CANADA FIRST-TIME HOMEBUYERS GUIDE

2021

www.mortgagesquad.ca

Becoming a homeowner is one of the biggest decisions you'll ever make

And we're excited to help you throught

It might seem daunting but you'll be a home ownership expert by the time you finish reading.

What you should know as a first-time homebuyer?

First off, we at MortgageSquad.ca would like to congratulate you.

Becoming a homeowner, whether you're looking for a house, a condo or a townhouse, is one of the biggest decisions you'll ever make and we're excited to help you through it. While it's exciting, it can also be a little scary. So we created a guide to walk you through the process; from obtaining a mortgage to looking for a great home insurance policy to renovations and closing costs.

It might seem daunting at first but you'll be a home ownership expert by the time you finish reading. If you've already got some of these steps covered, feel free to skip ahead to wherever you are in the process.

So, settle in and get ready to buy your first home. We'll be with you every step of the way.

INTRODUCTION

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2. How to get a mortgage?
3. What is a mortgage term?
4. What is mortgage amortization?
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Mortgage

KEY TAKEAWAYS

- Choosing a fixed or variable-rate mortgage is often the biggest decision you'll make when getting a mortgage. A fixed mortgage will keep your interest rate unchanged during your term, while a variable will fluctuate, meaning it has the potential to go down and save you money -- although the opposite is also true.
- Accelerating your mortgage payments can help you pay off your mortgage faster and lead to you paying less interest over the life of your mortgage.
- You'll have to choose between getting a mortgage from a bank, a broker or an alternative lender. Each of these have their own pros and cons.
- All Canadian homebuyers will have to pass the stress test. This checks to see if you can afford your mortgage payment if interest rates go up.

What is Mortgage?

In simplest terms, a mortgage is a loan given to you by a lender (a bank or broker, for example), secured by property (which acts as collateral). Getting a mortgage means making monthly payments that go toward the interest and principal of your mortgage and you're required to make a down payment on your property in order to qualify for a mortgage in Canada. (Jump ahead to the down payment section for more details).

Most homebuyers need a mortgage to be able to afford a property. As you pay off your mortgage, a greater proportion of your monthly payment goes toward your principal and less goes toward the interest. Some mortgage lenders will allow you to make additional payments toward your mortgage on top of your monthly payments (which can come in handy if you get a bonus or inheritance). That amount will go to your principal, and help you pay off your mortgage quicker.

How to get Mortgage?

You have to apply to a lender to get a mortgage. That lender will assess whether you qualify for a mortgage, how big the mortgage will be and what your interest rate will be. The lender will evaluate you based on your credit score, your employment status, your income and several other factors.

MortgageSquad.ca users have saved an average of over $100,000 throughout the lifetime of their mortgages and we want to do the same for you. Complete the form below to compare mortgage rates today.

You can get a mortgage from either a bank or broker. A rate comparison website like MortgageSquad.ca allows you to quickly compare a number of banks and brokers to see which one will offer you the best rate. Most lenders today will allow you to complete your application entirely online, which makes the process more convenient.

You should make sure you have important documents — such as pay stubs, your most recent credit score and up-to-date personal information — ready when you apply for a mortgage.

What is mortgage terms?

A mortgage term is the period in which certain factors of your mortgage, such as your interest rate and payment frequency, are in effect.

The most common term in Canada is five-years — however, you can opt for mortgages that have terms anywhere from one to 10 years. You'll also find that different terms come with different interest rates. For instance, interest rates on 10 year terms tend to be higher than those on one year terms.

The length of your term should be determined by your future plans. If you believe you'll be selling your property next year, for instance, opting for a five-year term might not make sense since you could be hit with a prepayment penalty. Keep reading to find out more about prepayment, and other things to look for in your mortgage contract.

What is mortgage amortization?

Amortization is the total length of time you're given to pay off your mortgage. The most common amortization in Canada tends to be 25 years.

As your amortization period goes on, you'll find that more and more of your money will go toward principal payments and less will go toward interest. In Canada, the longest amortization period available is for uninsured mortgages and can be as long as 35 years.

Fixed versus variable: What is the difference?

A fixed-rate mortgage has an interest rate which stays unchanged during the period of your mortgage term. Meanwhile, a variable-rate will fluctuate depending on market forces.

This tends to be the biggest debate that homebuyers face when getting a mortgage. A fixed-rate can offer peace of mind, but often comes at the cost of a higher interest rate.

On the other hand, a variable -rate mortgage can offer a lower interest rate right off the bat. That's because banks have the power to raise or lower your mortgage rate depending on the interest rate the Bank of Canada sets, passing on higher rates to consumers and vice-a-versa.

For homebuyers, variable-rates offer the potential to pay less interest over the life of a mortgage if interest rates fall or remain unchanged. They also present risk. If interest rates go up, so will your mortgage rate, which may mean much higher monthly payments.

Due to a number of market factors however, fixed rates on MortgageSquad.ca were lower than variable rates for the majority of 2019. So far in 2020, they remain almost equal. By filling out the mortgage form above, you can lock in a low fixed mortgage rate today.

Open versus closed mortgages

The majority of mortgages in Canada are closed mortgages, which means that you can not pay off your mortgage early without incurring penalties. The specifics of closed mortgages tend to vary from lender to lender — for instance, some may allow you to make additional payments every year as long as you don't fully pay off your mortgage.

Open mortgages, on the other hand, are quite flexible. You can make additional payments or even pay off the entire mortgage without penalty. However, the convenience of doing so is offset by having to pay a higher interest rate. Open mortgages might make sense for investors or those who feel they may sell off their property in the near-term future.

What is an accelerated payment?

An accelerated payment is the ability to increase your monthly payments so that you're putting more money to your principal mortgage payments — allowing you to pay off your mortgage sooner.

Not all lenders offer accelerated payments. Make sure to ask your lender if they do before accepting a mortgage.

What is prepayment charge?

A prepayment charge is a financial penalty you suffer if you pay off your mortgage early if your mortgage term does not allow you to do so. Penalties vary depending on your lender's rules, but oftentimes they can be quite steep.

Those wanting to avoid prepayment charges may want to look at getting an open mortgage, or a mortgage with a shorter term.

How large should your mortgage be?

Your mortgage should only be as large as you can afford. It might be tempting to pay more than you were expecting to when house hunting, but it's important to set a budget and stick to it so you don't run into problems down the road.

Lenders in Canada follow the Canadian Mortgage and Housing Corporation's (CMHC) gross debt service ratio (GDS) when giving homebuyers mortgages — the GDS states that your monthly housing costs shouldn't be any more than 39% of your gross monthly income, though 35% is the standard threshold. Experts recommend that you devote about 25% of your monthly costs to housing, and that you should never exceed 50%.

Banks, brokers & credit unions

There are a variety of lenders in Canada that are willing to offer you a mortgage. It's important to know the difference between them.

Banks are perhaps the most common option for mortgages in Canada, especially as most of us already have chequing or savings accounts with such institutions. However, you won't necessarily always find the best mortgage rates from banks and getting lower rates may require negotiation.

Brokers by contrast shop the market for you, helping your pinpoint what the best mortgage rate is from the various lenders they work with. This may include the major banks. Brokers also have the option to lower a mortgage rate by taking less commission for themselves and passing on the savings to a borrower.

Finally, credit unions in Canada are community-focused lenders that tend to have customers in certain cities or provinces. While they may be less widespread, one advantage credit unions have is that they are not subject to the B-20 stress test — which means that borrowers can potentially qualify for larger mortgages by going with a credit union.

In addition to banks, brokers and credit unions, private lenders offer mortgages in Canada. These lenders tend to take on higher risk clients and charge much higher interest rates. This sector of the mortgage industry is not regulated.

Finding the best rate

The best way to secure a great mortgage rate is to compare the market. Now, we're not trying to sell you on anything, but we do that pretty well.

On average, Canadians can save hundreds of thousands of dollars over the life of their mortgage by using the MortgageSquad.ca mortgage quoter. Our website allows you to compare mortgage rates from 75+ Canadian banks and brokers online, ensuring you'll be able to quickly see the best rate out there.

The mortgage stress test

Getting a mortgage in Canada requires undergoing a stress test to see if you can handle your mortgage payments if interest rates were to rise.

Stress test rules were set to change in April 2020 to make it slightly easier to qualify for a mortgage, but those changes were paused due to the COVID-19 pandemic. Under the proposed changes, borrowers would be required to show they can make payments if mortgages rise to the weekly median five-year-fixed insured mortgage rate, plus 2%. As of early 2021, the new stress test is still on hold and hasn't been implemented.

EXTRA COST

1. Variable interest rates
2. Land transfer taxes
3. Property taxes
4. Property tax and utility adjustments
5. Appraisal fees
6. Title insurance
7. Furniture
8. Even more costs

Extra Costs of homeownership

KEY TAKEAWAYS

- Homebuyers have historically been able to save more money by choosing a variable-rate mortgage over a fixed-rate one. However, since 2019, fixed-rates have been the cheaper option. By late 2020, and early into the current year, fixed-rate and variable-rate mortgages offered comparable savings.
- If you're not from Canada and want to buy a home here, you're going to be subject to a foreign buyer's tax, also known as a "non-resident speculation tax" (NRST)
- Toronto homeowners pay both a provincial land transfer tax and a municipal transfer tax
- Make sure your home-buying budget includes costs like furniture, movers, sales tax, utility adjustments, and appraisal fees

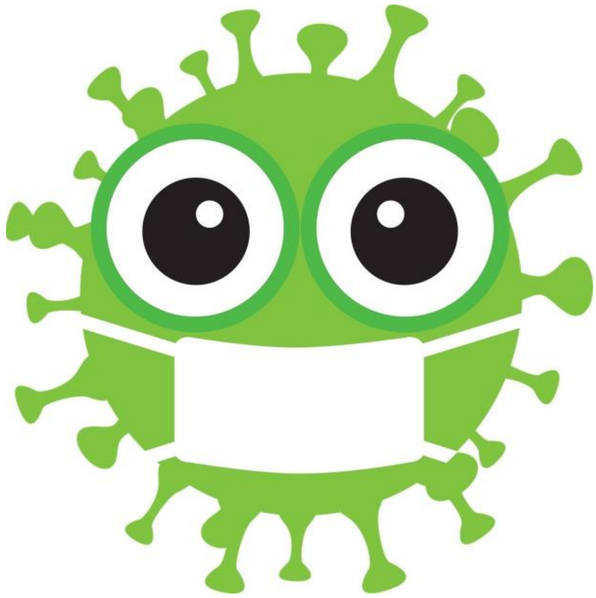
Variable interest rates

When it comes to securing a mortgage, first-time homebuyers are at the mercy of interest rates, especially if they're opting for a variable-rate mortgage.

Hisorically, variable-rate mortgages are cheaper than fixed rate ones. In 2020, however, we saw that trend flip. For much of the year, fixed rates were a few percentage points lower.

By October, the gap between variable and fixed narrowed significantly, to the point where both variable and fixed offered identical rates. That trend continued into early 2021.

COVID-19 has injected uncertainty into the economy so it's hard to say which direction interest rates will go this year. The Bank of Canada (BoC) pressed pause on rate changes between April 2020 and January of this year. Some experts expect the bank to make "micro-cuts" in the future — with the bank's rate at 0.25%, there isn't much lower to go (without getting into negative interest territory).



The bottom line for you, homebuyer, is this: no matter which type of rate structure you prefer, you're almost guaranteed a great rate.

The Canadian government is incentivizing homebuyers to take the leap and buy. In April 2020, the federal government made it easier for more people to qualify for mortgages in the era of COVID-19. Before the pandemic, homebuyers needed to prove they could afford a mortgage at either two percentage points above the interest rate offered by their lender, or at the Bank of Canada's qualifying rate.

Today, homebuyers only need to prove they can handle a mortgage at the weekly median five-year fixed insured mortgage rate, plus a 2% buffer. That's 30 basis points less than the old stress test rate, which will make it easier for many to qualify for a mortgage.

That said, if the bank decides to raise rates sometime this year, then interest rates on variable-rate mortgages will be sure to rise as well, which could result in higher costs for homebuyers than initially anticipated. Interest rates are definitely something to keep an eye on.

Land transfer taxes

In every province except for Alberta and Saskatchewan, you have to pay land transfer tax (LTT) once you close the sale on your new home. The way land transfer tax is calculated varies by province. For instance, in Nova Scotia individual municipalities decide on the tax rate. In Prince Edward Island, the land transfer tax is 1% on homes of $30,000 or more, but in Alberta, where there's no land transfer tax, there's instead a land transfer registration fee, which is calculated as $50, plus $1 for every $5,000 in property value, making it significantly cheaper than LTT.

LTT is paid to the province (and, if you live in Toronto, the municipality as well). The amount of tax you'll pay depends on two things: what you actually purchased the home for, and the amount of debt you had to take on in order to buy it, mortgage included.

If you live in Toronto, the City of Toronto charges homebuyers a municipal land transfer tax that needs to be paid on top of the Ontario land transfer tax.

How will this affect you? Well, let's take the average cost of a detached home in Toronto, which the Toronto Regional Real Estate board pegged at $883,520 as of January. On a house of that value, you would pay $14,145.40 in land transfer tax to the City of Toronto, according to TRREB's land transfer tax calculator And you'd pay that same amount in provincial land transfer tax.

That means your $883,520 home just transformed into a $911,810.80 home.

First-time homebuyers may be able to qualify for a discount on the land transfer tax, though. For example, according to the City of Toronto's land transfer tax calculator, a first-time buyer would pay only $9,670.40 in municipal land transfer tax on a $883,520 home.

Property taxes

Next up on the list of tax expenses is property tax, which is an annual charge that varies based on where you live. If you live outside of a town or a city, then you pay a Provincial Land Tax. If you live within a municipality, then you pay a municipal property tax.

Provincial Land Tax is calculated as follows: current tax rate multiplied by the market value of your property. Keep in mind that the market value of your property is different than the price you paid for your home.

Municipal property tax is based on the municipal tax rate, the education tax rate (which each province sets), and the market value of your property.

Property tax can be paid in instalments or rolled into your mortgage, depending on the lender you're working with.

Property tax & utility adjustments

Depending on when you take possession of your home, you might need to factor in having to pay for things like heat, water, and hydro. For example, if you move into your home in the middle of the month, the previous owners might not have been billed for these utilities yet, which could leave you having to cover the costs.

To avoid this, reach out to the various utility companies and find out the status of the account when you move in. You can let them know that you've just moved in halfway through the month so anything charged prior to that needs to be billed to the previous owners.

The same can happen for property tax bills so it's best to get in touch with the appropriate parties to let them know when you took possession of the house.

In order to avoid any surprises, ask your real estate lawyer to track any adjustments that need to be accounted for when the sale of the home closes.

Appraisal Fees

Another extra cost that comes with buying a home is hiring an appraiser to assess the value of the property you're interested in. This can cost anywhere from $300 to $500, though the price depends on your appraiser.

Why is getting an appraisal important? Well, to start, it's a crucial step in getting approved for a mortgage. In fact, lenders will typically get one of their pre-approved appraisers to scope out the home, similar to the way auto insurance companies will try and send you to one of their preferred body shops to have repairs completed.

Title Insurance

Title insurance protects you against things like forgery, fraud, and identity theft — basically any sort of loss that's related to the ownership of the property. While you're not legally required to have it, you can purchase it via your real estate lawyer or directly from a title insurance company.

When it comes to title insurance, there are two types: owner's policy and lender's policy. An owner's policy, as you might guess from the name, protects the owner. A lender's policy, on the other hand, protects the lender.

Typically, title insurance will cost you a one-time fee of up to $300, but the cost can vary greatly depending on the value of your property and the insurance company that's providing the coverage. It's a good idea to use a title insurance calculator to get a quote.

Furniture

Unless your new home comes fully furnished, which is pretty rare, you're going to need to fill it with furniture. But before you do, you're going to need to take measurements to find out how much furniture your new abode can hold. These measurements will really dictate where you can shop, too. For example, stores like Structube tend to cater to the urban lifestyle, and have a good selection of smaller-sized furniture for apartments and condos. Somewhere like Leon's or The Brick, on the other hand, might be a better bet for those with a lot more space to fill. Of course, if you're trying to do things on the cheap, you might want to consider yard/garage sales, Ikea, websites like Kiiiji or other online buy-and-sell groups.

Even more costs...

Life insurance: Once you have a mortgage, it's probably a good idea to consider life insurance so that you don't leave your loved ones with a big financial burden if you pass away before it's paid off. Sometimes, when you're approved for a mortgage, the bank might also tell you that you're eligible for life insurance, which typically gets combined with your monthly mortgage payment. This is optional, though, so if you're not sure, take some time to compare life insurance quotes from various providers, and see what makes the most sense for you.

Sales tax: If you're buying a newly built home, you might also be subject to a sales tax. This isn't the case in every province, but if it's a reality where you live, there's some good news: you could be eligible for a tax rebate.

Warranty: If you're buying a newly built home, it will come with a warranty. It's up to you to verify whether or not the warranty costs get folded into the sale price or if you'll need to pay them when you close the sale. It's possible, too, that the builder will charge enrollment or solicitors fees, so make sure you ask every question you can think of in this regard.

Movers: Moving is always far more time and energy consuming than you think it will be — especially if your new home is considerably far from your current one. So it makes perfect sense that some people opt to hire movers. If that's the case, great, but just make sure you budget for the expense.

The fee will vary based on whether it's a local or long-distance move, and whether you're hiring them for packing and moving or just moving alone. It's wise to get a quote before you commit to anything. You may also want to consider buying moving insurance from the company you hire. This will protect you in the event that anything is damaged during the haul.

Foreign buyer taxes: If you're not from Canada and plan to buy a home here, you're going to be subject to a foreign buyer tax, often referred to as a "non-resident speculation tax" or NSRT. The point of the NSRT is to deter non-residents from real estate speculation, which happens when foreign buyers or companies purchase property in another country with the hope or expectation that its value will increase in the near future, which then drives up the price of real estate in the area and makes it hard for local residents to afford.

NSRT varies from province to province. For instance, in Ontario, foreign buyers are subject to an annual 15% non-resident speculation tax, whereas in British Columbia, foreign buyers are subject to a 2% tax.

DOWN PAYMENT

1. What is a down payment?
2. What is the minimum amount for a down payment in Canada?
3. How much should you put towards your down payment?
4. What's the 20% rule?
5. How big should your down payment be?
6. What is the Home Buyers Plan (HBP)?

Down payment

KEY TAKEAWAYS

- A down payment is the amount of money you'll pay up front to get a mortgage.
- This amount will be deducted from the overall purchase price of your home.
- The minimum down payment in Canada is at least 5%, but can be more depending on the price of your home.
- Homebuyers have the option to use $35,000 of their RRSP savings for their down payment as part of the HBP.

What is down payment?

A down payment refers to the amount of money you'll pay up front to get a mortgage. This lump sum is deducted from the overall purchase price of your home. Your mortgage will cover the rest of your home's price, which is also referred to as your mortgage principal.

In addition, a down payment can also function as a bargaining tool. The larger your down payment, the more leverage you'll have when you negotiate with your mortgage lender to secure a great interest rate. If you're buying a home and you know how much money you'd like to put towards the down payment, MortgageSquad.ca allows you to compare rates from mortgage lenders in your area and pick the best one.

Our down payment should consist of money you actually have, as it's illegal in Canada to pay for a home entirely through a mortgage. While it's technically possible to take out a loan to finance your down payment, this is inadvisable as you'll then be responsible for paying interest on your mortgage as well as the interest on your down payment.

What is the minimum amount for a down payment?

Unfortunately, the amount you put down isn't entirely up to a homebuyer. In Canada, you're legally required to put down a specific amount (or more) of your home's total purchase price. These percentages vary depending on the price of your home. The rules, outlined by the federal government, specify the following amounts:

PURCHASE PRICE OF YOUR HOME	MINIMUM DOWN PAYMENT
$500,000 or less	**5% of the purchase price**
$500,000 to $999,999	**5% of the first $500,000 of the purchase price, 10% for the portion of the price above $500,000**
$1 million or more	**20% of the purchase price**

- This means that the minimum down payment on a home worth $500,000 would be $25,000.
- On a home worth $800,000, the minimum down payment would be 25,000 (5% of 500,000) + $30,000 (10% of the remaining $300,000), for a total of $55,000.
- On a home worth $1 million, the minimum down payment would be $200,000.

DOWN PAYMENT ON A $500,000 HOME

$25K (Down payment is 5% of the total price)

5% $475K (Mortgage loan principal) 95%

DOWN PAYMENT ON A $800,000 HOME

$25K (Down payment portion 1 is 5% of the first $500K) 3%

$30K (Down payment portion 2 is 10% of the remaining $100K) 4%

$745K (Mortgage loan principal) 93%

DOWN PAYMENT ON A $1 MILLION HOME

$200K (Down payment is 20% of the total price) 20%

$800K (Mortgage loan principal)

How much should you put towards your down payment?

For many first-time buyers, saving for the down payment can be the biggest obstacle to buying a home. As was stated previously, paying more upfront means making a smaller mortgage payment each month and also means paying less total interest. This is an important metric to keep in mind while financial planning, as the Canadian Mortgage and Housing Corporation advises that your housing costs (which include your mortgage payment) should be no more than 32% of your gross monthly income.

Furthermore, when your down payment is 20% or more of your home's overall purchase price, you're not required to purchase mortgage insurance. The next section explains this law, which is typically known as the 20% rule.

What's the 20% rule?

The 20% rule is a federal law which states that homebuyers who put less than a 20% down payment on their property are required to purchase mortgage loan insurance, sometimes also called mortgage default insurance.

Mortgage loan insurance is designed to protect the lender in case you're not able to make your payments. If your down payment is less than 20% of the total price of your home, you'll be required to purchase mortgage loan insurance. If you're self-employed, you may be required to purchase mortgage loan insurance even if your down payment is 20% or more.

Mortgage loan insurance premiums can range anywhere from 0.6% to 4.50% of the total amount of your mortgage. Premiums will depend on the amount of your down payment.

The closer your down payment is to 20% of the value of the home, the lower your mortgage insurance premiums will be. Here, we'll take you through the steps of calculating your mortgage insurance premium.

How big should your down payment be?

When it comes to your down payment, however, the more you can put down, the better. Given the savings you can earn on interest with a smaller mortgage and the 20% rule, it's advisable to put as much as is feasible towards your down payment.

However, coming up with 20% of your home's total value is no small feat, especially in expensive cities like Toronto or Vancouver. Your best bet is to assess your budget and determine an amount that will help you reach your homeownership goals without putting too much stress on your budget. Would it be better to hold off on buying a home to avoid incurring extra costs on insurance and a large monthly mortgage payment, or would you rather buy now given the prices in your local market?

If you're having trouble coming up with a magic number, comparing mortgage rates from lenders in your area might be a good place to start.

MortgageSquad.ca can help you with that. We compare rates from banks and brokers in your area and our rates are always lower than posted bank rates.

What is the Home Buyers' Plan (HBP)?

The Home Buyers' Plan (HBP) is a program that allows prospective homebuyers to withdraw funds from their Registered Retirement Savings Plans (RRSPs) to put towards the purchase of a home.

Because RRSP funds are meant to help Canadians save for retirement, the Canadian government has attached a tax penalty for withdrawing money from the account. For example, if you make $45,000 per year and withdraw $10,000 from your RRSP, the extra $10,000 will be counted towards your income. In this example, this means that you'll be taxed at a higher income bracket, but in many cases the extra income will simply be taxed at your marginal rate.

The HBP provides a loophole to this rule. Under the HBP, prospective homeowners are able to withdraw up to $35,000 (increased from $25,000 in 2019) in one calendar year to buy a home, but none of the money will be considered taxable income. The total amount you're allowed to withdraw in one calendar year is $35,000, and these withdrawals must take place within the same calendar year.

There is, however, one catch. The money you withdraw will be considered a loan (from your retirement funds) and you'll have to replace it within 15 years. It's important to consider whether you'll be able to keep up with the repayment schedule when considering the HBP.

In order to participate in the HBP, you must

Be considered a first-time homebuyer. The government outlines specific criteria for qualifying as a first-time homebuyer here.

Be a resident of Canada when you withdraw the funds from your RRSPs and up to the time a home is bought.

Intend to occupy the home within one year after buying it.

If you've previously participated in the HBP, you may be able to do so again if your repayable HBP balance on January 1 of the year of withdrawal is zero and you meet all the other requirements.

HOME INSURANCE

1. What does home insurance cover?
2. What doesn't home insurance cover?
3. The different kinds of home insurance coverages
4. How do I get home insurance?
5. What if I rent out my property?

Home insurance

KEY TAKEAWAYS

- Mortgage lenders require you to promise to buy home insurance before they'll lend you money.
- Home insurance pays for the cost to rebuild your house (price of material and labour) — not its market value.
- Not all forms of water damage are covered. Protection from sewer backup and flooding needs to be purchased separately. Burst pipes are usually covered.
- Home insurance provides personal liability coverage that can be useful in a number of different scenarios, including if your dog bites a visitor, if your identity is stolen, or it may pay to replace a stolen bike.

What does home insurance cover?

Home insurance provides compensation to repair or rebuild your home if it's damaged by fire, flooding, or other unexpected events. For example, if a tree falls on it, you'll be covered. You aren't required to purchase home insurance, but good luck trying to get a mortgage without it. Most lenders require prospective home buyers to buy home insurance (not to be confused with mortgage insurance, which protects the loan amount in case you default on your mortgage).

This makes sense if you think about it: your home technically belongs to the bank, so of course they want to protect their asset.

But your home is also where you live. You'll want to protect it, too.

Beyond protecting the bank, home insurance also protects your personal liability, which is something a lot of homeowners don't realize.

If someone is injured on your property, you have some protection against legal costs and medical expenses.

Some, but not all water damage is covered. Accidental flooding from appliances and watermain breaks are usually covered, but not all policies cover burst pipes.

The best way to secure a low home insurance rate is to compare the market. On MortgageSquad.ca, you can compare rates from over a dozen home insurance providers across Canada. Get started by filling out the form below.

What doesn't home insurance cover?

Home insurance doesn't cover every little misfortune that may befall your house.

A common complaint is that home insurance costs a lot but it doesn't kick in when you need it.

Home insurance only exists for real emergencies that you didn't cause.

It will not pay for things that the insurance company has determined were caused by neglect. For example, you need to prove that you took every possible action to prevent your roof caving in.

So, just because you have insurance doesn't mean you can cut corners in terms of keeping your home in a state of good repair.

Overland flooding and sewer backup are not included in home insurance policies, but they are available as an add-ons, or endorsements. With the rate of flooding increasing in Canada's urban areas, it's not a bad idea to think about including it. A flooded basement costs an average of $43,000 to repair, according to recent figures from the Insurance Bureau of Canada.

It won't reimburse you for the market value of your house. It will only provide coverage based on the estimated replacement cost.

Three numbers to know

$43,000

The average cost to repair a flooded basement.

20%

The discount for installing a security system.

$500

The average savings found by comparing.

Optional riders that protect your assets from depreciation are available. These add-ons allow you to repair your home using the more current — even eco-friendly — materials. These endorsements cost extra.

Home insurance differs from condo insurance in one key way. Condo insurance factors in the fact that the building has its own insurance and the fact that you are living in close proximity to other residents. Condo insurance is typically cheaper than home insurance, since you're protecting a smaller footprint.

Lastly, think carefully before you make a claim: if it's something that you can pay for out of pocket, do it. Making frequent claims will raise the cost of your insurance premium. Making frequent claims will raise the cost of your insurance premium.

The different kinds of home insurance

Comprehensive insurance covers your home's structure against all insurable perils and as well as its contents. It's the most insurance you can buy. It costs a lot more than the other policies.

Named perils covers you only against perils that you specify with your insurance company — if you haven't named it explicitly on your policy, you're not covered for it.

Broad insurance covers your home's structure against all insurance perils and your content against only perils that you name.

No-frills insurance is for homes that don't meet underwriting standards, most commonly, these are homes that are in the process of being built from the ground up.

How do I get home insurance?

You can get home insurance in a variety of channels. You can get it through a direct writer of insurance (like aha insurance or Sonnet) or through the company that provides your car insurance. Insurance companies provide discounts to customers who bundle their auto and home policies.

The benefit of using a comparison site like MortgageSquad.ca is that you can see what multiple home insurance companies are willing to offer you. Using comparison sites grants you a higher degree of certainty that you're getting the lowest price for the right amount of coverage.

What if I rent out my property?

Cool, you've bought an income property and you're about to live the HGTV dream. Cue record scratch — a standard home insurance policy might not provide enough protection for you.

It depends if you're renting out the entire house or just one floor (or basement), or you're bringing in roommates.

If you're either renting out the entire house or a portion of it, you will need to purchase landlord insurance. A standard homeowner's insurance policy won't cover the risks that landlords take on by allowing tenants.

A typical landlord insurance policy will cover damage from fire, water, and rental income (if you should need to vacate the suite while repairs are being made).

You can add extra coverage onto your policy that covers your personal liability, theft of any items that belong to you, or vandalism.

Landlord insurance is more costly than homeowner's insurance, and it could eat into your revenue, but if something happens, you're going to be thankful you have that coverage. Additionally, you can claim landlord insurance on your taxes.

As with all home insurance policies, wear and tear resulting from you failing to maintain your property and damage caused by insects and rodents are excluded from your coverage.

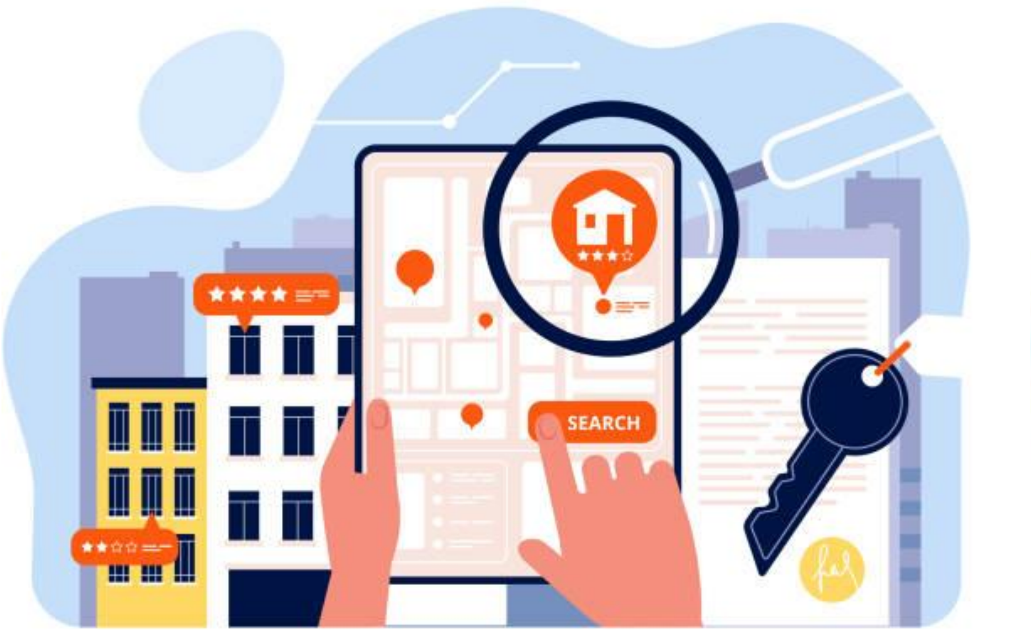
If you're only renting out a room in your house, your coverage needs may be met with a standard home insurance policy, with the requirement that your roommate purchases renters insurance of $1-million.

Even if you're not sharing the same floor as your tenant, asking your tenants to buy renters insurance is a wise idea, since landlord insurance won't cover their personal items.

HOUSE HUNTING

1. Where do I start?
2. Should I hire a real estate agent?
3. Choosing the right neighbourhood
4. Bidding wars
5. Should I get a home inspection before I bid?
6. What happens after your offer is accepted
7. The closing costs

House hunting



KEY TAKEAWAYS

- Make a checklist with your requirements and preferences for a home.
- Consider hiring a real estate agent who is knowledgeable about the current market conditions.
- A bidding war happens when there are multiple offers made on a home but their details are kept secret from all potential buyers.
- Don't forget to factor in closing costs, such as home inspection fees, land transfer tax, legal fees, among others into your budget.

Where do I start?

Buying a home may be the biggest purchase you ever make. So before you start the house hunt, make a list. That's right — a checklist with your requirements and preferences for a home.

Detailing your must-haves and nice-to-haves will come in handy when the house-hunting process becomes daunting and you need to stay on track.

Should I hire a real estate agent?

It's not mandatory, but a real estate agent can play a key role in making your journey to becoming a homeowner much simpler.

The best realtor will help you find the ideal home, negotiate on your behalf to help you get the best deal, coordinate a home inspection and deliver your closing documentation.

Using a realtor also allows you to have access to the MLS system, which is operated by the Canadian Real Estate Association. This gives you more options not available to the public.

It's in your best interest to have an experienced professional who's knowledgeable about the current real estate market conditions in your corner to guide you through these tricky decisions.

Choosing the right neighbourhood

While affordability is at the top of Canadians' checklists, the location of your potential home should still be a top priority.

Some questions you'll want to ask yourself to make sure the home will be right for you:

- How safe does the neighbourhood feel at night and during the day?
- How far is it to and from work?
- Is there access to public transportation, recreational facilities, shopping or schools?
- Are there any upcoming developments in the area?

It's impossible to predict exactly what it will be like to live in your chosen neighbourhood. To get as close as possible though, it's important to look for homes in an area that not only fit your needs and wants but in a place you'd be comfortable calling home.

Bidding wars

During a bidding war, aspiring homeowners are expected to make an offer. If there are multiple bids on a home, potential buyers can only know how many there are, but their details are kept secret from all potential buyers.

Buyers often get caught up in the excitement and offer more than they can afford for the sake of potentially beating out their competitors. Big mistake! If you want to have a fighting chance during a bidding war you're going to have to leave your emotions at the door.

Before you start the process, come up with a maximum offer that you will not exceed. Focus on what a particular home is worth to you and stick to it, rather than worrying about what other bidders might offer.

Take a step back and breathe. The perfect home — one that's affordable and won't leave you with buyer's remorse or render you house poor — is still out there.

Should I get a home inspection before I bid?

A home inspector evaluates the structures and systems that make up your potential home to check that everything is in good working order. Doing a home inspection can help save you money and avoid surprises in the long run.

While not mandatory, the Canada Mortgage and Housing Corporation (CMHC) recommends that you include a home inspection as a condition when you make an offer to buy a home.

Getting a home inspection on a condo isn't mandatory either, but it's useful to point out any existing or potential problems with the physical condition of the condo and possible repairs needed before you buy it.

What happens after your offer is accepted

If you've had your offer accepted, first of all, congratulations!

If the offer you accepted had conditions, it would be considered "sold conditional" until you sign on the dotted line.

Here's a breakdown of what you'll need to do next as part of the mortgage approval process:

- Sort out your financing: Visit your lender or broker to verify and finalize the details of your mortgage
- Review any conditions that were part of the offer
- Arrange for a home inspection and appraisal
- Tie up loose ends and do a final walkthrough of the property
- Look into home insurance
- Before moving in, you may also have to pay for moving costs, storage costs, real estate costs for selling your home (if applicable) — and don't forget to change your address!

MortgageSquad.ca works with a number of trusted partners who are experts in helping clients through the mortgage approval process. Fill out the form today to be connected with a broker who'll be with you from beginning to end.

The closing costs

Saving for a downpayment is a crucial step in the home buying process but it's not the only cost you need to include in your budget. You need to factor in the expenses associated with completing a home purchase, including home inspection fees, land transfer tax, legal fees, among others.

Home inspection fees will vary depending on factors including the age, size, and location of the home. Choose your home inspector carefully by researching their qualifications and credentials. Choosing a reputable inspector could save you from running into unplanned and often costly issues in your new home.

Land transfer taxes are calculated as a percentage of the purchase price payable by the buyer upon closing. Land transfer taxes vary by province, and some cities like Toronto levy a land transfer tax as well.

Ontario first-time home buyers of an eligible home may be eligible to receive a rebate for all or part of the cost. Eligibility is restricted to Canadian citizens and permanent residents of Canada.

Legal fees include your lawyer's legal fees, and disbursements include any expenses your lawyer had to pay for work on your behalf. Fees vary by province and municipality and may be subject to GST or HST.

RENOVATION & YOU

1. Tax credits
2. Dos and don'ts
3. Hiring a contractor versus DIY
4. Impact on resale value

Renovations and you

KEY TAKEAWAYS

- You could be eligible for a tax credit if you make accessibility-related renovations to your home
- It's crucial to notify your home insurance provider of any renovations
- If you hire a professional to do your renovations make sure they have their own insurance coverage
- Renovations can add value to your home but expensive home improvement projects don't always guarantee a higher return on investment

Tax credits

If you wind up renovating your home, don't forget to take advantage of tax credits available to you. Not every province has a renovation tax credit, but there is a federal Home Accessibility Credit (HATC) that allows you to claim renovation expenses if you're a senior or a family member living with a senior and renovate the home to make it safer and more accessible. Under the HATC, you can claim 15% of all eligible expenses, up to a maximum of $10,000. So, for instance, if your renovation expenses add up to $10,000, you could earn a maximum of $1,500 back. Make sure you check out the federal government's list of eligible and inseligible expenses.

In New Brunswick and British Columbia, there's a similar provincial tax credit for seniors who make renovations to their homes, but it's worth only 10% of eligible expenses.

Dos and don'ts

Whatever you do, make sure to notify your home insurance company about any renovations, since this can affect your policy. You might also be eligible for additional insurance while the renovations are going on.

Hiring a contractor versus DIY

If upgrades are needed in your new home, you can either hire a professional to do it or — if you have the skills, time and interest — do some of the work yourself.

Apart from getting the job done faster, a good contractor will do the job right and efficiently. They will also know what regulations to follow, what (if any) permits are required, what resources are needed, and when it's time to involve other contractors.

But there's a hefty price to pay for calling a pro. Depending on the project, the cost of hiring a contractor can add up to hundreds of thousands because you're paying for labour in addition to materials. Get a few quotes from different contractors before going ahead with any major renovation.

Furthermore, understand the risks that come with hiring a pro to do work on your home and make sure whoever you hire also has their own insurance coverage so they can make a claim to reimburse you if there's any damage. Lastly, always ask to see a contractor's certification before hiring them.

The most obvious benefit of the DIY approach is the money you save.You may even pick up some skills along the way.

There's also a deep sense of pride that comes with completing renovations on your own — not to mention the bragging rights.

Just keep in mind that renovations can get complicated so committing to a DIY project can be a huge time commitment. If you're in a hurry, it might not be in your best interest to take it on.

Before you commit to a major DIY reno, remember there are projects that require expertise you don't have. The Canadian Home Builders' Association (CHBA) generally recommends renovators leave structural and mechanical renovations to the professionals.

Don't risk the quality of work just to stretch your renovation budget, especially if you're just learning. The final product may not look exactly how you envisioned.

Impact on resale value

There is a general understanding that renovations increase the value of your home. While certain home improvements will yield the biggest payday, almost any project has the potential to negatively affect resale value.

Some projects offer more of an emotional return than a financial one. This doesn't mean you shouldn't do the project, it just means you shouldn't anticipate that the value of your home will automatically increase. Consider practical upgrades along with the changes that could guarantee the greatest return on investment.

As you make decisions regarding renovations for the purpose of reselling, pay attention to the market value of your home and the homes around you. Different housing markets have different trends, depending on factors like location, local climate, and tastes, so it's important you have a good idea of what buyers in your area want before you invest in any renovations.

ADDITIONAL LINKS

1. Government Approved Guides
2. Calculators
3. Useful tools

Additional links and resources

KEY TAKEAWAYS

- Dear First-Time Homebuyer, we understand your need for extra help in navigating through the entire home buying process.
- From mortgage calculators to finding realtors, the list of resources mentioned in this section will have you covered.

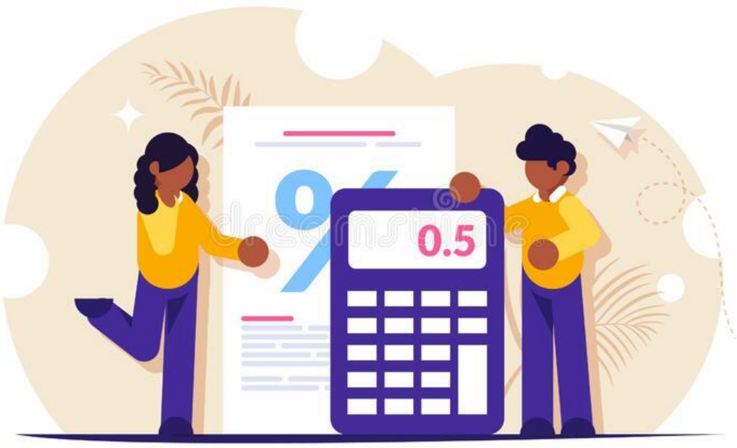
Irrespective of whether you are a first-time buyer or an experienced buyer, you might need some additional assistance through the home buying process. As we conclude our Homebuyers Guide 2020, here is a list of useful resources that can aid in your endeavors to buy your dream home. Please note that these links are only meant to educate, raise awareness, and find the right help to optimize your home buying experience. If you still have queries, we suggest getting in touch with a real estate agent or a real estate lawyer as they can provide greater insight into the home buying process.

Government Approved Guides

CMHC's Homebuyers' Checklist- Check out Canada Mortgage and Housing Corporation's detailed checklist that guides through every step of the home buying process.

Government of Canada - Buying a home - It is an official page by the government of Canada that helps homebuyers in understanding the steps involved, with links to additional authoritative resources.

Calculators



MortgageSquad.ca Mortgage Calculator - Try our easy to use mortgage calculator to get an estimate on mortgage.

Toronto Property Tax Calculator - City of Toronto's calculator to provide property tax estimates in Toronto.

Niagara Property Tax Calculator - Use this calculator to check out property tax expenses in Niagara region

British Columbia Property Tax Calculator - An efficient property tax calculator for the province of British Columbia.

Land Transfer Tax Calculator - A tool to check land transfer tax estimates.

Useful tools:

CREA National Price Map - An interactive map that highlights average property rates in each province

Find a Realtor - A useful website to find realtors, houses on sale, and more.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