



Additional Costs When Buying a Home

The purchase price of your home is only one of the costs you'll encounter, although it is by far the largest. Below is a list of the other costs that may be involved in obtaining a mortgage and purchasing your home. Do not be scared, many of these fees may not be applicable to your purchase.

Application Fee

It costs lenders money to process your application and some will pass these costs on to you. Application or mortgage initiation fees vary, and some lenders will waive this fee entirely if you have other accounts with them.

Appraisal Fee

Lenders typically loan a percentage of the home's purchase price or the market appraisal of the property, whichever is lower. The appraisal is done by someone on the lender's staff or by an outside professional whose opinion the lender accepts. Once again, you're responsible for the cost of this appraisal, which varies with the complexity and location.

Mortgage Broker's Fee

The fee charged by a mortgage broker to arrange a mortgage on your behalf. This is usually payable at the time of closing (that is, when the purchase transaction is complete), although some brokers require the fee up front. Some mortgage brokers also charge an application fee, some do not charge at all. Be sure to ask.

Real Property Report Fee

Lenders require a real property report of the property you intend to buy. This confirms the property's boundaries and makes sure there are no problems (called "encroachments") like fences in the wrong place or a portion of your neighbour's home on your land. Under the terms set out in the purchase contract, it is the responsibility of the seller to provide a real property report reflecting the current state of improvements on the property. Lenders will accept an existing real property report if it is accompanied by an affidavit stating that nothing has been added to the property since that date.

Inspection Fee

Some lenders may require a professional inspection of your home before issuing a mortgage. You may want an inspection anyway for peace of mind, since the costs involved are well worth it.

Insurance

There are several types of insurance that may be required or helpful as part of arranging a mortgage. If you're applying for a high-ratio mortgage, you'll have to pay for *mortgage insurance* which protects the lender against default. You should also consider purchasing *mortgage life insurance*, a form of term life insurance that pays off the balance owing on your mortgage if you or your co-borrower dies. Many lenders offer you the option of buying this insurance and adding the cost to your monthly payments. You may also want to talk to your insurance agent and compare the costs of obtaining your own policy instead.

Since your home will be used as security for your mortgage, lenders require you to carry *fire and extended-coverage insurance* that well exceeds the amount of the outstanding balance or the value of the buildings. This policy covers fire and weather-related damage and you'll want to have that kind of protection anyway. You may also want to investigate public liability insurance. See your insurance agent.

Legal Fees

Your lawyer is an integral part of the home-buying process, and naturally, you're expected to pay all legal fees required to arrange a mortgage. You'll also pay for "disbursements," which are the costs involved in conducting a title search, and preparing and registering the mortgage. Much of this work may be done by the lender's lawyer, although more often it will be handled completely by the lawyer representing you. You can save some of the legal fees usually charged by the lender if your lawyer draws up the mortgage.

Other Costs

These include property tax adjustments, interest adjustments and service charges to hook up utilities, to name a few. (An "adjustment" takes place when the seller has already paid for something in advance and wants to be credited for the unused portion on the date the home becomes yours. Adjustments usually include property taxes, utility bills, etc.) Ask everyone involved -- the REALTOR, lender and lawyer -- to explain each cost you're likely to incur. No need for surprises on the day you sign the title and mortgage documents. You'll be excited enough as it is!

Maintenance and Utility Costs

I've added this category to remind you that your mortgage payment and property taxes are not the only ongoing costs associated with owning a home. Be sure to budget for heating, electricity, snow removal, landscaping, any renovations you have planned and the initial costs of making your new home livable. Also put aside your spare cash and contribute regularly to a separate fund for maintenance costs (plumbing or appliance repairs, painting, gardening supplies, etc.).

The Goods and Services Tax

Although the Goods and Services Tax (GST) is collected at a rate of 7% on the sale price of goods and services, it doesn't apply to every type of home sale or every form of real estate service.

GST And Your New Home

When you buy a newly constructed home, condominium or townhouse, the entire purchase price, including land, is taxable. If the property is to be rented to tenants, the full 7% GST is charged on the purchase price. However, if the home is going to be your primary place of residence, it may qualify for a partial GST rebate, depending upon the sale price.

For homes costing \$350,000 or less, you will receive a GST rebate of 36% of the GST paid, to a maximum of \$8,750. That means you pay approximately 4.5% GST (not 7%) on the purchase price.

The rebate for new homes costing between \$350,000 and \$450,000 declines to zero on a proportional basis, using this formula:

$$\text{Rebate} = \$8,750 \times \frac{(\$450,000 - \text{Home Price})}{\$100,000}$$

New homes selling for more than \$450,000 do not qualify for a GST rebate.

If you buy a substantially renovated home from a builder who supplies both the land and the house in a single transaction, the same GST rebate conditions described above apply. A REALTOR can help explain how the federal government defines "substantially renovated", but it is best to obtain a ruling from the Canada Customs and Revenue Agency (CCRA).

GST and the Resale Home

You don't have to pay GST on the purchase price of a used residential home. In other words, the purchase is "exempt" from GST.

CCRA defines "used residential property" to include an owner-occupied house, condominium, apartment, summer cottage, vacation property or noncommercial hobby farm. They define "used" as residential property that has been occupied as a residence before you bought it. It can also mean a recently built house that is substantially complete and has been sold at least once before you buy it.

If the home has been substantially renovated, enough that the home is deemed "new", GST is payable.

GST and Land

Land that is purchased separately may be subject to GST, depending on the previous use of the land. If you build a new home on the land, you will pay GST on the construction costs of the house, less any applicable rebate.

GST and the Real Estate Transaction

GST applies to most of the services provided in completing the real estate transaction. For example, 7% GST is applied to the commission or fee a REALTOR charges for facilitating a sale.

GST also applies to many other services involved in the real estate transaction, including fees for appraisals, referrals, real property reports and legal assistance. The tax is charged on these services, regardless of whether the house you purchase is exempt from the tax.

One exception is that mortgage broker fees are exempt from GST if the fees are charged separately from any taxable real estate commissions. Additionally, mortgages and interest on mortgages are GST exempt.

The purchase contract places the responsibility for GST on the seller, since only the seller can know whether GST is applicable to the transaction. GST is normally due and payable when the real estate transaction is completed (completion day).

The rules regarding GST are complex, so it's best to ask your REALTOR, lawyer or someone from your local Canada Customs and Revenue Agency (CCRA) office if you have questions.