

HOME BUYERS GUIDE



FINANCING A NEW HOME

Top 10 Things to Know



FINANCING A NEW HOME: TOP 10 THINGS TO KNOW

Whether you're just dipping your toe into the real estate waters for the first time, or you've been snooping around MLS for years, first-time homebuyers tend to have a lot of questions when it comes to financing a new home. That is to be expected - it's a major investment with a big impact on your household budget and lifestyle.

Perhaps you're already a homeowner, but have never financed a new build. Either way, you've come to the right place. We've created this guide on buying and financing a new home to address the most frequent questions we receive on the topic.

1. HOW DO I KNOW WHAT PRICE RANGE I SHOULD BE LOOKING AT?

To answer this question, you need to start by considering how much you can **reasonably afford** and what amount your bank will approve for a mortgage.

Begin by considering what you're comfortable spending on monthly payments. If you're currently renting, consider your monthly rental payment and whether you could take on a similar monthly mortgage payment. You'll need to have wiggle room to cover new expenses like property tax, home insurance costs and repairs.

The Canadian Mortgage and Housing Corporation (CMHC), says that when it comes to affordability, monthly housing costs should not exceed 32% of your gross monthly income. Housing costs include your mortgage payment (principal and interest), property taxes and heating bills.

Your lender will add up the housing costs of the home you wish to purchase. They will determine what percentage of your gross monthly income costs will eat up. This calculation provides them with a figure called your **Gross Debt Service (GDS) ratio**.

To be approved for a mortgage, your GDS should generally be 32% or less than your gross household monthly income.

2. HOW DO I PAY FOR A NEW HOME THAT IS BEING BUILT FOR ME?

In this case, there are two options to contemplate:

- **Builder finances the build:** The builder takes a deposit before construction begins (usually 10% of the purchase price) and then finances the remainder of the build until possession day. The homeowner then pays the outstanding balance on the date of possession (via their mortgage or their own funds). Lexis offers this option to clients (in this case, we hold the title to the property until possession day).
- **Owner finances the build:** Some builders simply don't have the resources to finance the build. In this case, they'll require their client to finance it. In another scenario, if the client owns the lot and title can't be transferred to the builder, the owner will have to finance the build.

3. IF I HAVE TO FINANCE THE BUILD THROUGHOUT CONSTRUCTION, HOW DOES THAT WORK?

In this scenario, you'll follow the steps below:

- If you require bank financing during the building process, meet with your lender to determine if you qualify for a construction mortgage. Every bank is a little bit different, so ask for specific details as to how their program works.
- As the build progresses, the builder will request progress payments (sometimes called progress draws). The bank will send an appraiser to the construction site to assess what percentage complete the home is at that stage. Once the bank receives that information, they will release the appropriate amount of funds to the builder.
- As the home construction progresses, you will incur monthly interest charges from the bank based on the amount you've borrowed.

4. WILL IT COST LESS IF WE FINANCE THE BUILD OURSELVES?

The builder will likely charge less for the home if you are financing the build yourself. However, if you are using mortgage financing from your bank, you will end up paying more in interest charges during construction. In general, the costs will be fairly similar whichever direction you take. That said, using builder financing is a lot less work for the homeowner - so if you're of the opinion that time is money, this is worth mulling over.

5. IF I HAVE TO FINANCE THE BUILD THROUGHOUT CONSTRUCTION, HOW DOES THAT WORK?

Your money is safeguarded in two ways:

- In Saskatchewan, there is legislation known as **The Builders' Lien Act**. When payments for the construction are made to the builder, 10% of the funds are held in trust by a lawyer for 40 days. This ensures that no tradespeople or other workers register liens against the house for non-payment.
- If you are financing the construction through your bank, the appraisal/inspection process throughout the build ensures you only make payments to cover what has already been completed on the home.

6. HOW DO I KNOW WHAT MY CURRENT HOME IS WORTH?

There are two ways to find out:

- Meet with a Realtor to get a market evaluation. They will visit your home and review comparable home sales in your neighbourhood. They will consider the current market when determining the value of your house, at no cost to you. Lexis is happy to provide Realtor referrals to help you with this step.
- Hire a professional appraiser. An appraiser will conduct an assessment of your property's physical and functional characteristics. They will consider recent comparable sales nearby, and assess the current market conditions affecting the property. In Saskatoon, an appraisal will generally cost between \$200-\$400 depending on the size of the home and its location.

7. WHAT DOES THE BUILDER REQUIRE FOR A DEPOSIT?

If a home is being built specifically for you, the builder will often require a 10% deposit. You can obtain the 10% deposit from different sources:

1. Your own funds
2. A line of credit
3. Funds provided by family
4. An equity takeout from an existing mortgage

Keep in mind, if you are using bank financing for the build, the bank may have different requirements for where your mortgage down payment can come from. See the upcoming section about specific questions to ask your bank or mortgage broker.

8. WHEN SHOULD I APPROACH MY BANK (OR BROKER) ABOUT QUALIFYING FOR A MORTGAGE?

This should be your very first step - before you even start looking at houses. Without knowing what you qualify for, you won't know what to look for in terms of house price, size, style, neighbourhood, etc.

Generally, there are 2 stages of a mortgage approval:

- **Stage 1:** Before you select a home or builder, the lender will give you an idea of what purchase price you qualify for, based on various factors. These include your income, assets, debt and credit score.
- **Stage 2:** Once you have a sale agreement and home specifications, the lender will review the information again and approve you (or not) for that specific purchase.

9. WHAT QUESTIONS SHOULD I ASK THE BANK OR MORTGAGE BROKER?

- What size of a mortgage can I qualify for?
- What options do I have for providing the 10% deposit to the builder?
- How can we set up the mortgage if the builder requires a 10% deposit but I only want to use a 5% down payment for my mortgage?
- What are the best interest rates you can provide? Don't just accept the posted rates!
- If I need to finance construction myself, do you offer construction mortgages?
- How long is this interest rate guaranteed for? What if interest rates increase or decrease before we complete the purchase?
- What are my monthly payments going to be?
- What is the best option for me—a fixed- or variable-rate mortgage?
- What term is best for me? Five years? Three years? (A typical mortgage term in Canada is five years).
- When should I put my current home up for sale?
- Do you offer bridge financing if my current home doesn't sell before my new home is ready?
- What if I want to select upgrades during the build and the purchase price increases?
- Can I withdraw funds from my RRSP to put towards the downpayment? Is that a good idea for me at this stage in my life?

10. CAN YOU HELP US WITH A BANK OR MORTGAGE RECOMMENDATION?

Absolutely! We'd be happy to introduce you to a mortgage professional who is familiar with new home construction. They'll be able to inform you of your options and answer any questions you may have about financing your new home.

SUMMARY

Buying your home is a big financial and emotional decision, so it's important to educate yourself before taking the plunge.

Whether you're purchasing an existing home, or financing a custom home, we're well-versed in the "dollars and sense" behind the buying process. Looking for a referral for a bank, broker or Realtor? We're happy to introduce you to tried-and-true professionals we've been thrilled to work alongside.

Contact us at (306) 934-8150 or info@lexishomes.ca to take the next step.