

The Process of Buying a Home: How it all works

Preparing a game plan

Save you're self-time and money with a buying game plan. Before getting in the car or surfing the Internet, buyers should establish a buying game plan suited to their specific needs. There are several benefits of meeting with a Banker or Mortgage broker early in the process. This will help determine the mortgage amount you are comfortable with (not necessarily the maximum you can afford!). Most banks offer guaranteed interest rates 60 - 90 days. This can save you thousands of dollars should interest rates increase during your search for a home. When your Realtor eventually presents an offer for you, a mortgage pre-approval will strengthen your offer to the seller. This could be crucial if you are dealing with a competing offer on the same property.

Take your time establishing your needs and wants (try our wish list) to properly prepare a home buying strategy. Homebuyers must first examine their lifestyles, needs, and budget. We will estimate all costs related to buying the home including closing costs, taxes, appraisals, survey, loan application fees, legal fees, etc. Home buying can be a very emotional experience. Taking the time for necessary preparation will make the offer process much less stressful!

Interviewing and choosing a agent

The Real Estate Industry is unique. Generally all commissions payable are the responsibility of the seller. Many buyers don't take the time or know the questions to ask when hiring a Realtor. Buyers that do take the time to find the right agent will have a better experience when buying a home. Do not underestimate the importance of finding a good Realtor.

Some of the general things you should be looking for in a Real Estate agent are:

- Has the Experience and Qualifications to help you find a home and negotiate its purchase.
- Knows the market and market values.
- Is full time and will work hard for you.
- Has the resources to protect your interest.
- Will keep you well informed throughout the process.
- You are comfortable with.
- Will not pressure you.
- Most important - Puts your needs first (Cares).

Lets get started

The first thing we can do to save you time, money, and frustration is meet to discuss your needs. Every one wants to rush out and start looking. Remember you have a game plan. By taking the time early we can properly learn your needs. Lifestyle, schools, amenities and recreation are a huge part of buying a home. We want you to be happy long after the moving day.

1. Mortgage Pre-Approval:

When you apply for pre-approval with a bank or mortgage broker, you answer questions about your financial position, debt load, and credit history. It makes sense to do this in advance because then the actual mortgage application is half way done. There is usually a fixed time period (either 60 or 120 days) for which lenders will offer a certain size mortgage at a specific interest rate, and they will confirm this in writing.

The advantages to being pre-approved are:

- a. You know your price limit.
- b. Your offers are taken more seriously by sellers.
- c. You're protected from any rise in interest rates.

2. Wish List:

In the appendix of this guide, you will find a wish list for you to complete and discuss with your realtor. This will give both of you a clear understanding of what your needs and wants are.

Once the initial steps have been completed, its time to pick out some homes to view. After viewing homes and listening carefully to your comments, we will help determine the ideal home and area for you. Sometimes this process happens very quickly and in other cases it can take several months (or longer) to find the right home.

We have instant access to all listings on the multiple listing service as they come available (not just our listings). We generally know about properties long before they hit the newspapers or other sources. We are constantly searching to find the right property.

Quick Service with the MLS System

Our Real Estate Board has a computerized MLS system. Detailed searches can be done for specific neighbourhoods, price range and other needs.

You can also view MLS listing advertisements via the National Internet Web site, www.realtor.ca. It features area maps, colour photographs and other details of all available properties. However [realtor.ca](http://www.realtor.ca) only give you the basic information (30%) about the listed homes. If you want all the available details on the listing on [realtor.ca](http://www.realtor.ca), you can set up an account on my website at www.sarapickering.com.

What to expect when you look at homes

You may or may not see your perfect home the first day.

You may NOT see many homes before you find the perfect home! It is not uncommon for Home-buyers to find the perfect home on their first or second day of viewing.

You MAY be competing with another offer when you do decide to purchase a home.

We do our best to pre-screen every home. However, you may see some homes, which do not meet your criteria. Unfortunately, these are often some of the most difficult to forget!

Many buyers instinctively know when you have walked into the perfect home. If it doesn't feel right - it usually isn't. You'll never be pressured to buy.

Often the best properties are new to the market. However don't discount properties that have been on the market for some time.

My promise: Whether I show you 5 homes or 50 homes, I will do whatever it takes to find you the right home. You will never be under any pressure.

What's out There?

The marketplace offers both resale homes and new homes. I have vast experience with both! Both have several advantages and disadvantages such as warranties, established neighbourhoods, mature landscaping, and maintenance issues to name a few. We may be looking at several of each type of home.

Touring and choosing a home

Look first at your needs then your wants:

- What type of heating system does it use?
- What about the roof and foundations?
- What about the plumbing?

These are just a few of several points to consider.

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Don't expect to look at every detail the first visit. Once the search is narrowed to a few homes they can be examined in great detail. Offers are almost always conditional on a professional building inspection.

Don't let emotion cloud your judgment. Satisfy your needs first. The important thing is to find the best available home. Try not to get too caught up in trivial matters such as colours or fixtures that could easily be changed.

Making an offer on a home

In the offer, you are:

- saying how much you're willing to pay;
- suggesting a closing date;
- proposing a set of conditions; and,
- stating when the offer expires.

The deposit is usually payable when all conditions (subjects) have been settled and is usually 5-10% of the purchase price. This deposit is held in a trust account and transferred to your lawyer before completion as part of the down payment.

The seller's agent is bound by law to bring all offers to the seller's attention. After your offer is accepted and all the conditions are met, the offer becomes binding on both sides. If you walk away from the deal at that point, you may lose your deposit. You may also be sued for damages. Therefore, make sure you understand and agree with all the terms of the offer before signing.

Conditions

Most offers carry some kind of conditions, which have to be met before the sale is complete. Some common types of conditions are:

- You getting a suitable mortgage (includes the amount, interest rates and any other terms you feel important);
- You selling your current home (the seller may continue to look for a buyer, but will give you the right of first refusal);
- The seller providing a current survey, showing the location of the house on the property owned by the seller and that there are no encroachments;
- The title to the property to see if there are any liens on the property, easements, rights of way or covenants;
- If there is a septic system, having it inspected;
- We will always recommend you have the home inspected by a professional building inspector.
- Any inclusions - basically, what stays and what goes.

The seller may counter your offer by changing the conditions, price, or both. Look at the counter offer in terms of what you're looking for in a new home: how does it fit in? And you can, of course, counter the counter offer.

Strong and Weak Offers

Strong:

- Reasonable Price
- Few or No conditions
- Meeting possession date requirements of the Seller
- Adequate deposit
- Few inclusions
- Pre approved mortgage

Weak:

- Too low price
- Too many conditions
- Low deposit
- Too much time required to satisfy conditions
- No Pre-approval

Multiple offers

We try to avoid multiple offer situations if possible. However some properties generate a great deal of excitement and the multiple offer cannot be avoided. If we write an offer that is competing with another we recommend:

- Write an offer for the most that you would want to pay for the home - that way you have nothing to regret if you don't get it.
- Remove unnecessary conditions.
- Know that in multiple offer situations it is not unusual for a property to sell for more than the listed price.

Mortgage Information

A quick way to see how much you can afford is to use the gross debt-service formula (GDS). Here, the Principal, Interest and Taxes (PIT) on your mortgage loan should not exceed 30 per cent of your gross income. Increasingly, financial institutions will factor energy costs into the PIT formula, moving the rule of thumb GDS from 30 to 32 per cent. You can work it out in reverse: multiply the monthly payment on principal, interest and taxes (included any condominium maintenance fees) by 40. So if your monthly payment for these items is \$1,000, you'll need a gross annual income of at least \$40,000. Discuss your mortgage limit and different types of mortgages with your mortgage broker before you

begin looking for a new home.

Top of Form

Types of Mortgages

Pre-approved Mortgages:

Pre-approval means that you, as a buyer, have qualified in advance for specific mortgage amount, contingent upon the lender approving the property. Many financial institutions offer pre-approved mortgages, with your interest rate guaranteed not to rise for a certain period.

Conventional Mortgages:

Most banks and trust companies offer standard loans using the property as security and require you to make a monthly blended payment including principal and interest. Conventional mortgages require at least 25 per cent of the purchase price as a down payment.

High-Ratio Mortgages:

If your down payment is less than 25 per cent, you can still qualify for a mortgage, but you will need mortgage insurance. Canada Mortgage and Housing Corporations (CMHC), a federal crown corporation, and GE Capital Mortgage Insurance Company, a private company, provide insurance for high-ratio mortgages. In many cases you can now buy with as little as 5 % down.

Vendor Take-Back Mortgages:

The seller underwrites part of the purchase, as a loan to be repaid by the buyer. These are often used as second mortgages, to bridge any gaps or to make the property more attractive to the buyer.

Open and Closed Mortgages:

Open mortgages allow you to make extra payments on the principal and to pay off the balance at anytime, reducing your borrowing costs. Closed mortgages have less flexibility with restrictions on prepayment. However, interest rates for these mortgages are generally lower. There are also partially open mortgages that have some of the characteristics of both open and closed mortgages. Just as there is a range of mortgage types, there is also a range of repayment schedules. As well as the traditional monthly payment plan, there are now semi monthly, biweekly and even weekly payment schedules. Accelerated repayment schedules reduce interest charges but require higher payments. You may also choose a shorter amortization period, or mortgage "life". It raises your monthly payments but reduces the amount of interest paid.

Those Extra Expenses

Inspection Fee

We recommend that you have an inspection performed by a professional Building Inspector and that YOU be satisfied with the report as one of the conditions to your buying the home. The inspector may bring to light areas

where repairs or maintenance are required. This will assure that the home that you are buying is structurally sound.

- We will be happy to provide you with a list of qualified Home Inspection Companies.
- We will be present at all home inspections.
- Estimated cost of a home inspection is \$400 - \$600 depending on the size of the home

Mortgage Application Fee

Some lenders charge a mortgage application fee for processing your application. If your request for a mortgage is turned down, your fee is returned to you. If your mortgage is a CMHC insured mortgage there will be an application fee payable to CMHC of between \$75 - \$235. (Ask your mortgage broker if this is applicable)

Appraisal Fee

The lender providing the mortgage will hire an appraiser to ensure that the home you are buying meets its criteria for a mortgage. If you have a substantial Down Payment many lenders will waive this fee or absorb the cost provided that YOU ask to not be charged for the appraisal. (Ask your mortgage broker if this is applicable)

Legal / Notarial Fees

You must retain either a Lawyer or Notary to act for you in the buying and mortgaging of the property.

- Estimated cost of legal fees for a purchase is around \$800 for a house and \$900 for a strata property.

Property Purchase Tax

This is a tax levied by the Province of British Columbia. It is calculated as 1% on the first \$200,000 and 2% on the balance of the purchase price. First time homebuyers are exempt from this tax up to \$450,000 (some restrictions apply).

Home Insurance

All homes must have adequate insurance coverage against fire, and other risks of loss, theft and liability. Your mortgage lender requires that you provide your lawyer or notary with proof that your insurance is in place by the completion date – this is called an insurance binder.

Moving costs

Whether you hire a national moving company or do-it-yourself, there are some costs involved.

Hint: Moving in the middle of the month can be much cheaper and less hectic than at the end of the month.

Survey Certificate

The lender may require this and if unavailable, or if the existing survey is unacceptable to your lender, then a new one must be prepared. The average

cost is approx. \$270. (Ask your mortgage broker if this is applicable)

GST

This Federal Tax is payable on all NEW construction. However, if the property is to be the principal residence of the Buyer then there is a rebate of approximately 2.5%. Often the builder pays the tax as part of the Purchase Price so that it is covered in the mortgage.

Mortgage Brokerage Fee

As there are many varied financing options available to ALL buyers today, many buyers use a Mortgage Broker to help them find the best package to suit the Buyers individual needs. Normally the Mortgage Broker is paid by the Lender and the service to the Buyer is free. However, if the Buyer cannot obtain financing from a Bank, Credit Union, or Trust Company then a Broker may find a private lender. In this case, a negotiated fee would be charged. (Ask your mortgage broker if this is applicable)

Annual Property Tax adjustment

If the previous owners of your new home paid the property taxes for the year in advance, the tax paid is pro-rated to the closing date and you have to reimburse the sellers for the time that you occupy the home. The reimbursement is called an adjustment and will appear on the Statement of Adjustments provided by your lawyer.

Closing

Before the house can formally change hands, there are still a few things to do. You will need to arrange to meet with your lawyer to sign documents and provide the closing funds a few days prior to closing.

Your lawyer and the seller's lawyer arrange to transfer title of the property from the seller to you on the closing date. The mortgage money is transferred to your lawyer's trust account, and then to the seller. The lawyer also bills any additional expenses such as property purchase tax and details these expenses in the statement of adjustments. The statement of adjustments should be carefully reviewed.

Finally the Realtor oversees the transfer of possession (you get the keys!).

Welcome home

The above information is partially taken from of the Canadian Real Estate Association. The comments are for information purposed only and do not constitute legal advice.

The Cost of Purchasing a Property

(This worksheet will let you make an estimate of the total cost of buying a home. Some fees and charges may not apply. Please note also, that GST may apply to some of these items).

Purchase price

Additional purchase

Moving expenses

Inspection fee

Appraisal fee

Mortgage application fee

Property survey

Legal/Notary fees

Purchase/mortgage

Disbursements

Estimated total legal/notary

Land transfer/sales tax

Interest adjustments

Utility adjustments

Property tax adjustments

Home insurance

Immediate repairs

Appliances, draperies,

Other

Total estimated purchase price:

Documents

The following forms, described briefly below, are commonly used when purchasing a home. Please take the time to review these forms so that when it comes time to complete them it won't be as overwhelming. If you have any questions about these forms or any others, please don't hesitate to ask your agent for more information.

1. "Working with a Real Estate Agent" Brochure: This is an explanation of the relationship between you and your realtor. You will be asked to sign the detachable piece to confirm that you have read and understand this agency relationship.
2. Exclusive Buyer's Agency Contract: Even though your buyer's agent's commission is paid out of the seller's proceeds from the sale, her legal and ethical duties are to you. This contract states that you and your buyer's agent have an agency agreement wherein, the agent will keep your financial and personal matters confidential and act in your best interest to get you the best deal possible, ideally the lowest price and best conditions for you, the buyer.
3. Contract of Purchase and Sale: The contract of purchase and sale sets the groundwork for negotiation, so it should specify the parties involved, the property, as well as the elements on your "want list", and the terms on which you will purchase the house. Your agent will explain the whole document to you when you write an offer. Also, your lawyer or notary will be more than happy to go through it with you and answer any questions that you may have.
4. Property Disclosure Statement: This disclosure statement is a legal document in which the seller describes the condition of the property and all other items included in the sale to the best of their knowledge. If approved, this document will form part of the contract of purchase and sale.
5. Fintrac: The Financial Transaction and Reporting Analysis Centre of Canada requires that we review and record the identification of all parties

involved in a real estate transaction and that we keep this information confidential.

Wish List

Ideal price range: _____
Number of bedrooms - minimum: _____
Number of bathrooms - minimum: _____
Garage - number of cars: _____
Lot size - minimum to maximum: _____
Age of home: _____
Square footage of house: _____
Style of house: _____
Basement required, If so why: _____
Neighbourhoods wanted: _____
How important is privacy: _____
School Districts wanted: _____
Things the home must have: _____

Things it would be nice if it had:
