

# Buying a home - 10 things you need to know

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Buying a home is the largest purchase you'll likely make. No wonder you're stressed. Where should you look? Can you afford it? What will happen if interest rates rise? It may all seem daunting, but you can make it more manageable with a little planning. Here are a few things to figure out before you make the leap.

## 1. Get your financial house in order

Figure out your net worth, which is your assets less your liabilities. Assets are things like cash, investments, savings, cars, boats and so on, while liabilities are things you owe – car loans, amounts on lines of credit, overdrafts, credit cards. Subtracting one from the other tells you what you're worth. [[hotlink to net worth worksheet](#)] Hint: If you get a negative number, you should probably re-think the whole thing.

The bigger the down payment the less interest you will pay in the long run. Well before you start looking for a house or condo, build a budget that will allow you to put some money away each month for that down payment.

## 2. Talk to a broker or your bank

Choosing a mortgage is like going to an ice cream parlour – there are dozens of choices and different flavors.

It may be time for a mortgage broker or adviser at your bank. A mortgage broker will shop around, much like an insurance broker, to find you the best deal. Your banker will sell you a mortgage offered by the bank. That doesn't mean you can't negotiate with your bank. The posted rates are a starting point and you can usually get a better deal. If they won't negotiate go somewhere else.

Don't be afraid to ask questions. If you go to a broker, ask how long they've been in business, what kind of products they offer and if they have references. Often the best way to find a broker is word of mouth. Ask your friends.

## 3. Terms and rates

The next decisions revolve around how long you want to lock the mortgage in and then will determine the rate of interest you pay. This is called the mortgage term and can be as little as six months or as long as seven years. It locks you in to a set of payments for the length of the term. Shorter terms have lower rates of interest.

Along with this is the [amortization period](#), or the amount of time it will take to pay off your loan. It might run anywhere from say, 15 to 35 years.

The longer your amortization, the more interest you will pay. It may be worth considering a weekly mortgage. The monthly payment is divided by four, but the advantage is that you make four extra payments a year which are applied to principal. It's a painless way to pay down your mortgage faster.

Once you've settled on a rate, term and amortization period, you get a mortgage pre-approved by your lender.

#### **4. Get a real estate lawyer**

While your dentist can likely do a fine root canal, an endodontist will likely do a better job. In some cases there won't be a substantial difference in cost, but it could save you some pain down the road. Similarly, having an experienced real estate lawyer looking over your purchase agreement, checking for outstanding taxes and liens or claims against the property can be a lifesaver down the road.

Line the lawyer up in advance and explain your plan. That way, there's no surprise when you put in your offer and come back to him with the deal.

#### **5. Have realistic expectations**

First time buyers often start with a wish list that may not be realistic given their resources. Starting big is fine, as long as you recognize that along the way you'll make trade offs between location, size of house and features.

First, assess your lifestyle . If you are single, enjoy walking to Starbucks for a latte and hate cutting grass, then a detached home in the suburbs is likely not for you.

Make a list of the things you want. Do you need a two car garage? Space for a home office? Are you going to have children? Is it a good location? [*hotlink to 10 things story*] Don't look at the house in isolation. Make sure the neighborhood, schools and surrounding amenities and services fits your needs.

Now start looking around. Use the internet, newspapers, and real estate magazines to get up to speed. Go to open houses to get a sense of what's available at what price. Knowledge is power. A good place to start is with your local [Multiple Listing Service](#) site.

#### **6. Stick to your plan**

Understand what your spending limit is and don't go over it. A pool might be nice, but it is not a necessity. Buying a home is ultimately a compromise of needs versus wants.

Try not to get emotional. In a hot market, bidding wars can be tough on buyers. But you could end up with a whole pile of buyer's remorse if you think you overpaid.

Or what may look like a lemon. Homes that are in disrepair or need fixing up can usually be purchased for less. Don't be hung up on the wallpaper, or the fact that the kitchen isn't pristine.

Use a little imagination. Yes, it's going to take work, but the savings could be worth it. Because when life gives you lemons, a slap of paint and a trip to the hardware store will increase housing value like you wouldn't believe.

### **7. Buyer agency agreement**

Make sure that your agent represents you. [A buyer agency agreement](#) helps to reduce conflict of interest since the brokerage represents you exclusively. The seller's agent represents the vendor.

A buyer's agent for example, will tell you why you shouldn't be buying a particular home. Make sure that the guy or gal on your team is batting only for you.

### **8. Get a home inspection**

You wouldn't buy a used car without checking under the hood, so why buy a house without [a home inspection](#)?

A home inspector will check for structural and electrical defects, roofing and foundation problems. This can come back to haunt you later. It also gives you some negotiation room when you put in your offer.

In hot markets, sellers may press to have the inspection waived. Don't give in and get swept away in the heat of the moment. Walk away.

At the end of the day, it boils down to your risk profile. I have a friend who sometimes drives without a seatbelt. My cousin meanwhile, loves the fact they have somehow managed to invent car airbags for her knees. My theory is it's better to have somewhere soft to land.

### **9. Don't be afraid of being a landlord**

One way to pay your mortgage off faster is to have someone help you. Buying a duplex or triplex is not a bad way to go, particularly in urban areas where prices have been bid up. Renting out the basement in a single detached home or a spare room is also a smart idea if you're not using the space. And the extra money in your pocket may mean that you can afford a nicer home in a better neighborhood.

### **10. Maybe you should rent**

Just because all your friends have put money down on a new condo doesn't mean that you have to follow suit. Depending on your circumstances, it might make more sense to rent than buying a home. A [rent versus buy calculator](#) can help you figure it out <http://www.ic.gc.ca/eic/site/oca-bc.nsf/eng/ca01821.html>

Taxes, maintenance and utilities can add up. A low interest rate environment can tip the rent versus buy equation into the buy side, while higher interest rates, which make buying less affordable, can make it more favorable to rent.

In many cases, it is much cheaper to rent than it is to buy. Most studies show however, that in the very long term, it is better to buy. However, if you tend to move a lot, don't like to deal with maintenance issues, and want to free up some money for other things, then renting might be the best lifestyle choice.