

What you should know about closing costs when buying a home

You found your house, you were approved for your mortgage, and you're flushed with success. But before you pop the cork on that champagne, you may want to get an accurate read on the closing costs for your house. Remember... you don't have the mortgage funding until the day you close. Canadian homebuyers are often shocked in the last few days – when they realize just how much money they need before they can walk through their new front door.

In short, “closing costs” are all of those extra costs that come with buying a home. They're not typically built into the mortgage, so you'll be expected to have some extra funds set aside to cover these costs. How much are you looking at? Generally, you can expect to fork out between 1.5% and 4% of the home's selling price in total closing costs.

A mortgage loan insurance premium can be a significant expense if you're in a high-ratio mortgage – that is, if you have less than a 20% downpayment on your mortgage. The insurance is required, and you'll need to pay a premium, which in most cases is added to your mortgage.

You may need to pay an appraisal fee for your new home. In some cases your lender will want the assurance that your home has sufficient value for the money loaned. Appraisal fees can vary depending on the type of property and its location.

The lender will also want to see some insurance on your home – and you'll want it too. Be sure you have insurance effective from the moment you legally take possession of your new home. Start this conversation early; you don't want to be shopping around at the last minute.

You may also want a home inspection to ensure your property has a clean bill of health. A home inspector can evaluate the structure of the building as well as the

major systems: electrical, plumbing, heating, etc. An inspection is always a good idea with an older home, but new homes or condos under warranty should also be reviewed carefully.

Remember, too, that this is a sale: expect to pay some tax. Depending where you are, it'll be called a Land Transfer Tax, Land or Deed Registration Fee, Tariff or Property Purchase Tax. This tax can take buyers by surprise, and the amount owed can be substantial: it is based on a percentage of the purchase price of the property. Your mortgage broker can give you an accurate estimate of what this can add up to in your situation.

For a transaction of this size, you'll definitely want a lawyer or a notary. You're responsible for the legal fees and any disbursements – and these fees can vary. A straightforward transaction could be less than \$1000; your broker can offer you guidance on your situation. Your lawyer or lender may also recommend or even require title insurance, which can save the trouble and expense of surveys or unexpected issues with the property title in the future, and protect you from title fraud.

Other “money up front” costs can include utility hookups, and reimbursement of any bills pre-paid by the previous owner: property tax or utility bills for example. Similarly, there may be an interest adjustment, depending what day of the month you close. Finally, make a realistic assessment of your moving costs and what you'll need in the way of furnishings or appliances.

If you're working with an experienced mortgage broker, you're probably ahead of the game; the brokerage industry and especially firms like Mortgage Architects put a strong emphasis on this kind of client education, which means you're unlikely to have any nasty closing-cost surprises.

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