

# BUYING YOUR FIRST HOME?

## Money Isn't Everything!

With a little legwork and some innovative financing you may be able to buy your first home with very little or NO Cash. Nobody likes flushing money down the drain but that's what you're doing when you hand over your rent money every month. The moment it leaves your hand your money is working for someone else and not building equity for you and your family.

If you feel it's time to own your own home here are some things you need to know before you make your first move.

**So you have NO CASH?**-If you have good income and credit but lack the cash for a down payment & closing costs look into veterans loans, federal, regional or local home buyers programs that often require no down payment (like FHA Loans, VA Loans, Farmer's Home Loans, HUD Grants (grants are "gifts" that don't have to be paid back) and Enterprise Zone Entitlements. THE SELLER may be willing to help finance the deal! – There are sellers out there who are willing to help you with the financing and sellers who are willing to "take back" financing (let you pay monthly on a mortgage with no down payment and low closing costs). They might be hard to find, but if you can find a seller willing to help you out it may be the key to getting into your own home.

**Have you thought about EQUITY SHARING with family members or investors?**-An equity sharing arrangement gets YOU the cash for the down payment while your partner gets a share in your home. You make the monthly payments, pay the taxes and live in the house. In time you will either buy out your partner or sell the property and split the profits accordingly.

**Have you been contributing to a RETIREMENT or PENSION PLAN?**-Don't forget you may be able to get a loan for your down payment by borrowing against your retirement plan, or you may be able to withdraw enough cash from your plan to use for a down payment without penalties or taxes.

**What if you have SOME CASH?**- If you have enough cash for a small down payment then look for a federally insured mortgage that requires a down payment as low as 3%. Obtaining private mortgage insurance (PMI) may enable you to obtain financing from a traditional lender with a smaller down payment than usually required.

**If you're buying a NEW HOME you may be able to obtain a low down payment financing plan from the builder!**-The builder most likely had to borrow the money to build the home and he wants someone in it as soon as possible. They may offer special financing arrangements to entice you to invest in their home.

**Credit history a problem? "LEASING WITH AN OPTION TO BUY" may be an option for you!**- If your credit history needs some work (if you've had a bankruptcy in the last 2 years, if you have less than 2 years continuous employment in the same field etc.) and you know you will have difficulty securing a mortgage, you may find a seller that will "rent" you the home for a specified period of time (enough time for you to improve your credit rating). The rent will include an "Option Fee" that will go towards your down payment when you are ready to buy.

**What do you do if you are lucky enough to have ALL THE CASH you need?**-Having cash puts you in a strong negotiating position; you may be able to buy at bargain prices because you represent a simple transaction and a “sure thing” for the seller. Use this to your advantage when you negotiate.

**How do you know WHAT SIZE MORTGAGE you qualify for?**-Lenders usually use a formula based on approximately 29% of your gross monthly income (before taxes) to calculate the maximum amount you can borrow for a mortgage.

**What affects this amount?**-The size of your down payment and your total debt picture including your revolving debt (credit cards, other loans etc.).

**What can you do to INCREASE THE MAXIMUM AMOUNT you can borrow?**-Reduce your debt (pay off credit cards and other loans) to improve your income -to-debt ratio. This small step can qualify you for a larger mortgage... and a better home!

**What exactly is considered INCOME?**-Income can be more than just wages, don't forget to count bonuses, commissions, overtime, seasonal, part-time, social security and pension income, dividends, interest, alimony and child care payments, rental income.

**What if you want to BORROW MORE than “they” say you can afford?**-You may be able to qualify for a higher mortgage if you can prove that you have been making regular, on-time rent payments that are higher than the maximum allowed.

**Smart financing can INCREASE THE AMOUNT you can borrow!**-Adjustable rate mortgages (as opposed to fixed rate) can temporarily lower your monthly payments and enable you to afford “more house”. You can probably count on a rate change every year, usually resulting in higher payments.

**Don't forget TAXES & INSURANCE!**-You should estimate about 2% of the purchase price for property taxes and 1% for insurance, then divide by 12 to get the amount you need to add onto your monthly mortgage payment. Example: \$100,000 house would cost approx. \$250/month for taxes & insurance. Your lender will take this into account when determining your maximum monthly payments, so should you.

**What is PRE-APPROVAL?**-This is not a full loan commitment from your lender but it is a formal process usually involving a credit check and employment verification.

**What is PRE-QUALIFICATION?**-Less formal than pre-approval, this is more an estimate of your borrowing power. This is also not a loan commitment from your lender.

**What good is being pre-approved and pre-qualified?**-Pre-approval and Pre-qualification demonstrates to brokers and sellers that you are serious (not just a looky loo) and have a good idea of what you can afford. Your offer will usually be preferred over one from someone who has never met with a lender.

**Beauty versus Convenience**-Don't lose sight of the BIG picture when looking for a home! Are big trees in a fenced backyard with a white picket fence enough? No! You should be realistic about what it will be like to live in a prospective home. Create a mental picture of each room in the house and ask yourself how you and your family will live in it:

## **Kitchen**

- Compact kitchens can be convenient, but do they suit your lifestyle?
- If you have, or are planning, a family, does the kitchen have enough room for a high chair?
- Is it carpeted (will it show food stains)?
- Is there a counter right next to the refrigerator for unloading groceries?
- Is the kitchen easily accessible to the porch or patio for summer barbeques?
- Can the kids get to and from the kitchen easily from the yard?
- Will they have to troop through the living room to get a drink on a hot summers day?

## **Bathrooms**

- Are there enough?
- If you entertain, is there a convenient powder room for company?
- If you have children, is there a “mud room” and bathroom close to the back door for those "emergency" trips in from the yard?

## **Front Entrance**

- Is it conveniently located for visitors?
- Is it screened from the rest of the house to deflect hot or cold blasts of air, and nosy glances?
- Is there a handy coat closet?

## **Living Room**

- Is it centrally located where it will be used by the whole family or is it separate and out of the regular traffic pattern of the house, where it can offer a quiet and tidy space to relax or entertain?

## **Family Room**

- Is it adjoining the kitchen so you can keep an eye on younger children while you make meals?
- If your children are teenagers you may prefer the family room in the basement, where the drum set, loud music or multitude of noisy friends won't disrupt the whole family.

## **Master Bedroom**

- Is it large enough?
- Is it private, are there built in buffers like closets, stairwells, halls or bathrooms between the rooms?
- Is it fully self-contained, does it have it's own ensuite and adequate closet space?

## **Garage**

- Does it have enough room for all your vehicles (or stuff)?
- An outside door to the garage can be a convenient access point from the yard.

## **Basement**

- Do you need one for storage, or expansion?
- Make sure it's suitable for your use.
- Does the basement have an exterior entrance handy to the yard or driveway?

## **In Conclusion:**

It is possible for you to own your own home and make your money work for you! Do your homework and be sure you have a clear picture of your financial situation before you start.

## **References:**

CMHC Canada Mortgage & Housing Corporation

<http://www.cmhc-schl.gc.ca/en/index.cfm>

Home Buyers Information Center

<http://ourfamilyplace.com/homebuyer/>

"Be it ever so humble there's no place like home."  
*J. Howard Payne*