INSIDE

First-timers checklist

Real estate agent Trish Bongard Godfrey offers advice for home shoppers facing the scary task of buying their first house.

PAGE 5

THE GLOBE AND MAIL
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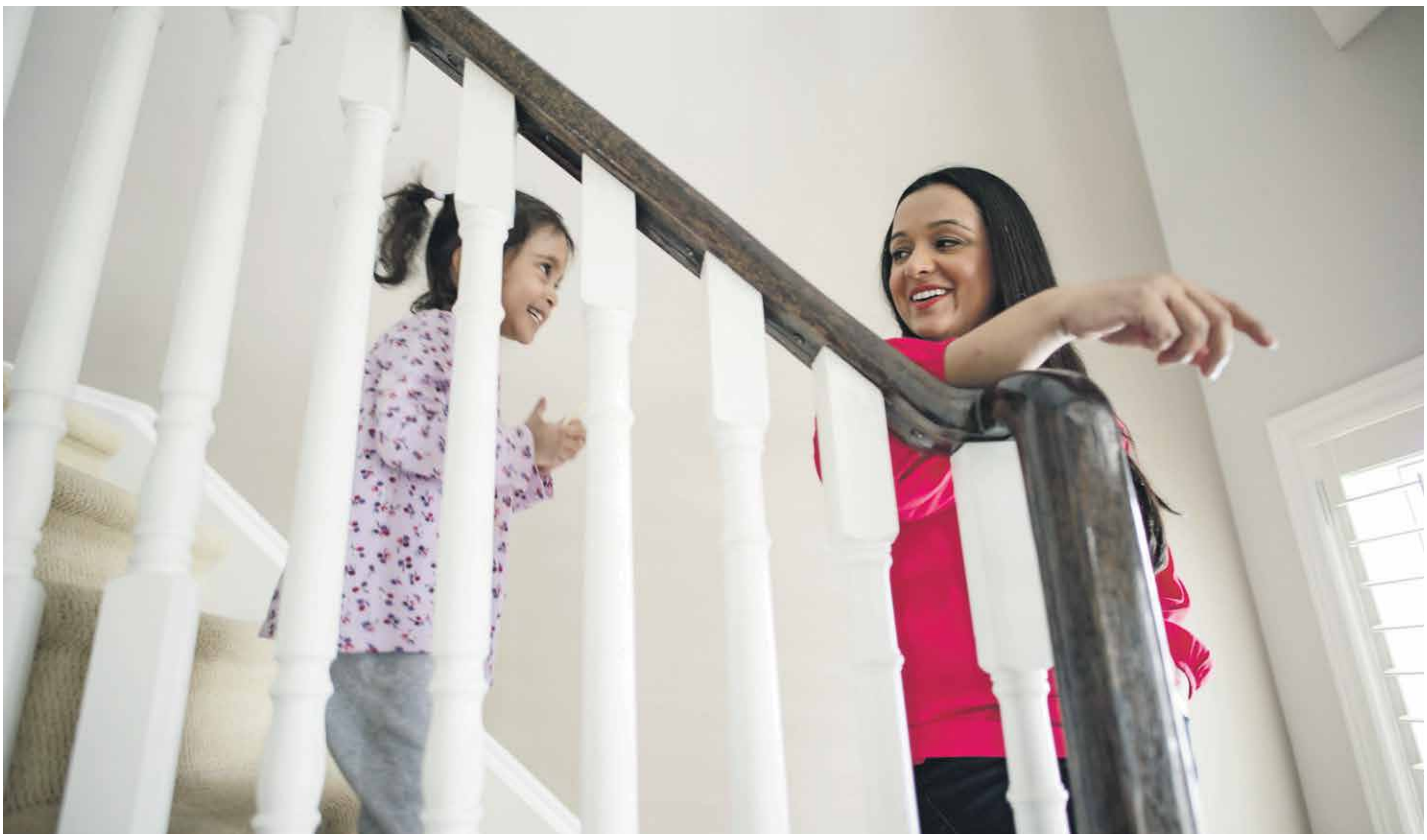
Spring Mortgages

EDITOR: JEFF BROOKE

CREDIT SCORE



DON'T GET A BAD GRADE ON YOUR 'ADULT REPORT CARD'

Many Canadians are unaware of their rating until trying to buy a house – by then, it might be too late, **Deirdre Kelly** writes

Financial expert Rubina Ahmed-Haq, with her daughter Salma Haq, has first-hand experience of what can go wrong when you try to buy a house while having a bad credit score, even when it's not your fault.
J.P. MOCZULSKI FOR THE GLOBE AND MAIL

Like many Canadians, Rubina Ahmed-Haq graduated from university with student debt. But in her case, she paid it off responsibly. And so she was surprised that there were questions about her credit-worthiness when purchasing her first home.

"Despite having paid off that debt within two years of graduating, I wasn't aware that my credit score didn't reflect that fact, and so I had a problem when I went to buy a house," Ms. Ahmed-Haq says. "I was considered a bad credit risk even though the error wasn't mine."

A resident of Toronto, Ms. Ahmed-Haq flagged the discrepancy and had the credit agency correct her score. "But the lesson here," she says, "is I should have looked into it ahead of time."

Today, Ms. Ahmed-Haq is not only a home owner but a personal finance expert and family finance adviser for President's Choice Financial, helping others through the sometimes complicated process of securing a first mortgage.

"A bad credit score might seem like a huge obstacle," Ms. Ahmed-Haq offers, "but it's not the end of the world. You can take steps to turn it around, but the first step is ensuring you're educated on your own credit history and what contributes to your score."

Bad credit has many causes, from missing a minimum monthly credit card payment to an unpaid traffic violation. Even a minor financial indiscretion can add up to trouble when trying to buy a home.

A survey released this year by New York-based Bankrate.com reports that 29 per cent of people who don't own a house said they couldn't afford a down payment, while another 16 per cent said their credit score wasn't good enough to qualify for a mortgage.

"I always say the credit bureau is your adult report card and your credit score is your grade," says Chantel Chapman, the financial fitness coach for Vancouver-based Mogo Finance Technology Inc.

"The credit score is based on your financial history and the way you handle borrowing money. It overall shows a person's financial responsibility and money management skills."

So credit scores are a fact of life, yet few Canadians take the trouble to find out about them until faced with a big asset purchase like a home.

Credit scores, Page 4

FINANCING

Bank of Mom and Dad sees more withdrawals

Millennial home buyers are increasingly leaning on family, experts say

JOSH O'KANE

When Calgary teacher Dana Kolubinski bought her first house in 2012, her parents kicked in for the down payment. They insisted on it; their own parents had helped them, and they wanted to pay it forward.

As a working adult with her own salary, "it does feel weird," says Ms. Kolubinski, 28. But saving for a down payment is tough these days – especially for early-career millennials renting in high-priced cities.

Her parents helped out with her brother's first home, too. "You feel almost guilty," she says. "But they were very happy to see us find a place, thrive, and have an investment to help set us up for the future."

Buying a first home, especially in urban centres, can feel like a two-fold race against time: first to save for a down payment, then to get into the market before prices escape reach. In the past few years, a significant chunk of prospective first-time home buyers – many of whom are millennials – have been turning to, or at least hoping for, family help to get there faster.

Bank of Montreal conducts annual surveys of first-time home buyers, and has found in recent years that nearly half of young potential buyers expect a loan or gift from family. This year, the bank found that 44 per cent of millennials expect to depend on parents or family for some or all of their first home purchase.

That's down from 52 per cent of millennials expecting family help in 2015. In BMO's 2013 survey, however, just 28 per cent of millennials suggested they would ask parents for financial assistance. The bank used different wording to ask these questions in different survey years – but, says Sameh Elrefaei, BMO's managing director of personal lending products, "research shows it's an increasing trend."

This shouldn't be alarming, Mr. Elrefaei says. With housing markets so hot, especially in Vancouver and Toronto, "I think it's a natural thing for people to seek help from family."

Forty-two per cent of the 2,079 millennials surveyed by BMO in 2016 said it was difficult to find an affordable home where they wanted to live. The average expected price for a first home varied across Canada, with a low of $234,735 in Quebec and a high of $478,113 in British Columbia.

Commenting on the survey, BMO Nesbitt Burns Inc. senior economist Robert Kavcic pointed out that in the 1980s and '90s, young buyers had their pick of older homes on larger suburban properties, but these are no longer as widely available, leaving condos and townhouses the new "affordable" first homes.

Families, Page 5

RATES

Why the lowest interest rate might not always be the best

The length and variability of the loan can be just as important in your long-term costs

DAVID ISRAELSON

Real estate agent Jenelle Cameron says a small rate difference can mean thousands of dollars over the mortgage's life. JENNIFER ROBERTS FOR THE GLOBE AND MAIL

After you've found the perfect home and the mortgage with the best interest rate, you're not quite done, Jenelle Cameron says.

"Do your research, don't just jump on the first product you're offered," says Ms. Cameron, a Toronto-area real estate agent with Re/Max Hallmark Realty Ltd.

While interest rates are important, they're not the only factor, she says.

You should start researching before you zero in on a particular property, at the stage when you seek preapproval for the mortgage you may end up signing.

"There is no perfect answer and no crystal ball, but you should discuss all options and understand the plus and minus of each option before making your choice," says James Robinson, mortgage broker and owner of Dominion Lending Centres Mortgage Watch in Toronto.

The actual interest rate is still important, so you shouldn't completely ignore it. But the amount you end up paying has a lot of additional variables, he explains.

"A small difference in the rate can mean thousands of dollars over the life of the mortgage, but it can work in both directions."

The term of the mortgage can make a difference, for example.

"If you take a one-year term because it has a lower rate than a five-year term, you may save, but you may not if, in one year, rates have increased and you have to renew into a much higher rate," Mr. Robinson says.

"Alternatively, you may choose a five-year fixed rate to have the security of knowing what the rate and payment will be – only to watch rates fall and not get the benefit you would have if you had chosen a shorter term or a variable."

Ms. Cameron says that, "historically, variable rates tend to do better, and when people don't realize this, they just lock into a fixed rate." On the other hand, "it's not as simple as what might be the cheapest rate, because what may be the cheapest today might not turn out to be the cheapest later on," Mr. Robinson says.

> **Historically, variable rates tend to do better, and when people don't realize this, they just lock into a fixed rate. On the other hand, it's not as simple as what might be the cheapest rate, because what may be the cheapest today might not turn out to be the cheapest later on.**
>
> **Jenelle Cameron**
> *Re/Max Hallmark Realty Ltd.*

"If taking a variable rate is going to save you $500 a year in interest costs but you're going to wake up in a cold sweat whenever the rates go up, it's probably not for you."

While the economy can change, there's little worry about rates going up right now. Lending rates in Canada and, indeed, most of the developed world, have been at historic low levels since the 2008 stock market crash.

The Bank of Canada, which announces its key overnight lending rate eight times a year, kept the rate at 0.5 per cent in its most recent announcement in April, and experts see few signs of an increase coming before 2017, if then.

Sami El-Farram, a mortgage broker at Total Mortgage Source 360 in St. Catharines, Ont., says it's important to make sure you know how much money your property is registered for by the lender.

In some cases, lenders put higher values on the property than what you paid for it. This leaves you room to borrow more money from the lender later, for example through a line of credit.

"But it's also a form of golden handcuffs. You have to stick with the same bank because if you want to switch, you have to refinance and you may face penalties," Mr. El-Farram says.

Self-employed people should really look beyond the interest rate, Ms. Cameron with Re/Max says.

"Self-employed people traditionally qualify for mortgage amounts based on net income. But if you're self-employed, you usually have a lot of write-offs and your net income can be really low on paper," she explains.

"There are all kinds of different products available for self-employed people, though. Certain lenders will qualify you based on your gross income, as you would if you were employed."

Ms. Cameron says that as an agent, she doesn't purport to be an expert on mortgages, so she recommends that clients consult a mortgage broker. Brokers have access to mortgage information from a wide range of lenders, not just the big banks, although they can work with them as well.

Also, "people don't realize that they don't have to pay for a broker," Ms. Cameron says. The lender does.

Mr. El-Farram says that to encourage mortgage seekers to look beyond the interest rate, "I ask them, how long are you planning on staying in the house? If it's five years, they'll want to know what it might cost them to get out of the mortgage then."

Mortgages come in so many varieties that it can be confusing in the best of cases, and the interest rate can bedazzle the consumer.

"It's like going to Costco and picking out a 60-inch television that looks great. You may love it, but what if it doesn't fit into your living room?" he says.

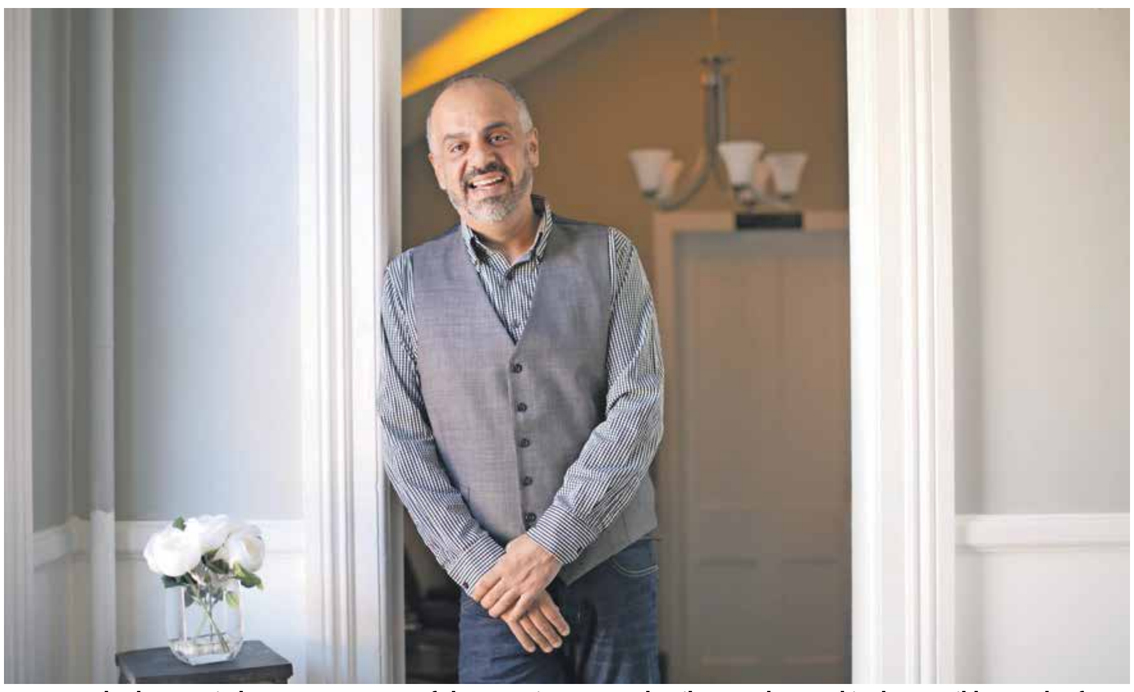
Special to The Globe and Mail

PENALTIES

Read the fine print – even the boring parts

The details of your mortgage document spell out your obligations and potential penalties

DAVID ISRAELSON



Mortgage broker Sami El-Farram says one of the most important details to understand is the possible penalty for breaking a mortgage. Costs 'can skyrocket to tens of thousands of dollars.' PETER POWER FOR THE GLOBE AND MAIL

Before you sign your mortgage, Sami El-Farram suggests that you catch up on your reading.

"You really need to look at the fine print, and you should have a checklist of what you need to read," says Mr. El-Farram, a mortgage broker at Total Mortgage Source 360 in St. Catharines, Ont.

By "read," Mr. El-Farram means that it's important not just to stare at the words – you ought to understand what you're getting into. The fine print can affect everything – what you're qualified to borrow, what you owe and what might happen if your circumstances change.

"The most important areas to review are the potential penalties [for breaking a mortgage] and how the mortgage is registered," Mr. El-Farram says.

Depending on the way the document is worded, "a normal mortgage penalty of what used to be three months' interest can skyrocket to tens of thousands of dollars."

Likewise, the "collateral charge" – what the bank says the property is worth – can make a difference. In hot, ever-rising housing markets like Southern Ontario and British Columbia's Lower Mainland, "some banks are registering properties at anywhere from 110 to 125 per cent of the purchase price," betting that the property's value will keep rising fast.

"This can limit your ability to transfer, move or shop a mortgage without additional costs," Mr. El-Farrah says.

"It's important to go through all of the details to make sure that you know what you're getting into – before you sign. Your mortgage is potentially a long-term relationship that can be very expensive to end early," says James Robinson, mortgage broker and owner at Dominion Lending Centres Mortgage Watch in Toronto.

Here are some of the other items to include on your mortgage-reading checklist.

Conditions of approval

When a lender says you can get a mortgage, you'll typically have conditions to meet. You might have to prove your income and whether you actually have the down payment, or the lender might require that the property be appraised. Do you understand these conditions? Can you meet them? Some of these conditions might cost you money, such as an appraisal, so you should know what extra costs might be involved well before your closing.

Prepayment options

Mortgages often allow you to make lump sum payments every year and increase your instalment payments. How much can you contribute and how often can you increase? These options can make a huge difference toward paying off a mortgage sooner than the 25 or 30 years on which the regular payments are based. Every increase in instalments and every lump sum can reduce the principal – the fine print will tell you what you can do without penalty. You should also check to see what the penalties might be for early payout of your mortgage.

Convertibility

If you take a variable-rate mortgage, chances are the fine print lets you convert it mid-term into a fixed-rate mortgage. This can protect you if rates start to rise, but you need to know what the conversion terms are. "Some lenders will tell you that they will convert into their 'best customer rate' while others simply say you can convert and don't specify what rate you'll get," Mr. Robinson says. "The lenders that guarantee their best customer rate are going to be the better choice."

Choice of lawyer

When you purchase a home, or any real estate, you'll hire a lawyer (solicitor). It's standard but important professional work; solicitors' fees are usually pretty competitive with each other, so shop for someone who gives you confidence. The lawyer's job is partly to go over the mortgage fine print the same way you should, and they'll also make sure you have a proper title to the house. The solicitor will also often act on behalf of the lender to prepare the mortgage documents and register the mortgage on title – you pay to register it. Every lender has a list of approved solicitors and it's good to check.

It's rare, but there may be a few lawyers who are unacceptable to the lender, and you'd have to shop for a new one at the last minute.

Portability

"I ask people how long they want to live in the home they're buying," says Mr. El-Farrah. If you're planning on staying forever, the fine print here doesn't matter as much. But if your purchase is a starter home or you expect to move around, you'll want to be able to "port" your mortgage – end the current one and then immediately assume a new one from the lender without any discharge penalty for ending the first one. Buyers sometimes run into trouble when they sell a home and get rid of their mortgage and then wait a few months before buying a new one – they end up penalized for collapsing the initial mortgage.

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HOME RENOVATION

Your big-reno team should include your lender

Banks want to see the costs upfront and to make sure the work will be completed

GUY DIXON

The tastes of financial lenders: They're the last thing on the mind of home renovators, but they should maybe be the first.

No, banks and other lenders don't care about homey aesthetics, paint colours or kitchen fixtures. Their taste squarely revolves around whether a house that needs refinancing for a renovation is more or less livable, and not a construction site. Mortgage brokers explain that ignoring this preference among lenders can make reno financing more difficult.

Small renos can easily be paid for through a home equity line of credit, for instance, which tends to keep lenders at bay. But when home renos involve, say, breaking an existing mortgage and refinancing to an amount closer to the new, higher, post-renovation value of the house, things can get much more complicated.

Firstly, the house may have to get reappraised, a potential pitfall if not done correctly.

Iain Macfadyen at YourVancouverMortgageBroker.com described how a client in New Westminster, B.C., managed to avoid this problem. The client was gutting the family home. Being in the construction industry himself, the client was very hands-on in the reno process.

The trick, Mr. Macfadyen said, was that when the house needed to be appraised to proceed with refinancing, the client made sure the house was still functioning as a home. This helped to keep the appraised value high.

"In the downstairs, he had already taken out a wall and put up drywall, put in new floors," Mr. Macfadyen said. "Basically, the plan was to do the downstairs, and then do a whole reno on the upstairs." A new room was prepared for where a new kitchen would be.

But Mr. Macfadyen advised the client to wait until after the appraisal before ripping out the old, working kitchen. "If they don't see one there, it's not going to turn out well," Mr. Macfadyen said. "The appraiser wants to see a livable property. They don't care about the process of the renovation. …You want to have it livable. You can't have a construction site."

The reason is that "institutions don't want to lend on incomplete houses," he added. "Even if it's going to be much nicer, it's basically a glass half empty. And they [the mortgage lenders] are going to assume the renovation won't be done, and they don't want to be stuck foreclosing on a place that's not complete." A positive appraisal helps ensure his client had enough money to complete the repairs.

Another pitfall is underbudgeting a reno. As everyone knows who has been through one, home renovations almost always cost more than expected. Who knows what contractors will find inside that old wall?

"That's one of the biggest pitfalls I see with people doing renos. They don't budget for overruns, they don't have enough money and they're stuck with an incomplete property," Mr. Macfadyen said.

While overestimating just means paying back the extra money borrowed, underestimating can mean having to start the whole refinancing process again, likely incurring heavy penalties.

"They [the lenders and appraiser] are going to want to see the property again. More transaction fees. Possibly breaking your old mortgage. There are so many more potential costs if you get it wrong, compared to taking too much money out," Mr. Macfadyen said.

Part of the problem with budgeting a reno can be not accurately gauging what the value of the home will be after renovations. A common problem is overestimating how much the reno will raise the property's value.

"Sometimes [people] get over their head because they don't have an end value in sight when they start their project," said Halifax mortgage broker Pat Sawler at Craigburn Capital. "Say their house was worth $250,000 now, and they put $50,000 into it. They think it's going to be worth $300,000, but it only adds $15,000 to the value of the property."

That can be a problem if the homeowners can't borrow as much as they had hoped, because the appraised value is lower than anticipated. "That's when people get over their heads," he said.

There really isn't a preferred way to finance a reno, say brokers. It all comes down to the individual house and its homeowners.

It's best to wait until the construction work is done before calling in the appraiser. 'You want to have it livable,' one mortgage broker says. 'You can't have a construction site.' MATTHEW SHERWOOD FOR THE GLOBE AND MAIL

"Once I understand what the clients are trying to do, the value of their home, the amount of renovation money they need, the details of their existing mortgage (the penalty to break, what the rate is, whether the lender is allowed a second charge), then I can help them determine what the cheapest/easiest route is for them to achieve their goal," said Vancouver mortgage broker Patricia Collins in an e-mail.

Many brokers advise leaving the option open of possibly rolling the line-of-credit debt into the larger mortgage when that mortgage comes up for renewal. That can effect the timing of the reno. In fact, timing, like when to have the home appraised, can be key.

Yet, homeowners always need to heed the preferences of the lenders. They want to see the costs upfront, and they want to make sure the renos will indeed be completed. This is particularly important when financing the mortgage and renovation costs at the same time (with either a purchase and improvement mortgage, or with a refinancing and improvement mortgage).

"The improvement money is held back by either the lawyer or lender until the work is complete, and is only released once the work has been confirmed complete. Some lenders take paid receipts, some require an appraiser to inspect and confirm," said Ms. Collins.

"This is the only way the lender can guarantee the money is truly going toward [the reno] and is secured against the home, rather than to a new boat," she said.

"It's good for the buyer because it forces them to actually get the work done quickly."

> **"That's one of the biggest pitfalls I see with people doing renos. They don't budget for overruns, they don't have enough money and they're stuck with an incomplete property.**
>
> **Iain Macfadyen**
> *YourVancouverMortgageBroker.com*

INCOME PROPERTY

How tenants can pay your mortgage

Adding an apartment to your home or buying a second property can generate cash flow, but risks abound

PAUL BRENT

This year, twentysomethings Sarah Aradi and her husband moved into a basement apartment in a house in Chilliwack, B.C., a booming city about an hour's drive from Vancouver.

Before rushing to take pity on the fate of poor, priced-out millennials consigned to a subterranean existence and a lifetime of renting, it should be noted that the couple actually own the house and rent the upstairs to tenants in addition to owning a second income property nearby.

Rental income at both properties is more than covering expenses and Ms. Aradi, 26, expects that she and her husband are on schedule to purchase a third income property in about three years.

Given the runup in home prices in Canada – driven disproportionately by red hot markets in Vancouver and Toronto – people could be forgiven for believing that home ownership, let alone purchasing an income property, is suddenly out of reach.

Ms. Aradi and her husband, Tim, are proof that with discipline and a plan, it can be achieved, even with modest incomes. Ms. Aradi, a digital media co-ordinator, has something of an advantage over most people, however. For the past eight years she has worked for REIN Ltd. (Real Estate Investment Network), a 24-year-old, B.C.-started organization that touts and teaches the ins and outs of real estate investing, mostly in Vancouver, Calgary, Edmonton and Toronto.

That has given her an advantage over most Canadians, but to her credit she and her husband acted on their acquired knowledge. For the majority of people, who are not intimately connected with the real estate world, what do they need to know to purchase an income property without mortgaging their future?

"You really have to crunch the numbers," says Brendan Powell, a broker and team leader with Sage Real Estate Ltd. of Toronto.

The lowest-risk routes for homeowners to become landlords is for them to buy a primary residence that has a rental suite or to renovate their existing home to accommodate renters. RAFAL GERSZAK FOR THE GLOBE AND MAIL

> **"If you've got something close to the subway or close to the kinds of tenants you want to attract, that is going to make a huge difference. If it is not, even if all the numbers work, but you have over-renovated and [expect] to get a luxury tenant, it won't work.**
>
> **Brendan Powell**
> *Broker and team leader with Sage Real Estate Ltd.*

Besides worries about debt ratios and tenants' rights, would-be buyers of rental properties have to think about many of the same factors as those buying a primary residence. Top of that list: the old real estate adage of location, location, location. "If you've got something close to the subway or close to the kinds of tenants you want to attract, that is going to make a huge difference," he says. "If it is not, even if all the numbers work, but you have over-renovated and [expect] to get a luxury tenant, it won't work."

Motivations of income property purchasers also vary, he has found. Some are looking for cash flow to carry the costs of the property over the long run while others are less concerned with maximizing rent and are instead looking for capital appreciation of the property. "Those two [goals] often are at odds."

Perhaps the lowest-risk routes for homeowners to become landlords is for them to buy a primary residence that has a rental suite or to renovate their existing home to accommodate renters. (Most would likely not choose to live in the basement like the Aradis).

Kim Gibbons, a Toronto-based mortgage broker, notes that the homes with rental units "are highly coveted in this city, so if you find one and want to buy it, then you better act quickly on it because they don't last very long." One key advantage of the owner-occupied rental approach is that you can get by with a smaller down payment (5 per cent versus 20 per cent for a rental-only property), she says.

Given the shortage of rental apartments in most major Canadian cities, municipalities' attitudes to illegal apartments is complicated. As many as 80 per cent of basement apartments in Toronto don't comply with all guidelines and could be considered "illegal," according to Sage's Mr. Powell, but the city also faces low vacancy rates and it encourages density.

Whether a rental unit has a municipality's blessing or not will not prohibit a purchaser from obtaining financing, however, says Ms. Gibbons. Some lenders may only want to offer a mortgage on properties with legal apartments but there are always some lenders willing to finance "illegal" units for a higher interest rate.

Ms. Gibbons is working with a client who is in the process of remortgaging his current principal residence and using the equity in that house to finance the purchase of a second home, with plans to rent out the first home to tenants. In this instance, the math is trickier than with an owner-occupied purchase.

"In that case, the thing to watch out for is debt ratios and can it service [expenses] properly," she says. "There is double the upkeep, double the taxes, insurance, maintenance, and utilities."

The mortgage broker also advises her would-be landlord clients to contemplate the nightmare scenario: tenants refusing to keep paying rent. "It could leave you in a crunch. The rules tend to lean toward the tenant."

Ms. Aradi, a veteran tenant evaluator despite her age, says landlords cannot skimp when it comes to screening renters. "I have a very, very rigorous tenant-screening profile that I go through." She conducts a phone interview first, followed up by an in-person meeting with an application form and a background and credit check.

"I only want people that I feel are going to be great tenants," she says. "It is a more in-depth process, it is not just shoot me a message on Facebook or on Craigslist and you have got the apartment."

Special to The Globe and Mail

FROM PAGE 1

Credit scores: Those with bad ratings can improve their standing over time

"What's really interesting is that 52 per cent of Canadians don't know about their credit score and don't even think to care to know until they need to borrow funds," Ms. Chapman observes.

It's not something that comes up much, even when seeking other forms of borrowing.

"Getting a mortgage is not the same as applying for a credit card," she says. "With a mortgage, a broker will look at your personal application, assessing your individual risk, so it's a much more involved process and something that shouldn't be done last-minute, especially not in a hot real-estate market where not being prepared might cost you the house you really want."

Louis-François Ethier, product manager with National Bank of Canada, says financial institutions look at everything from credit history to income stability when assessing individual risk.

"A good repayment history is important to obtain financing from a financial institution. A credit verification is done every time a new financing is requested," Mr. Ethier says.

People with seasonal jobs can also be deemed a credit risk because their incomes cannot be tracked long term.

"Financial institutions are looking for permanent employment or job stability of three to six months," Mr. Ethier says. "When the income is less stable – like business for self or seasonal employment – it may be requested to confirm the income over a period of two years."

But there's good news. Credit scores fluctuate, and often. Every 30 to 60 days a score will update, allowing those with bad credit to take steps to improve their standing in the eyes of a potential lender.

It requires a bit of planning, Ms. Chapman says. Inquiring early into your credit score – at least six months in advance of a potential home purchase – is an obvious first step "because then you can take steps to get back on track."

Some of those steps involve paying attention to utilization rates, also known as debt-to-limit ratio. They can significantly affect credit scores, so a sure way of improving them is to keep credit card balances 70 per cent below the defined limit – 35 per cent if a debt balance is carried month-to-month, according to Ms. Chapman.

She also says to pay all bills on time and in full, an obvious point that still needs repeating as many people fail to heed it.

"Never miss a minimum payment," Ms. Chapman cautions. "Even if it's $4 and not $400, it is important to pay your debts on time."

Also make sure to take care of any unpaid parking tickets. Ms. Ahmed-Haq would second that.

"Canadians should be aware that it's also the little things they need to stay on top of. Something as small as a traffic ticket can negatively impact your score." She speaks from experience.

"When younger, I paid a parking ticket late, one parking ticket that I had forgotten about, and it lowered my credit score," Ms. Ahmed-Haq says.

"I guess you could say I learned the hard way always to pay your bills on time."

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FIRST-TIME BUYERS

You shouldn't always take the maximum that's offered

Rookie purchasers are encouraged to be realistic about what they can afford and to be aware of hidden costs

DAVID ISRAELSON

The first time can be scary, but it doesn't need to be if you take the right precautions.

While that's true for just about everything, it certainly applies to first-time homebuyers taking out a mortgage.

Even for experienced buyers, it takes careful thought and planning to choose where to go for a mortgage and how to choose the right terms. For first-timers there's the added edge of not always knowing what to expect.

"You should know what you're getting into and what you can realistically afford," says Trish Bongard Godfrey, a Toronto-based real estate agent at Chestnut Park Real Estate Ltd.

While acquiring a mortgage will usually be one of the biggest decisions in people's lives, first-time buyers can make it easier if they follow a few time-honoured steps.

"Don't overextend if you don't have to," Ms. Bongard Godfrey says.

"There's a school of thought that says, take the biggest mortgage and the biggest house as you can. But sometimes things go wrong in life. You don't always have the earnings you expect, or interest rates can go up. It's good to have a bit of cushion."

One of the biggest hurdles is determining how much of a down payment you can scrape together, says Wade Stayer, vice-president of sales and service at Meridian Credit Union in St. Catharines, Ont.

"It's a key principle to be realistic about what you can afford, not just today but later," he says. "It's really a matter of looking at your personal circumstances, not just walking in and asking how much you qualify for. Otherwise you'll get an amount, but you might not be able to furnish your home or go out on weekends."

Realtor Trish Bongard Godfrey advises first-timers to plan for unexpected problems. 'You don't always have the earnings you expect, or interest rates can go up.' CHRIS YOUNG FOR THE GLOBE AND MAIL

The higher the down payment, the easier it will be to handle the mortgage payments. Buyers in Canada should typically expect to put at least 5 per cent of the purchase price down; they'll probably also be looking to pay for mortgage loan insurance.

Canada Mortgage and Housing Corp. insurance is available for purchasers who buy properties costing less than $500,000 with a 5-per-cent down payment. For buyers of houses up to $1-million, purchasers have to put down 10 per cent of the amount above the first $500,000, and CMHC insurance is not available for properties costing more than $1-million.

First-time buyers should also understand that while mortgage insurance protects them against default, it's not the same as mortgage life insurance, which guarantees that if you die the mortgage won't be a burden to your estate.

Establishing a personal relationship with an expert, either a mortgage broker or a financial adviser, is especially important for first-timers, Mr. Stayer says.

"Build a conversation. It's exactly the kind of conversation that you can't have over the Internet," he says.

"Whoever you're working with, whether it's a mortgage broker or a financial professional, it's important to listen to the advice. That's what you're engaging them for," he adds.

Ms. Bongard Godfrey and Mr. Stayer agree that it's also essential for first-time buyers to get preapproved for a mortgage amount before they go house hunting. It's not only a necessary step before putting in an offer, it helps buyers remain realistic in hot and heavy housing markets such as those in Toronto and Vancouver, where the average price of a detached home is in the $1-million neighbourhood.

"You need to be prepared for extra costs beyond the mortgage. Sometimes a house looks expensive but it's not, and then it turns out to be expensive. People refer to HGTV syndrome," Ms. Bongard Godfrey says.

Extra costs can include unforeseen repairs and maintenance and, in some provinces and municipalities, land transfer taxes, which can't be included in the amount you borrow for a mortgage.

First-time buyers do get some benefits. The federal government offers a first-time home buyers' tax credit, and it allows first-timers to borrow up to $25,000 from their registered retirement savings plans for a home, though repayment to the plan must begin in the second year after the funds were withdrawn.

Mr. Stayer says first-time buyers should also contemplate what might happen to interest rates.

"Look at what happens if in five years your mortgage rate is 1 to 2 [percentage points] higher. Will you still be able to afford that?"

Mortgages from different lenders may come with great rates or sound exactly the same as competitors' offerings, but they can't always be compared like apples to apples, Mr. Stayer says.

"If you have options, check: Do both have the same prepayment privileges? What's it going to cost you to get out of your mortgage if you decide to move?"

Other details to look at are whether the mortgage you're being offered has hidden service charges or is completely closed, locking you into its terms until it matures.

Special to The Globe and Mail

FROM PAGE 1

Families: Assistance rising

As much as everyone would like a detached home of their own, Mr. Elrefaei tells The Globe and Mail, "when you take affordability into account, a condo is much more accessible."

Paul Taylor, chief executive officer of Mortgage Professionals Canada, says that gifts from parents has long made up a significant chunk of first-home financing, but that "it seems to have trended upward slightly."

New mortgage rules have come into place requiring a minimum 10-per-cent down payment on the cost of a home over $500,000, rather than the usual minimum 5 per cent. While first-time buyers in most markets won't aim that high, they may have to in Toronto or Vancouver, Mr. Taylor says – meaning they will either have to save longer for a down payment or turn to the Bank of Mom and Dad.

Atrina Kouroshnia, a Vancouver mortgage broker, says at least 35 per cent of first-time home buyers she has worked with this year have received a gift. Buying behaviours have shifted as the local market skyrocketed over the past few years, she says. "People who were on the fence before with tighter budgets are going overbudget because they're afraid of not getting into the market at all if they wait any longer."

But Ms. Kouroshnia, who previously lived in Ontario, says she has seen a surprising savings culture among B.C. millennials. "They tend to live at home longer, working full-salary jobs," she says. Much of the parental assistance she has seen has been to help her clients reach the crucial 20-per-cent down payment mark to avoid mortgage loan insurance.

When it comes to getting assistance in buying, Mr. Taylor says, "it's probably a whole lot better to be in a loan arrangement with a family member than a financial institution," since it's more likely to be interest-free or forgiven.

Mr. Elrefaei, meanwhile, suggests avoiding loans altogether – even from family. A financial plan should come before home ownership, and affordability should fit into that plan. "When we do an assessment, we're making sure the debt you're taking on is affordable and you can make the payments," he says. "If it's coming from your parents, [make sure] it's actually a gift and not an additional liability."

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RENTALS

Beware the risks of renting your house through Airbnb

Homeowners, particularly those in condos, could be in breach of their mortgage terms by taking in boarders

AUGUSTA DWYER

The rise in popularity of short-term rental sites such as Airbnb and Homestay has added a new wrinkle to the relationship between homeowners with a mortgage and the financial institutions holding those loans.

At Royal Bank of Canada, clients must inform the bank of the intended use of the property, says spokesperson Jill Anzarut, "and if that use changes, it's important that they contact us in advance, prior to proceeding with any changes."

National Bank of Canada requires the same notification.

At Toronto-Dominion Bank, meanwhile, as long as the correct insurance is in place, occasionally renting a property through a service such as Airbnb would not have an impact on a mortgage holder or applicant, says a spokesman.

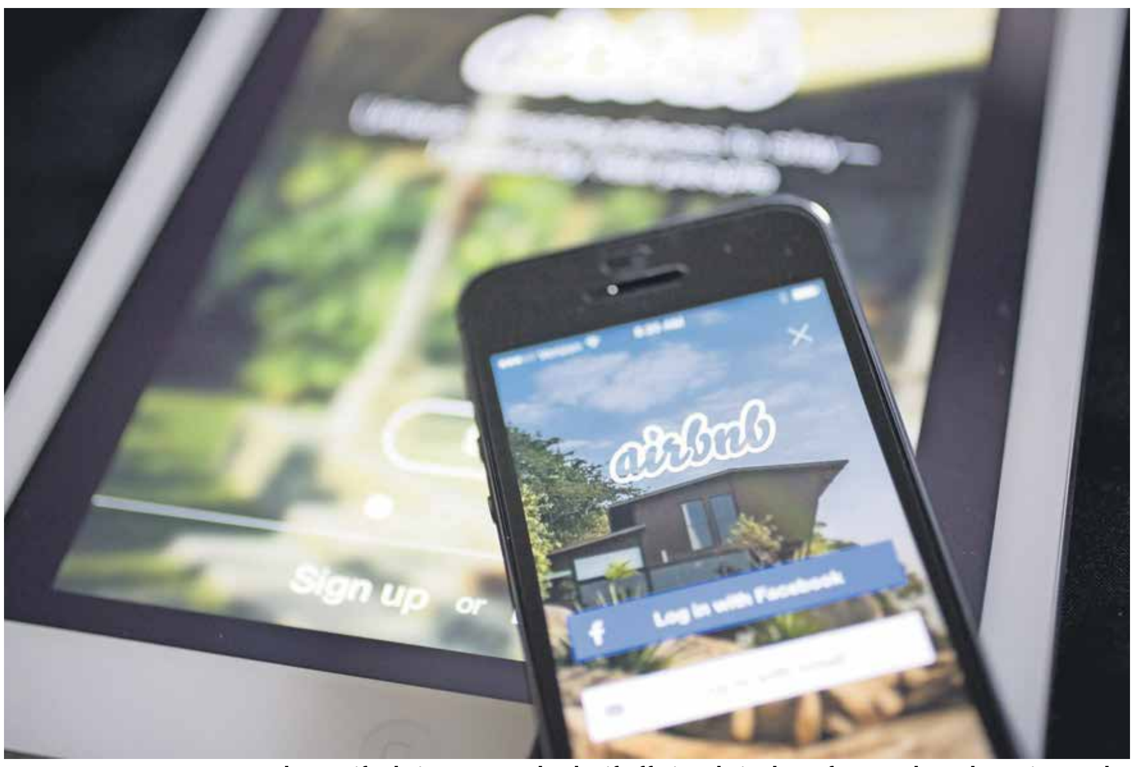
Even though such an activity could put homeowners in breach of their mortgage policies, it is not always clear what happens if you inform your lender that you are planning on using part, or all, of your home for short-term rentals. And whether anyone actually makes the effort to do so is also in some doubt.

Yet the mortgaged property is the lender's security, and if anything happens to it, it is affected.

"It's the same if you are doing renovations or putting on an addition," says Barb Morgan, vice-president in Ontario of Invis Mortgage Intelligence. "You are supposed to notify the lender, but it doesn't happen very often."

In the condominium sector, where, according to Gerald Miller, a managing partner at Gardiner Miller Arnold LLP, 80 to 90 per cent of Canada's Airbnb market is concentrated, there are definite risks for lenders – and homeowners.

"If you contravene the declaration of bylaws and rules of the condominium corporation," he points out, "that means you're offside here. It means you're in default of your mortgage, because the corporation can take action against you and whatever costs are incurred; they can lien your unit."



Homeowners are encouraged to notify their mortgage lender if offering their places for rent through services such as Airbnb or Homestay, but many don't. ANDREW HARRER/BLOOMBERG

> **It [Airbnb] is everywhere. So in the end when you are exposed you could have a problem. You either stop doing it or you are going to have a problem, not only with the condominium corporation, but with your lender as well.**
>
> **Gerald Miller**
> *Managing partner, Gardiner Miller Arnold*

Mr. Miller says that, as lawyers for hundreds of condominium corporations throughout the Greater Toronto Area, he and his firm are often requested by property managers to notify unit owners "to stop renting their unit out on Airbnb because it is a security risk."

If the unit holder doesn't pay the legal fees for that notification, "Well, then, we lien their unit," he says, "and that lien, because it takes priority over the mortgage, we send to the bank." Then it is the bank, he adds, that is on the hook for payment. "The bank will step up often, and pay the lien, and add that to the mortgage," he says.

Mr. Miller says Airbnb renters flew under the radar for the first few years of the service's operation, "but now it's become mainstream. It is everywhere. So in the end when you are exposed you could have a problem. You either stop doing it or you are going to have a problem, not only with the condominium corporation, but with your lender as well."

In British Columbia, lenders could only realize the homeowner is renting out his house if he no longer applies for the property-tax subsidy offered by the province.

"If the owner is paying the gross taxes," says Vancouver-based mortgage expert Glen Wong, "the lender can say, 'Wait a minute. This is supposed to be your principal residence. How come we are paying the gross taxes all of a sudden?'"

Because rental properties are considered more risky, he added, the pricing of mortgages for them is usually a few points higher than it is for a house the borrower is actually living in.

Technically, the homeowner is in breach of the mortgage contract. "Would that lender automatically say, 'I am going to call your loan because you didn't tell us exactly what you were going to do with it?" asks Mr. Wong.

"I have a feeling they won't. There is going to be too much publicity on that, too much of a headache. If the client starts talking to the media and saying, 'We were kicked out of our house,' or, 'They decided to call our loan because we switched from residence to a rental,' I have a feeling there is going to be a lot of heat taken by the lenders."

Having the right kind of insurance is obviously the first step in a homeowner making sure he won't have a potential conflict with his lenders. And according to Ms. Morgan, most insurance companies are well aware of the trend and have specific policies in place.

"Basically it would be an endorsement of the existing homeowner policy to be able to provide extra coverage based on this sort of a rental," she says, "and it would incorporate this Airbnb possibility as a hotel-style rental."

However, while renting space to strangers for extra income is still an area of uncharted waters, if Airbnb hosts could track and even pay tax on that income, it could potentially make them more attractive borrowers and get them higher loans. "If the income is verifiable," says Mr. Miller, "then the lenders are going to embrace it."

Secondary lenders are already doing so, he says. "These lenders, that will provide competitive mortgages to the big banks, are more apt to look at those different types of [income]. Interestingly, it is because of things like Airbnb that there has been this great growth of those secondary lenders out there."

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