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Home ownership 101: Calculate the costs

ROB CARRICK

Financing the purchase of a home is demanding work today, and we're not just talking about trying to keep up with soaring house prices.

There are 30- and 35-year mortgages to consider (and then reject, if you're smart), not to mention interest-only mortgages. It used to be that 25-year mortgages were standard, end of story.

Interest rates are higher than they've been in a while, which puts even more of a load on buyers. And then there's the price of a home, up about 11.6 per cent nationally over the past year alone to a hefty \$292,989.

Here's another change in home buying, a process you used to begin by finding an agent and prequalifying for a mortgage at the bank. Now, there should be a third step, which involves playing around with some on-line mortgage calculators that tell you what current home prices, interest rates and mortgage options will mean to you in real-life terms (people renewing mortgages will benefit, too).

Most any bank's website features a rudimentary mortgage calculator, and all should have been updated by now to allow you to discover how much your payments would cost with 30- or 35-year mortgages as well as the old 25-year plan. For more detail, try the calculators offered by mortgage brokers, financial planning firms and real estate brokers.

These calculators are good only for estimates, so never expect the results you get to correspond exactly to what a lender tells you. Still, you'll be a far better informed home buyer if you've spent some time with something like the mortgage qualifier on the website of the mortgage broker Invis (invis.ca).

This highly detailed tool allows you to attack the affordability question from a variety of angles. You can supply your current income, debt obligations and cash on hand for a down payment and see how much you can afford; you can specify a particular house price and see if it's in your range; or you can start with various monthly payment amounts and see how they fit.

You'll get a different take on affordability by looking at the percentage of your income that would go toward your mortgage and other debts. In the Tools area of the website operated by the financial planning firm Fiscal Agents (fiscalagents.com), there's a mortgage debt service ratios calculator that shows you how close you are to maxing out on debt.



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Be sure to take a look at the financial worksheet that Fiscal Agents offers to help you get a big-picture view of how much it's going to cost to buy your home. For example, there's a tally of all the closing costs you'll face, including legal fees, property survey fees and land transfer tax, if applicable. For help on calculating land transfer taxes, head to the website of the real estate brokerage Royal LePage (royallepage.ca) and look under Ask Royal LePage.

The best part of using mortgage calculators is the freedom to play around with different amortization periods, interest rates, down payments and home prices to see how payments stack up.

For example, the housing affordability calculator on the <http://www.canadamortgage.com> site shows you how much house you can afford based on various down payments. For down payments of less than 25 per cent, the premiums for mortgage insurance are included in the calculations.

The Financial Consumer Agency of Canada, a federal agency, has an easy-to-use mortgage calculator in the Mortgage-related Tools area of its website (fcac-acfc.gc.ca) that shows the benefits and costs of using extended amortization periods. With a \$250,000 mortgage at 5.5 per cent, you'd pay \$1,526 per month with the traditional 25-year amortization period. The payments fall to \$1,410 with a 30-year mortgage and to \$1,332 for a 35-year mortgage.

The down side: total interest costs for the mortgage rise to \$257,513.42 over 30 years from \$207,792.84 over 25 years, and to \$309,613.48 over 35 years.

A good way to keep an eye on your mortgage once you've taken care of your financing is to use the mortgage monitor on the website of a brokerage called Mortgage Centre (mortgagecentre.com). If you want to see the benefits of making extra payments against your outstanding loan balance or increasing the amount of your regular payments, this is an ideal tool.

Buying a first home can be quite a shock financially, which means you may struggle to find your equilibrium. If you need some help tracking the money coming in and out of your bank account, try the home budget calculator offered on the Invis website.

Then again, the whole point of using on-line mortgage calculators is to avoid being stretched too far when you buy a home.

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