

Three tips for first-time homebuyers

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Julia Thomson hasn't won the lottery. She hasn't been reunited with a long lost, fabulously wealthy, and remarkably generous uncle. And she hasn't discovered oil in her backyard. All of which is surprising, considering this declaration: "We paid off our mortgage in four and a half years."

When Thomson and her husband were approved for their first mortgage, they didn't have any assets, but they did have a desire to be mortgage-free as soon as possible. According to her, as well as experts from banks and consumer agencies, first-time homebuyers can take a few steps to ensure that their mortgage is manageable.

Tip #1: Buy the house you can afford

Don't confuse your budget with your bank's budget, says Thomson.

"Going in for our mortgage, I was astounded at how much we were approved for. The bank approved us for an amount high enough that it scared us."

Julie Hauser, of the Financial Consumer Agency of Canada, confirms that homebuyers need to budget realistically. "Make the right decision for your own needs," she advises.

Eventually, Thomson and her husband decided to buy a house far less expensive than what the bank would have allowed, and their decision meant they could sacrifice less and pay the mortgage off faster.

Tip #2: When budgeting, consider flexibility on amortization, monthly expenses and financial goals

This year, the maximum amortization on high-ratio-insured mortgages was reduced from 30 years to 25. Colette Delaney, executive vice-president of Mortgage, Lending, Insurance and Deposit Products at CIBC, notes that while this will increase the monthly payment on a mortgage, it will also help homeowners pay it off sooner.

"You can give yourself added flexibility on your amortization by establishing a 25-year mortgage, and then increasing your regular payments to help you reduce that amortization as you begin paying down your mortgage. Should you later need to reduce your payment temporarily – for example, as you welcome a new baby into the family – you can reduce your payment while remaining within your 25-year amortization," she says.

And, of course, don't forget to calculate your monthly expenses, possibly with the help of a financial advisor, to make sure that your payments stay within your comfort zone.

"Your mortgage payments should fit your life – you shouldn't have to fit your life into a mortgage payment," Delaney says.

Tip #3: Take the time to get pre-approved

Now more than ever, it's important to get pre-approval before you even start house hunting. Delaney explains how preapproval will ensure you're within the ratios for an insured mortgage:

"A pre-approval gives you a guaranteed rate before you begin the process of looking at properties, and allows you to uncover any items that could be an issue for you later in the process," she says. "For example, if you need some additional documentation to support your income or need to finalize arrangements for your down payment, a pre-approval conversation would identify those issues and give you the time to address them before you make an offer on a property."

Finally, if new homeowners are looking for tips after they've secured their mortgage, Thomson has a big one: "Prioritize it.

"It hurt, but we did it," she says, remembering large lumps of cash leaving her bank account the week after Christmas. She doesn't have as many pairs of shoes as she would have otherwise, she admits. "But we weren't paupers – because we prioritized our mortgage."

And at least she has bragging rights to having paid it off in four and a half years.



Julia Thomson and her husband paid off the mortgage on their first house in four and a half years.

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