

Tips for First Time Home Buyers: 5 Things You Need to Know Before You Buy



Are you ready to make the leap from renter to homeowner? You've saved your nickels. You've been watching the housing market and found a neighbourhood you like. You've gotten tired of lugging groceries up 6 flights of stairs every time your elevator is out. [Buying your first home](#) is an exciting time. It is also a huge decision. Here are the things you should think about before you buy.



Mortgage Pre-Approvals Are Not a Guarantee

As a first step toward buying your first home, it is a good idea to get pre-approved for a [mortgage](#) – it'll help you know how much you can afford to spend. But remember! A [pre-approval is a preliminary estimate of the loan you could get from a lender](#). It is not a guarantee that a lender will give you that exact amount. Once you find your home and send your offer to your lender, he or she will go over the details and come up a final number. Your lender may also find variables (think: excessive debt they didn't know you held, problems with the property or title you want to purchase, etc.) that lead to you getting less than you'd anticipated or not getting a mortgage at all!

Home Budgeting Will Save You

While a mortgage pre-approval will tell you the maximum you CAN spend, it doesn't mean you SHOULD spend that much. If you go to your max, will you be able to afford other expenses as they come up in your life? Like replacing that '07 clunker you've been cruising around in for too long. What if mortgage rates go up, will you be able to afford your new payments? It is [crucial to budget](#) for the purchase *and* maintenance of your home and lifestyle expenses. Review your financial situation --including your income, expenses, debt, savings, and investments -- and [be realistic about your budget](#). Figure out how much you can afford to spend on a mortgage without causing yourself to be house rich and cash poor. You don't want to live in that dream home without

furniture or food.



The Mortgage Stress Test Has Changed

Canada's banking regulator (OSFI) recently introduced new rules for financial institutions issuing mortgages. As of January 2018, if you apply for a new mortgage (or renew your mortgage with a new lender), they will apply a [new mortgage stress test](#). To vet applicants, your lender will use a minimum qualifying rate equal to the [Bank of Canada's five-year mortgage rate](#) or their contractual rate plus 2 percent, whichever is greater. With this test, you may not qualify for the larger mortgage you want. If you read the home budgeting warning above, you'll know that might be a good thing.

The Home Buyers Plan Can Help

Sure they took away your big mortgage with the mortgage stress test, but the Canadian government throws you a lifeline with the [Home Buyers Plan](#). With this plan, you may be able to make a tax-free withdrawal (up to \$25,000 per person) from your RRSPs to purchase your first home. This will come in handy if you need a larger down payment because you don't qualify for (or can't afford) as much of a mortgage. Yes. You have to pay it back. Of course, there are [rules associated with the Home Buyers Plan](#), but speak to your lender to see if it is a viable option to help you get into your first home.

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