

RESIDENTIAL COSTS

2011

Often Buyers are surprised on closing date with extra costs they hadn't anticipated or been advised about. The following is an outline of normal costs, plus some information on various Government programs, etc. I hope you find it helpful.

1. DEPOSIT:

At the time of presenting an Agreement of Purchase and Sale you will have to submit a deposit cheque, which will be held in trust by the listing company if the offer is accepted. The cheque is usually from about 3%-5% of the sale price or more depending on the circumstances and the closing date. The cheque is deposited the day after acceptance. Sometimes arrangements can be made with a financial institution for a short-term loan or line of credit if necessary (e.g. you have money tied up in term deposits or awaiting sale, etc.).

2. SURVEY:

If the Seller does not provide you with an up-to-date survey (showing the existing location of fences, buildings and structures), it may be necessary to have one prepared, or purchase title insurance, which seems to be preferred. **APPROXIMATELY \$750.00 - \$900.00 AND UP** for a new survey.

3. TITLE INSURANCE

Most financial institutions are now accepting **Title Insurance**. Although relatively new in Canada, title insurance has been in use for about 100 years. Where a survey is not available or outdated (many lenders require a survey to be no more than 20 years old) **Title Insurance** could be used. **Title Insurance** can cover the cost of correcting a title defect if necessary (i.e. irregular fence lines, garage built not in compliance with zoning set back requirements) or ensures a Lender that if corrective measures are required; the Title Company will cover the costs. Where an irregularity exists the lawyer can still close the transaction without having to take corrective measures. For more information on the cost of **TITLE INSURANCE speak** to your Lawyer, Lender, or Mortgage Consultant. **APPROXIMATE COST \$275.00 AND UP**

4. LAND TRANSFER TAX:

The simple Land Transfer Tax calculation is as follows:

- Less than \$250,000 = 1% less \$275.
- From \$250,000 - \$400,000 = 1.5% less \$1525.
- Over \$400,000 = 2% less \$3525.

[Land Transfer Tax Rebate Program extended to resale homes](#)

First time buyers of resale homes are now eligible for a refund from the provincial government of up to \$2,000.00 of the land transfer tax paid. For more information please visit:

<http://www.rev.gov.on.ca/en/refund/newhome/>

THIS TAX IS PAYABLE ON CLOSING. (Paid through your lawyer).

5. **LEGAL FEES:**

This varies according to lawyer. It is best to shop around, or perhaps your salesperson can refer a few lawyers to you if you do not already have one. Make sure you are comparing similar services. Ask **what the fee includes** (more specifically, does it include the title searching fee and **all** disbursements?? Will he be charging extra to act on behalf of the mortgagee, if so, how much?). Are your meetings with the lawyer or is a law clerk doing the work. It is most distressing to find out on closing date that because of legal fees, you do not have sufficient money to close the transaction. **APPROXIMATELY \$800.00 AND UP** plus G.S.T. (make sure you ask if searching the title, disbursements and fees for mortgages are included.)

6. **DISBURSEMENTS:**

There will be other costs, which the lawyer will have to pay on your behalf. Basically things like photocopies, tax certificates, zoning clearance and work orders, couriers, registering of deed and mortgages, searching title (but not the fee), searching executions, mortgage schedules, estoppel certificate (for condominiums) and other incidentals.

APPROXIMATELY \$550.00 AND UP

Current fees including disbursement should be approximately \$1,500.00.

7. **FIRST MORTGAGE COSTS:**

QUALIFICATIONS: Under the new requirements Buyers must qualify for a 5-year fixed rate mortgage regardless of the type of mortgage you eventually go with (variable rate, fixed rate etc.)

Interest Adjustment - This is something a lot of Buyers do not understand, and I will try to explain it here. Basically, if you are arranging a new First Mortgage, your lawyer will receive the mortgage money from the Mortgage Company on the morning of the closing however most mortgage companies use the 1st. or the 15th. of the month as a payment date. Therefore if you were closing a deal on, say, August 10th. the mortgage company - would deduct from the mortgage money, interest from the date of closing (10th.) to the first day of the following month (i.e. September 1st.) - Interest Adjustment Date - and your first payment would then commence the 1st. day of the following month (i.e. October 1st.), and continue on a monthly basis thereafter.

EXAMPLE: on a \$100,000 mortgage at 6% interest from the 10th. to the 1st. of the following month, would amount to approximately \$361.64 instead of getting \$100,000. from the mortgage company on closing, you would receive only \$99,638.36. As mentioned, it is a common procedure with mortgage companies and is only done for the purpose of adjusting the interest for a part of the month at the beginning of the mortgage. **Simply be aware of it. Processing or Appraisal Fee - Usually about \$300.00**

7a. HIGH RATIO MORTGAGE COSTS:

When a down payment is less than 20% of the purchase price your mortgage is considered **HIGH RATIO** and the mortgage must be insured, according to the Bank Act. This is not a life insurance or property insurance and is not meant to protect a borrower according to the bank account. This is a Lender's insurance and protects the Lender against default. This insurance is obtained by the Lender through either Canada Mortgage & Housing (CMHC), the Government insurer. GENWORTH and AIG are private insurers. Fees and costs are the same at either institution. This insurance is mandatory on high ratio loans.

March 18, 2011- The maximum amortization period is 30 years for new government backed insured mortgages with loan-to-value ratio of more than 80%.

Mortgage insurance premiums are calculated on the mortgage amount and are on a sliding scale based on down payment as noted below:

FOR LOANS BETWEEN	90.1% TO 95%	- 2.75%
	85.1% TO 90%	- 2.00%
	80.1% TO 85%	- 1.75%

Although a sizeable expense, the Insurance Premiums are added to your mortgage and amortized with your monthly payments.

EXAMPLE: On a sale price of \$150, 000 with a down payment of \$15,000, the mortgage insurance would be calculated at 2% of the mortgage. Therefore the mortgage is \$135,000 plus the mortgage insurance premium of \$2700 for a total loan of \$137,700.; this is the amount the monthly payments are calculated on.

In addition, the Insurance Premium is subject to 8% Provincial sales tax. Based on the example above the tax would be \$216.00, the sales tax cannot be added to the mortgage, it is considered a **closing cost**.

8. SECOND MORTGAGE COSTS:

Usually additional legal fees, Appraisal and Brokerage fees.

APPROXIMATELY- \$500.00 and up, PLUS Brokerage of about \$475 and up.

March 18, 2011- The maximum amount Canadians can borrow in refinancing their mortgages will be 85% of the value of their homes.

9. **SALES TAX:**

The May 20th, 1993 Provincial Budget imposed an 8% sales tax on the CMHC premium and is usually deducted from the mortgage advanced to the lawyer. Unlike the premium, which can be added to the mortgage, the tax on this premium must be paid up front (another **closing cost**).

10. **STATEMENT OF ADJUSTMENT and Balance due on Closing:**

Basically the balance due on closing is the difference between the sale price and the amount of your deposit, which was presented with the offer. However, there are certain items, which will be adjusted at the time of closing:

Property Taxes - if the Seller has paid taxes for the full year, you would be responsible for your portion from date of closing to the end of the year.

Fuel - if the property is heated by oil, then the tank will be filled by the Seller on closing, and you will be charged on the adjustments for a full tank of oil.

Condominium Fee - if closing is other than 1st. of the month you will be charged for the portion of the month's Condo Fee from closing date through last day of the month.

These are normal adjustments

NOTE: Utilities - All utilities and gas, which is metered, will be read on closing and the Seller will be responsible up to the date of closing.

11. **HOME INSPECTION:**

Usually around **\$375.00 and up**. Some companies go by a formula of \$1.00 per \$1,000. of Purchase Price.

12. **HOME INSURANCE:**

This varies - we would suggest **\$550.00 and up**. Call for quotes.

NOTE: 1st. Mortgagee must be noted on policy.

13. **MOVING COSTS:**

This varies and I would suggest anywhere from about \$75.00 to \$125.00 per hour, depending on the company and the number of men. It will also depend on the size of the vehicle and the time of the month you are moving. Reduce costs by moving at off-peak times. **See my note: Procedure on Closing Date.**

14. **H.S.T:**

Resales - Although most used residential resales are exempt from HST most services involved with the transaction will be subject to HST.

E.g. Real Estate Commission, Lawyer's fees, Appraisals, Processing fees, Home Inspections, Insurance, Moving Costs etc.

* Substantially renovated houses are subject to HST if purchased from the Builder/Renovator.

* Financial Services are exempt (e.g. mortgage brokerage etc.)

Commercial Properties - are subject to HST. This is a complex area and individuals should refer to a specialist such as an accountant for advice.

New Housing - over \$400,000.00 is subject to HST. It is also a complex topic. New homes purchased as primary residences, valued at \$400,000 or more, will be eligible for the maximum new housing rebate of \$24,000.

If builder/developer/Buyer asks for advice refer them to an expert.

Residential Building Lot - is exempt if sold by one individual to another. However if a builder/developer is involved there is HST.

NOTE: - HST IS A TAX and will not be added to the value of new homes for finance purposes e.g. Sale Price = \$250,000 + HST.

The Mortgage will be based on the \$250,000 sale price.

CLOSING DATE

Just a note about the procedures on the actual closing date.

It will be necessary for your lawyer to obtain the money from the Mortgage Company on the day of closing and arrange for an appointment in the registry office to close the deal with the other lawyer. Lawyers often have many deals closing on busy days, and it is often difficult for them to arrange a closing time until later in the day.

- I would therefore **strongly** advise that you do not order your moving truck early in the day, as you are not entitled to possession of the property until after the deal has closed. I would suggest that you do not order the truck to arrive until at least 1:00 p.m., so that you are not paying the movers to sit outside your new home waiting for the deal to close. **PLEASE DISCUSS THIS WITH YOUR LAWYER.**
- Also, please keep in mind that the keys to your new home will **NOT** be available to you until the Seller's Solicitor has **closed** the sale and given them to your Solicitor, or whoever has been designated to release them to you; e.g.: your Real Estate Agent or Real Estate Office, etc. These arrangements should be pre-determined so that you will know where to pick up the Keys and by what time on the day of Closing.
- Your lawyer should be in touch with you within the week prior to closing to arrange an appointment to sign and bring in a cheque (the appointment will probably be the day prior to closing). Please note the lawyer will require a certified cheque or bank draft.

GOVERNMENT PROGRAMS: (Assisting Home Buyers)

FLEX DOWN PRODUCT:

CMHC'S mortgage Insurance for mortgage loans with flexible down payment (Flex Down) allows lenders to give individuals the option to purchase a home sooner than they might otherwise be able to. The Borrower can access the minimum 5% equity requirement from additional sources of equity to those allowed under the traditional homeowner 95% product. The loan criteria requirements are more stringent than the traditional 5% down, the CMHC premium is 3.40% and interest rate is higher.

RRSP PROGRAM:

The plan allows **first time homebuyers or one who has not owned a home in the last five years ONLY** to use RRSP funds to purchase a home.

- Up to \$25,000. Per person can be withdrawn. (As an interest free loan)
- PRINCIPAL RESIDENCE

The money is to be repaid in equal annual instalments over no more than 15 years. Skipped repayments are taxed as RRSP withdrawals (including shortfalls).

You may repay more than the scheduled annual repayment in any year. This will result in a lower outstanding balance and lower scheduled annual repayment for the remainder of the pay back period.

Speak to your financial institution for more details and as to availability and timing for collapsing RRSP.

I hope this has been helpful

An interactive Closing Cost Worksheet can be found on my website at www.PatThomson.com



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This is to be used as a guideline only...please check with your lawyer or institutions recommended

COST WORKSHEET

- 1. **Survey** \$ _____
- 2. **Land Transfer Tax** (for single family only)
 - a) Under \$55,000.00
\$ _____ x .005 = \$ _____
 - b) \$55,000.00 - \$250,000.00
\$ _____ x .01 = _____
 Minus \$275.00
 = _____ \$ _____
 - c) Over \$250,000.00 to \$400,000.00
\$ _____ x .015 = _____
 Minus \$1525.00
 = _____ \$ _____
 - d) Over \$400,000.00
\$ _____ x .02 = _____
 Minus \$3525.00
- 3. **Legal Fees**
 - a) For purchase _____
 - b) For 1st. Mortgage _____
 - c) For 2nd. Mortgage _____
 - d) Title search _____ (if not included)
 - e) General disbursements _____ (if not included)
 - TOTAL** \$ _____ \$ _____
- 4. **Adjustments** (approximate)
 - a) Taxes _____
 - b) Fuel _____
 - c) 1st. Mortgage Interest _____
 - d) Condo Fee _____
 - TOTAL** \$ _____ \$ _____
- 5. **Disbursements** \$ _____
- 6. **Tax Holdback** \$ _____
- 7. **2nd. Mortgage costs** \$ _____
 - Appraisal Fee \$ _____
 - Brokerage Fee \$ _____
- 8. **Home Inspection** \$ _____
- 9. **Home Insurance** \$ _____
- 10. **Moving Costs** \$ _____
- 11. **HST** on all the above except Land Transfer Tax and Brokerage Fee. \$ _____

TOTAL \$ _____