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Six questions to ask before you buy a home

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Your answers will tell you whether you are ready to take the plunge

Wondering if you should continue renting or take the plunge into home ownership? To help you clarify this debate, we've compiled a list of questions from various professionals associated with a real estate transaction. Answering the right questions about the early stages of the home ownership process will likely help you sit confidently with your decision to stay put, or leap with eyes wide open into the market.

Why do you want to buy a house?

This is an important question for first-time buyers, according to Sarah Wilson, a Calgary-based Certified Financial Planner and consultant with T.E. Wealth [http://www.tewealth.com/about/detail.php?id=562].

First-time buyers have to ask themselves if they want a home because their friends are buying and they think it's the next step or because it actually fits into their long-term life plan and will be a smart financial move. Ms. Wilson adds that we should have an overall financial plan that takes into account our short and long-term life goals, to ensure that such a significant investment makes sense. If you don't have a financial plan, then locating a certified financial planner [http://www.fpsc.ca/directory-cfp-professionals-good-standing] for a discussion would be a smart step.

What values will I honour by buying or renting?

Christie Mann [http://www.christiemann.com], a Toronto based leadership coach and consultant, asks clients how buying or renting will align with their life vision and specifically their five-year plan. Travel plans, entrepreneurial pursuits and timelines for starting a family are all examples of things to consider in your five-year plan.

If you are thinking of starting a family in the next five years, for example, will the home you are considering accommodate such a life change? If not, you should think about the financial implications of selling a few short years after buying.

Why take a five-year view? According to Ms. Wilson, we have to realize that when we're buying a home, we're buying into a market, and if we are going to buy, we need to be in our home for at least five years. If we sell our homes prior to the five-year mark, there's a higher risk we won't get our money back due to the fees associated with the transaction, compared to the increase in the home's value.

Are you ready for home ownership?

Owning may match up with your values and fit neatly into your financial plan, but that might not mean you're ready for ownership. When you own, you see the property in a different light, according to David Fleming, founder of TorontoRealtyBlog.com [http://www.torontorealtyblog.com].

"You look at your floors and think about replacing and upgrading them. You get down on your hands and knees and plant flowers. You paint. You decorate. You want bigger and better for your house," Mr. Fleming says.

However, he adds that people should be ready to "rake leaves, shovel snow, take out garbage, and deal with racoons, damp basements, and leaky roofs." If a problem arises, you can't just call the landlord and be done with it. You're now on the financial hook for the repairs and the upkeep. You inherit the good and the not-so-good elements of home ownership when you're handed your keys.

Do you have a steady job and income?

It's harder and harder to be approved for a mortgage if your provable earnings are not steady. A steady income and a reliable job make a very big difference these days, according to Mike Averbach, president of Averbach Mortgages [http://www.averbachmortgages.com] in Vancouver. He adds that going through a full analysis of credit and income is an important first step for house-hunters because it provides an accurate feel for the amount of house you can afford and will address any possible issues before you begin your search.

A credit check can be done free of charge with a broker, or you can receive your score and a detailed credit report for around $20 at either Equifax or Trans Union. The best lending rates are usually reserved for those with a score of 750 or higher. A higher score could translate into thousands saved over the life of a loan. When you get your report, scan it for any discrepancies - they happen more often than you think - and correct them right away. It's best to know you're in good standing prior to applying for any type of loan.

Do you have any money saved for a down payment? What about for the closing costs?

You can purchase a home with less than 20 per cent down, but if you do, you'll be required to pay mortgage insurance [http://www.cmhc-schl.gc.ca/en/co/moloin/moloin_010.cfm]. If you're purchasing a home later in life, and with a partner, 20 per cent isn't entirely unrealistic. However, it's still very difficult.

You'll also need to consider closing costs, which can add thousands to your total bill. Click here [http://www.cmhc-schl.gc.ca/en/co/buho/hostst/hostst_003.cfm] for a list of costs to consider, such as moving expenses and legal fees. If you're not prepared for the closing costs, you could be left shocked and scrambling at the eleventh hour to find the necessary funds.

It's also important to consider how much your monthly mortgage payment will increase if rates rise (if you choose a variable rate mortgage) or when your mortgage comes due at the end of the first term, Mr. Averbach says. It is quite easy to calculate the outstanding balance due at the end of a mortgage term and worth the exercise to see how much an increase in interest rate will affect the monthly payment, he says. Then, it's back to your five-year plan. Will you be in a position to manage an increased debt load, or do you plan to be living on one salary with two children at home?

How much are you spending now for rent v. your expected mortgage payment?

Speaking with a mortgage specialist or plugging numbers into an online comparison calculator [http://www.canadamortgage.com/calculators/rentvsown.cgi?cfid=3839878&cftoken=40509160] will help you get a rough idea of the financial implications of each scenario. It's often a good idea to pretend you're making the increased monthly payments for at least a few months. If you're paying $1100 in rent, for example, and your mortgage broker tells you your housing costs would double, try socking away $2200 a month to see how it feels, how it affects your lifestyle and if it's doable. You might be in a better position a few months from now if you socked away more money and worked toward the goal of homeownership in the future.

If you're new to the mortgage process, there are a number of great sites, like Ratehub.ca [http://ratehub.ca/tools.php], to help simplify the mortgage process and provide a wealth of important information to consider.

I've been to housewarming parties where the homeowners are ridiculously happy, full of pride showing off their new space, and clearly ready for the financial commitments. I've also spoken to friends, months after their purchase, who feel house poor, overwhelmed and unprepared. You don't want to end up like the latter, so it's key to consider all aspects - financial realities, goals and values - before you make any move.