

CONSIDER HIDDEN COSTS WHEN BUYING A HOME

Home buyers, especially first-timers, are often not prepared for the additional costs involved in purchasing property. While the purchase price of the home is by far the largest cost, it's important to take into account the numerous direct and indirect expenses related to getting a mortgage and gaining ownership.

While different costs will apply in each case, here's a few items you may wish to consider and/or budget for:

Mortgage application fee

It costs lenders money to process your application and some may pass these costs on to you. However, with the highly competitive nature of the mortgage industry, many will waive this fee, especially if you have other accounts with them.

Appraisal fee

Before lending you any money, most finance companies will have their own appraiser determine the value of the property. The borrower pays the cost of the appraisal which will be at least a few hundred dollars. You may be able to avoid this fee if the property has been evaluated within the last three months by a professional appraiser.

Inspection fee

Before issuing a mortgage, some lenders may require a professional inspection of the home. For your own peace of mind, you may want the home inspected. Regardless of how well we look at a home, few of us have the training to uncover major structural flaws or maintenance problems that are not readily apparent. Make the purchase of the home subject to a satisfactory home inspection. It's well worth the cost (usually no more than a few hundred dollars).

Mortgage insurance

This protects the lender against default when you apply for a high-ratio mortgage (where you put down less than 25% of the appraised value or purchase price). The cost to you ranges from 0.5% to 3.75% and is added to the mortgage principal.

Fire and liability insurance

Most lenders require that you carry fire and extended coverage insurance that well exceeds the outstanding balance on the value of the home (you'll want to have fire and weather-related damage protection anyway). Public liability is often included in home insurance coverage and you may want to have this as well.

Legal fees

Your lawyer is a key part of your home buying team. You can expect to pay all legal fees required to arrange the mortgage, as well as 'disbursements' – the costs involved in conducting a title search, and preparing and registering the mortgage.

Maintenance and utility costs

In addition to budgeting for your monthly mortgage and property tax payments, you'll have to budget for the monthly cost of heating, electricity and maintenance costs of your new home.

Goods and Services Tax (GST)

Although the GST is collected 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. If the home is new and will be your primary place of residence, you may have to pay GST. However, you may also qualify for a partial rebate depending on the sale price. If the home you purchase has been lived in or used, you generally do not pay GST on the price of the home unless it has been substantially renovated. Your REALTOR will be able to provide you with more information.

Other costs

These include the cost of adjustments to property taxes, utility bills, etc., which the seller has already paid and wants credit for the unused portion. To avoid any surprises, ask your REALTOR to explain each cost you're likely to incur.

