Top first-time home-buyer questions

A home can be one of the most personally and financially rewarding investments you'll ever make. But if you've never bought a home before, the process may seem a little overwhelming.

To help you, we've put together this special report. It provides answers to the questions most frequently asked by our home-buying clients.

What's the best way to save for my down payment?

You'll be glad to know that there are different options available depending on how much of a down payment you can afford:

- **Conventional mortgage or RBC Homeline Plan®** (20% down payment)
- **Low down payment mortgage** (minimum 5% down) Low down payment mortgages require mortgage default insurance. The premium can either be paid up front or added to the amount you borrow.

If you're saving to buy your first home, one of the most effective ways to put money aside is with an automatic savings plan. With this plan, an amount you specify is automatically transferred from your bank account to your savings account on a regular basis. You can contribute as little as $25 and make deposits weekly, bi-weekly, semi-monthly, monthly or quarterly — whatever works best with your cash flow.

One of the best places to put your savings is in a Tax-Free Savings Account (TFSA). All earnings and withdrawals from your investment are tax-free. You can contribute up to $6,000 in 2020 to a TFSA.

You might also consider directing your savings to your Registered Retirement Savings Plan (RRSP). Under the RRSP Home Buyers' Plan, first-time home buyers can withdraw up to $35,000 from their RRSP, tax-free, to use as a down payment on a home. The plan allows you 15 years to repay the amount withdrawn, starting the second year after the year of the withdrawal. For more information on this plan, visit the Canada Revenue Agency website at **cra.gc.ca** and search "Home Buyers' Plan" in the A to Z index.

How much home can I afford?

Getting pre-approved for a mortgage is a good place to start, or you can use one of the many online calculators to help you figure out how much home you can buy. The "How much home can I afford" calculator at **https://www.rbcroyalbank.com/cgi-bin/mortgage/tools/howmuch/afford.pl** or calculators available from the Canada Mortgage and Housing Corporation at **cmhc.ca** can help you figure out an affordable range so you can start shopping.

What is a pre-approved mortgage?

Does it guarantee I'll get the financing I need?

A pre-approved mortgage simply means that you've reviewed your earnings, assets and liabilities with a lender, who has determined the amount of money you should be able to borrow to purchase a home. In order to proceed with a formal mortgage approval, the lender will want to assess the value of the property you are looking to purchase and confirm your income, down payment and so on, if you haven't already provided that information.

Having a pre-approved mortgage is a great advantage when you're looking for a home. Knowing the price range that you can comfortably afford will help you narrow your search and ensure you won't be let down in finding out the home of your dreams is not within your reach. It will also signify to realtors and vendors that you are a serious purchaser and give you more credibility when negotiating your purchase.

In addition, the interest rate that's quoted on your pre-approval is usually locked in for 120 days,[1] so you're protected if interest rates rise while you're looking for your perfect first home.

Why should I use a real estate agent?

A real estate agent will help you find the right home and will offer you advice on what price to offer and any conditions you might want to consider, including in your Offer to Purchase. If possible, get referrals from friends, family and co-workers. It's important to choose an agent who is familiar with the area where you are searching for a home. You may end up spending a lot of time with your agent checking out homes, so be sure to choose someone you feel comfortable working with.

In some provinces, real estate agents may require that you sign a Buyer Representation Agreement. This is a binding agreement for a given period of time that ensures that the agent you are working with can represent you in your purchase and be compensated for doing so. Before you sign a Buyer Representation Agreement, review the terms of the agreement to confirm you are comfortable with it.

How can a mortgage specialist help me?

Working with an RBC Royal Bank® mortgage specialist has a number of advantages, especially if you are a first-time home buyer. RBC Royal Bank mortgage specialists have access to the entire RBC® network of resources to draw from on your behalf. They'll not only help with your pre-approval but also look at your whole financial picture and provide personalized advice based on your needs. That includes reviewing your mortgage options with you and making sure you get the mortgage that's right for you.

This will allow you to shop with confidence. Once your mortgage specialist says you are pre-approved, you *are* — no last-minute surprises to worry about!

Is my credit good enough to be approved for a mortgage?

One thing your lender will look at before approving you for a mortgage is your credit score — your record for paying your bills and repaying loans on time.

In Canada, there are two main credit-rating agencies: Equifax‡ and TransUnion‡. These companies keep records of missed payments and overdrawn credit accounts. If you've ever had a credit card or applied for an account with a major utility, chances are your payment history is on record with one or both of these companies.

If you have a good track record — that is, you've always paid your bills on time and made at least the minimum payment due on your credit card bills — you will have a good credit rating. If your track record isn't perfect, that doesn't mean that you won't get approved for financing. If your late payments are in the past or date back to your student years but you have since paid your bills on time, then you may not have difficulty in arranging financing. Your lender can help you assess your situation and provide advice on how to improve your credit rating to get you ready to purchase your first home.

You can get a free copy of your credit file by mail just by asking. For details, visit **Equifax.ca** or **Transunion.ca**.

> **Dreaming of owning your own home but not sure if you qualify for a mortgage?**
> Even if your credit history is less than perfect, we can help you find a solution.

What is mortgage insurance?

If your down payment is less than 20% of the purchase price of your home, you will require a mortgage that's insured against default. This insurance protects the lender in case you default on your mortgage payments and is required by law.

There are three mortgage insurers in Canada (the Canada Mortgage and Housing Corporation, Genworth Financial Mortgage Insurance Company Canada and Canada Guaranty

Mortgage Insurance Company). The cost will vary depending on the total amount borrowed. The amount is usually added to your mortgage, and the cost is added to your regular payment.

What are "closing costs," and how much money should I set aside for them?

Closing costs are those additional expenses that come due when you complete the purchase of your home. They typically include:

- **Lawyer's or notary's fees.** When you buy a home, you need to hire a lawyer to complete a title search (to make sure there are no outstanding liens against the property and that the vendor actually owns the property), ensure all the documentation has been accurately completed, register your mortgage and register you as the new owner of the property.
- **Land transfer tax.** Most provinces (and some municipalities) charge a fee for documenting a change in ownership of real estate.
- **Disbursements.** These are costs that the seller has paid in advance, such as property taxes and utilities. You reimburse the seller for any prepayments that come into effect after you take possession of the home.

The amount of these costs will vary, depending on where you live and what kind of home you're buying. As a guideline, you can estimate that closing costs will be about 2.5% of the purchase price of your home, though this may vary greatly, especially if HST applies to your purchase.

In addition to closing costs, remember that you may also need to budget for appliances (if not included with the home), utility hook-up, redecorating and paying a professional mover.

What are the best mortgage options for me?

When choosing your mortgage, you'll need to decide whether you want a variable or fixed rate. The option that is right for you will depend on your situation and your personal preferences. Here's a look at how they stack up:

- **Variable-rate mortgage.** With a variable-rate mortgage, the interest rate you are charged fluctuates based on your bank's prime lending rate. In times of declining interest rates or stable low interest rates, a variable rate is usually the most inexpensive. With a variable rate mortgage, the payment you make is fixed; however, if interest rates rise, more of your payment will go towards paying interest. If interest rates decrease, more of your payment will go towards paying off your principal.
- **Fixed-rate mortgage.** With a fixed-rate mortgage, your interest rate is locked in for the term of your mortgage contract, protecting you if interest rates go up over the term you have chosen.

How long will it take to pay off my mortgage?

The length of time needed to pay off your mortgage completely is called the amortization. Many first-time buyers opt for a 25-year amortization, but your amortization can be shorter or longer depending on your needs.

Choosing a longer amortization requires that you have a down payment of at least 20% of the purchase price of the property you are purchasing.

Choosing a longer amortization will lower the amount of your regular payments, but it means you'll be paying more interest over the life of your mortgage. Shortening your amortization, on the other hand, increases your regular payment but saves you interest overall and means you'll be mortgage-free sooner.

An easy way to shorten your amortization and pay less interest overall is to choose an accelerated weekly or bi-weekly payment schedule rather than a monthly schedule. Essentially, your regular monthly payment will be divided into four (or two). Because some months in the year have five weeks rather than four, over the course of the year, you'll make the equivalent of an extra month's payment.

How can I protect my mortgage payments?

This may be one of the biggest financial commitments you'll ever make, which is why it's important to make sure that you and your family will be able to continue to make your mortgage payments should the unexpected happen.

HomeProtector® mortgage insurance[2] can provide a financial safety net to help you pay for your mortgage precisely when you and your family need it most:

- **Life Insurance** can help pay off or reduce up to $750,000 of your outstanding mortgage balance in the event of death.
- **Disability insurance** can provide up to $3,000/mth for 24 months to help you make regular mortgage payments in the event of a disability.
- **Critical illness insurance** can help you pay off or reduce up to $300,000 of your outstanding mortgage balance in the event you are diagnosed with a covered critical illness.

By having insurance that's dedicated to your mortgage, any additional income, such as employer's benefits, is preserved to take care of your family's other expenses.

With the help of one of our expert and dedicated mobile mortgage specialists, it can be easy. They'll meet with you any time to guide you through the process and help you find the best mortgage for your specific needs.

Go house shopping with confidence

Looking for a fast pre-approval? Call an RBC Royal Bank mortgage specialist.

In most cases, we can provide you with a mortgage preapproval, often within 24 hours, so you can start shopping for a home that you'll love.

[1] 120-day interest rate guarantee — We guarantee our lowest posted interest rate for the selected mortgage type and term for a 120-day period from the application date. If the mortgage is not funded within the 120-day period, the interest rate guarantee expires. "Posted" means the interest rates posted by Royal Bank of Canada for its residential mortgages.

[2] This group insurance program is underwritten by The Canada Life Assurance Company. The benefits are subject to certain terms and conditions and there are eligibility restrictions. Please see the HomeProtector booklet for full details.

Personal lending products and residential mortgages are offered by Royal Bank of Canada and are subject to its standard lending criteria.
® / ™ Trademark(s) of Royal Bank of Canada. RBC and Royal Bank are registered trademarks of Royal Bank of Canada.
‡ All other trademarks are the property of their respective owner(s). VPS106573

23625 (01/2020)