a bank or mortgage broker. The lender will review your financial picture and the home you would like to buy and will provide you funds in the form of a mortgage so you can buy your first home. Once you have bought your home, you are responsible to make regular payments of the principal (the amount of the loan) and interest. The amount of your mortgage will depend on the amount of your down payment, or the amount of money you pay upfront toward the purchase price of your home.

There are many different types of mortgages on the market and can be defined by the following features:

- Interest rate – this the percentage of interest you will pay on the mortgage and come in two common types: fixed and variable. Fixed rates do not change over the term of the mortgage while variable rates can change over the term.
- Term – the term is the length of time that the interest rate is applicable. Common terms are 1, 2, 3, 4, 5, 7, and 10 years
- Amortization period – is the length of time that it will take to pay off the amount of the mortgage
- Payment periods – mortgages can be paid with various frequencies, such as monthly, semi-monthly, bi-weekly, and weekly. Accelerated options include extra payments during the year to pay down the mortgage more quickly.

Tip: many borrowers match the payment period to their pay schedule. For example, if you receive your paycheque twice per month, consider making semi-monthly mortgage payments. Discuss this with your lender when discussing mortgage terms.

- Pre-payment terms – lenders will allow the borrower to make extra payments to their mortgage up to a certain amount by specifying a percentage amount that the borrower can pay in a lump sum and increase their monthly payments without penalty. For example, a pre-payment term of 20/20 allows a borrower to pay 20 percent of the principal in a lump sum and increase their monthly payments by 20 percent in a given year without penalty
- Open vs Closed – open mortgages allow the borrower to repay some or the entire loan at any time without penalty. If a borrower wants to repay the entire loan or change the terms of the mortgage, the lender will levy a penalty. For example, if a borrower would like to take advantage of lower interest rates on a closed mortgage, the lender will charge a penalty for breaking the terms of the mortgage. Open mortgages are more flexible and usually have a higher interest rate than closed rates

Your lender is a critical person in the home-buying process and they will guide you through to an approval. A lender will review your finances and ensure that you are able to afford the home that you would like to purchase.

One critical factor in obtaining a mortgage is the amount of your down payment. While the amount of your down payment affects the size of your monthly payment, it also determines if you need to purchase mortgage default insurance. Default insurance insures the *lender*, not you, should you not be able to make your payments. The Canadian Mortgage and Housing Corporation (CMHC) is the most common insurer. This type of insurance is required on all home purchases with a down payment between 5 percent (the minimum down payment) and 20 percent. You pay the premium at the time of purchase and it can be added to your mortgage balance. The amount of the premium is dependent upon the amount of the down payment and the mortgage amount. Mortgage default insurance is expensive. Go to the CMHC website and run a few scenarios in their online calculator.

Before the lender will review your file, they require documentation from all purchasers and will ask to see (non-exhaustive):

- Identification: a piece of government photo ID showing your current address
- Employment and Income Verification:
  - Employment letter
  - Recent pay stub
  - T1 General and Notice of Assessment for the last two years
  - If you are self-employed or own a corporation, the lender will ask for
    - Articles of incorporation
    - Financial statements for the last two years
    - Proof of taxes paid
- Financial Information:
  - Net worth statement or a list of assets and liabilities
  - Direct deposit form
- Confirmation of down payment – the lender will want to verify that you have the down payment in your bank account from non-borrowed funds. Borrowing your down payment increases risk to the lender and they will not fund your mortgage without a down payment. A lender will require bank statements showing your name and account number proving that you have had the funds in your account for 90 days or proof of the source

Tip: if your parents are helping with the down payment, they will need to sign a letter confirming that it is a gift and that you have no obligation to repay. Talk to your lender about the details.

Your lender will take your information and will calculate your Gross Debt Service Ratio (GDSR) and your Total Debt Service Ratio (TDSR). Your GDSR relates the monthly obligations of owning a home whereas your TDSR adds your other loan payments to the GDSR. It is not important how these ratios are calculated and with what interest rates. You can get an idea of home much you can afford by using a home affordability calculator online. Your lender will also inform you of the upper limit you can afford.

You should get two things from your lender before you start home shopping: a rate hold and a pre-approval. Since interest rates change frequently, a rate hold is valuable as it guarantees an interest rate for 120 days. If interest rates go up, you can get a loan at the lower rate. If interest rates go down, you are under no obligation to borrow at the rate of the hold. The other ask to your lender is for a pre-approval, which is a document stating the highest price you can afford on a home for the lender to provide you with financing. You should not look for homes with an anticipated purchase price higher than the amount of the pre-approval. It is important to note that this does not guarantee financing, but it is a useful guide.

Several programs assist first-time homebuyers with their purchase.

- Home Buyers' Plan - allows first-time homebuyers to contribute to their down payment by withdrawing funds, tax-free, from their registered retirement savings plan (RRSP). The funds are then paid back in instalments over up to 15 years[1]
- Home Buyers Amount - is a non-refundable tax credit of up to $5000 when you purchase your first home and submit a tax return[2]
- First Time Home Buyer Incentive - helps qualified first-time homebuyers reduce their monthly mortgage payments without adding to their financial burdens by offering a shared-equity mortgage with the Government of Canada. The government shares in both the upside and downside of the property value. By obtaining the Incentive, the borrower may not have to save as much of a down payment to be able to afford the payments associated with the mortgage[3]

[1] Canada Mortgage and Housing Corporation
[2] Financial Consumer Agency of Canada
[3] Canada Mortgage and Housing Corporation

Looking for a House

Looking for your new home is the fun part! Attending showings, going to open houses, and seeing showhomes is the most exciting part of the home buying process. Exposure to different types of homes will refine your list of needs and wants and will get you to think differently about what you are looking for. The possibilities are endless, so I distilled your journey into a series of decision you need to make to focus your home search. Feel free to make mental or physical notes while reading this!

Decision: Needs vs Wants

	Factor	**Need**	**Want**
Home	Type (Detached, Attached, Apartment)		
	Number of Bedrooms		
	Home Office		
	Storage		
	Bonus Room		
	Basement		
	Laundry		
	Garage		
	Deck/Patio		
	Lot		
	Other Features		
	Other Features		
Location	Work		
	Schools		
	Activities		
	Recreation		
	Other		
Community	Setting (Urban/Suburban/Rural)		
	Neighbourhoods (Specify)		
Other	Absolute Wants		
	Absolute Do Not Wants		
Exit Strategy	Sell/Keep		
	Timeframe		

Decision: Housing Types

	Pros	Cons
Detached – Front Garage	• Largest in size • Owner has the most control over the property • Higher end finishings • Most garage and storage space	• Highest purchase price, especially closer to downtown • Highest cost of home maintenance
Detached – Laned **(rear detached garage)**	• Large in size • Owner has the most control over the property • Higher end finishings • Very good garage and storage space	• Higher purchase price, especially closer to downtown • Higher cost of home maintenance
Semi-detached/Duplex	• More affordable than detached homes • Located throughout the city with wide range of features and finishings, from basic to luxury • More control over the property compared to townhouses and apartments • No condo fees or rules	• Shared wall with a neighbor compared to detached homes • Maintenance costs are borne by the owner, compared to townhouse and apartment condos
Townhouse	• Option for those who want more space than an apartment condo but are price sensitive • Located throughout the city with wide range of features and finishings	• Most have condo fees • Lowest control over the property • Subject to rules and regulations of the condo board • Possibility of special assessments and levies
Apartment	• Lowest purchase price • Least amount of maintenance required • Located throughout the city, concentrated in highly desirable areas to live for younger people	• Lowest amount of space • Condo fees • Lowest control over the property • Subject to rules and regulations of the condo board • Possibility of special assessments and levies

Decision: Buying New vs Resale

A new home is purchased from a home builder, with you being the first owner. You have lots of control over what the home will look like and can configure and customize it to your tastes and preferences. These are typically located on the edges of the city in new communities. The Alberta New Home Warranty program provides coverage to new homes but are also subject to GST.

Resale homes are put up for sale by their owners and have been previously lived in. Resale homes make up the vast majority of the market and are located throughout the city. The Alberta New Home Warranty program may still cover certain parts of the home, depending upon when the house was built.

Decision: Urban or Suburban or Rural

Choosing the setting is a critical decision and will significantly influence the property types available to you. Urban living is characterized by living close to downtown and the amenities that are located in a major centre. Life in the suburbs provides more space and affordability than urban living while still being relatively close to the concentration of jobs. Rural living provides peace and quiet without inner city problems at the expense of amenities and convenience.

Decision: Freehold vs Leasehold vs Condo

This refers to the ownership of the property. Freehold means you own the building and the land on which it rests, subject to local bylaws. Freehold is the most common form of ownership. Leasehold means you own the building but lease the land; this form of ownership is not very common. Condominium is a form of ownership in which an owner own a unit (ie an apartment) in a building but also owns a proportional share of the common areas with the other owners. A condominium corporation is responsible for the care and maintenance of the common areas, such as lobbies, elevators, hallways, windows, the exterior, and the landscape. Owning a condominium unit entails paying condo fees, which often include insurance and some utilities, and are subject to the rules and regulations of the condominium corporation.

Tip: freehold is generally easier to cash flow compared to a condo if you intend on keeping your home as an investment property

Costs to Buy a Home

Although every circumstance is different, these are typical costs that you may encounter while buying a home:

Item	Cost
Home inspection	$400-$600
Legal fees	$800-$1500
Condo document review	$300-$600
Home appraisal (may be required by your lender)	$300-$500
Title insurance	$200-$500
Mortgage default insurance	Varies based on the purchase price of the home and the amount of the down payment. Consult an online calculator to estimate for your particular circumstances
Adjustments – depending upon the date of closing and who has paid or not paid certain costs of owning the home, there may be additional funds required to close. For example, if seller paid the property taxes in June with an August close, the buyer will need to reimburse the seller for the portion of the year the buyer owns the home but does not pay taxes to the city	Varies based on date of closing and timing of payments. Adjustments can be several thousand dollars

Note: unlike most other provinces, Alberta does not have a land transfer tax

Costs to Own a Home

Owning a home entails a significant financial commitment and is more financially complex than making a single rent payment. Consider these costs when creating your budget:

- Mortgage payment
- Condo fees
- Property taxes – ask your Realtor for the most current property tax amount when choosing between homes
- Homeowners Association (HOA) – many neighbourhoods in Calgary levy annual HOA fees to cover the cost of neighbourhood maintenance and operation of a community association or amenities. These are usually several hundred dollars per year. Ask your Realtor for the last annual amount
- Insurance – your lender will require you to have fire insurance at a minimum. Insurance will also protect you from damage incurred by some weather events and other perils. Cost will vary by housing type, home value, location, date of construction, and numerous other factors. The cost is usually a hundred to several hundred dollars a month
- Maintenance – upkeep is your responsibility. The cost will be highly dependent upon how new your home is and what the condition is, but budget at least a hundred dollars a month for minor repairs

Tips and Advice

Credit Score

Check your credit score early in the home buying process. Checking your credit history will provide early detection of any outstanding issues that can inhibit your ability to obtain financing. This will alert you and give you time to fix any problems if a fraudster has compromised your credit report. Doing this early is less stressful than frantically trying to resolve a problem when you are in the middle of a deal.

Be Organized

Properly name the documents that could be required by your lender to make it easier on them. For example, consider a naming convention like "Employment Letter – John Doe – ABC Corp" and "Investment Statement – TFSA – XYZ Bank – John Doe – 2020 September" so the contents are easily discernible. Have them in the same folder on your computer for easy access. Putting in this extra effort is courteous and professional and it will buy you goodwill if you need your lender to make a tight timeline. It will also significantly reduce your stress.

Net Worth Statement

While this may not be a strict requirement of all lenders, consider building a net worth statement if you do not already have one. A net worth statement is a list of assets that you own and a list of liabilities like loans. It gives a snapshot of your financial picture for you and your lender and ensures no items are missed.

Legal Fees on New Builds

The homebuilder will often include legal fees as a part of the deal provided you use their lawyer. If they don't, ask for it during the negotiation process as this could save you hundreds of dollars.

Affordability

Many banks and mortgage brokers have affordability calculators that will tell you how much you can spend on a home given your income, debts, and other factors. However, just because you *can* afford a certain purchase price or monthly payment does not mean you *should*. Consider your risk tolerance before committing to a home that may be out of your financial comfort zone.

Longer Amortization Periods

All things being equal, a shorter amortization period will make your payments higher but will lower the amount of interest you pay to the lender over the life of the loan. Many people will advise you that paying off your mortgage earlier is better. While this is usually good advice, it can impair your ability to obtain future financing should you want to invest in real estate. Choosing a shorter amortization period increases your monthly debt obligation to a lender and it could limit your ability to acquire more properties. Choosing a longer amortization period lowers this monthly debt obligation and makes you appear more credit worthy. Should you want to pay off your mortgage sooner, make additional prepayments within the terms of your mortgage.

Cost + Renovations Mortgages

If there is a home you love but it needs substantial renovations, there are mortgage products that permit you to add the cost of renovations to the mortgage. Be aware that this option exists and that there are terms and conditions that require a detailed discussion with your lender.

Documentation

Keep all of the documents (hard and soft copies) from the home purchase in a file folder for future reference and use. You will likely need the real property report (RPR) when selling the house and other documents for tax purposes.

Property Taxes

Check with the city or municipality approximately 30 to 60 days after you take possession and verify that all property taxes have been paid.

Exit Strategy

Have an exit strategy with your first home so you can maximize value to you over the long term. The cost of selling and buying real estate is high. Consider how long you intend on living in your home and be aware of the costs of buying and selling. Make pragmatic decisions now to avoid expensive decisions later. For example, buying your first home with an exit strategy of keeping it as an investment property in five years will impact your buying decision now

Buying with Another Person

If you are buying your home with another person to whom you are not married, ensure that you discuss what your goals are with the property, your exit strategy, what will happen in the breakdown of the relationship, or if circumstances change. There are many different issues and scenarios to discuss. Consider consulting a lawyer and having a contract drawn up to protect your interests and avoid an expensive or acrimonious split with your partner.

Secondary Suites

A secondary suite is a separate living space contained in a larger dwelling. A common example is a detached home with a basement suite. The main benefits to buying a home with a secondary suite are having extra income to help you pay the mortgage and providing you with a potentially cash-flowing investment property as a part of your exit strategy.

Chronic Problems

When choosing between homes, be acutely aware of those little, every-day issues that may appear minor but can be insufferable if you need to live with them on a daily basis. Longer walks to your transit stop in winter weather will cause you stress over time and may justify a move to a new home sooner than anticipated.

Have a Home Maintenance Plan and Budget

Relieve stress and mitigate the impact of future unwanted events by having a home maintenance plan and budget. Use the home inspectors report as a guide and list the issue and cost of any work that is required. Either prioritize as high, medium, and low or put each project on a timeline and save for them.

Automatically Save for Home Expenses

Taxes are due at the end of June for Calgary residential properties. Rather than scrambling in the weeks before to come up with your property tax payment, divide the annual property tax amount by 12 and automatically transfer that amount into a savings account. Do the same for any other major expenses

School Election

In Calgary, new homeowners will be sent a form shortly after possession asking them to elect supporting the public or separate school system. Look for it in the mail.

Publications

Read my other publications for more information about the Calgary real estate market and home ownership:

- The Impact of the Green Line on Real Estate Values
- The Impact of the Southwest Ring Road on Real Estate Values
- The Impact of the Calgary Event Centre on the Calgary Real Estate Market
- Subtle Home Buying Factors for Young Families
- COVID-19, the Oil Price War, and the Calgary Real Estate Market