

## SPECIAL REPORT

### 12 Closing Costs to Be Aware of When Buying a Home

**As your  
mortgage broker;  
my only job  
is looking out for  
your best interest.**



## **Special Report Exposes 12 Closing Costs To Be Aware Of When Buying A Home**

When you are ready to purchase your home it is important to be aware that it will cost you some money to complete the deal. There is nothing worse than going through the entire process and finding out that the costs of completing the transaction are higher than you thought and you are short on Cash!!!.

### **Closing Cost #1: Appraisal Fee**

**A fee may be required to assess the value of the property you are buying.** If you put less than 20% down and you have mortgage insurance on your mortgage (which will be the case unless you go through an alternative lender), there will typically be no appraisal or fee. The Insurance Company CMHC, AIG or Genworth will do their own computerized assessment of value for free.

If you have 20% down or more, or happen to use an alternative lender, then you may have to have an appraisal done on the property to determine the market value. Some lenders are starting to look at appraisal software from the USA that will allow them to do computerized appraisals just like the insurers above. This will not only save client's money but also time as these computerized appraisals only take a few minutes instead of a few days to complete. Appraisal fees can run you around \$270-\$400 depending on the property.

These fees are much higher on a commercial or multi family property. Be sure you know what the fee is before committing to an appraisal. Your CBM broker will get you a quote and assist you in setting up the appraisal.

#### **Proof of Closing Costs**

Every lender will want to see that you have the **funds available to pay for your closing costs.** Your CBM broker will give you a breakdown of your costs.

### **Closing Cost #2: Site Survey or Title Insurance**

You may also have to have either a **site survey or title insurance** on the property. In many instances the realtor or seller may have an old survey that the lender may allow you to use. However, if there is not one available, then you may be responsible to have one done. Your lawyer or notary will make sure this is done for you and the cost of a survey is approximately \$400-\$500. You can choose to have title insurance instead which is a little bit cheaper, around \$150-\$200, title insurance can also cover you against fraud as well., but is a one time thing (if you go to refinance your mortgage, you will need to repurchase this, whereas a survey may be reusable). Be sure to discuss the pros and cons of surveys and title insurance with your CBM broker, we will provide you with more information so you can choose the product that fits your needs.

### Closing Cost #3: Home Inspection



Most people choose to get a **home inspection** done to make sure the home has no major problems. This is **not a requirement for financing, but it is a smart investment.** Can you imagine buying a home and not having a home inspection done, later to find out that there are major foundation issues that are going to cost you thousands of dollars to fix! The cost of a house inspection is around \$350-\$500 and will be worth every penny for the peace of mind. The home inspection can also alert you to issues you may face in the next 5 years so you can set up a budget to pay for these

future expenses I strongly recommend having this done! Your CBM broker will recommend a good building inspector to you.

### Closing Cost #4: Lender Fees (If Applicable)

Although most of the time borrowers will not be charged lender and/or broker fees, in some instances fees will be charged. One example is private mortgages. In these cases usually broker and lender fees will be charged, but will be disclosed upfront to clients before they commit to a loan. **But, in most instances, especially for conforming deals, there are no fees charged to the borrower as the broker gets paid by the lender. Your CBM broker will discuss ANY fees with you upfront.**

### Closing Cost #5: Legal Fees

Another cost to be aware of are the **legal fees** you will have to pay to either a lawyer or notary for drawing up and registering your mortgage and to protect you during the transferring of title.

The cost for a purchase and a new mortgage range from lawyer to lawyer and will be approximately \$800-\$1,200 and less for a refinance of your existing mortgage (not all of this goes to the lawyer/notary).

You will get a statement of adjustments from your lawyer/ notary outlining all the fees involved. Be sure to get a quote from your lawyer or notary upfront and ask them to include all fees and taxes so you can compare rates.

I get asked all the time "should I get a lawyer or a notary?" Although, a notary may cost a bit less they cannot give legal advice if there are any issues during the closing. Therefore, I recommend using a lawyer and one that does a lot of conveyance work so they have it down to a proven process. Your CBM broker will recommend a good lawyer to you.

## Closing Cost #6: Home Insurance

**You will need to have house insurance in place before you get your mortgage.** The reason for this is to protect the lenders security (and your home's equity) in case of fire or any other damage to the property. Expect this to cost approx. \$50-\$200/month depending on the replacement costs of property and the replacement costs of your contents.



Your notary or lawyer will make sure you have this in place before your mortgage closes. Shop around and make sure you read the fine print so you clearly understand what is covered and what is not covered. Your CBM broker will recommend a good insurance broker to you.

## Closing Costs #7: Life And Disability Insurance

While it is NOT mandatory to get life and disability insurance it is a good idea to obtain it. Most people find it a challenge to make their mortgage payments when they are healthy, working and alive. But what happens when one of you passes away or gets sick or disabled and cannot work and earn a pay cheque? This insurance can really save your home and your mental health.

I do NOT recommend buying the insurance that lenders offer as your policy only stays active if you keep your mortgage with that lender. This stops you from shopping for a competitive quote when your mortgage comes due. I recommend that you get a policy from an insurance broker that represents you and shops the market. Your CBM broker can recommend a good Insurance broker to you. You will own the policy and can take it from house to house and lender to lender.

## Closing Costs #8: Default Insurance

In most cases, if you have a high ratio mortgage (less than 20% down) you will have to pay a default **mortgage insurance premium**. This is a one-time premium that insures the lender against default of the mortgage. The mortgage premiums range from 0.50% to 7.0% of the amount of the mortgage. The rate is dependent on your loan to value, amortization, income verification and payment structure.

Most people choose to have this amount added to the mortgage amount (so you do not need to come up with the cash). Your CBM broker will discuss these premiums with you.

## Closing Cost #9: Annual Property Taxes

When you buy a home, **you will have to pay the annual property taxes.** With high ratio mortgages, lenders will most likely want to collect your taxes by adding 1/12 of the taxes to your monthly payments. As the city can place a tax lien on the property for back taxes owed that takes precedence over the lender's mortgage, the lender will want to ensure your taxes are collected and paid each year.



If you have 20% down or more, you usually have the option to collect your own taxes. Most lenders are changing their policies and do not want to collect taxes as it causes an accounting nightmare for them. I find that each year they collect too much taxes or too little taxes so there is a problem on tax payment day July 1<sup>st</sup>. I suggest you set up a monthly tax payment with your city (if they have such a program) or a monthly transfer to your savings account so you have the funds available on July 1<sup>st</sup>. It's better to control your own tax dollars.

## Closing cost #10: Tax Adjustment

If your mortgage closes after the taxes have been paid for the year (July 1<sup>st</sup>), you will have to reimburse the sellers for the length of time you own the home for that year. But if you close the deal before the taxes have been paid (July 1<sup>st</sup>), then, the sellers must reimburse you for the months they have owned the home for that year. However, you will have to pay the entire year taxes by the beginning of July.

Remember to find out exactly how much in tax you will have to pay on July 1<sup>st</sup> and start a monthly savings plan (see *point 9*). This will help you avoid the stress of receiving a large tax bill that you are not ready for. Your CBM broker can help you calculate your tax adjustment amount.

## Closing Cost # 11: Provincial Property Transfer Tax

Most provinces have a property transfer tax. In BC, the tax is calculated on this basis: 1% of the first \$200,000 and 2% of the remaining amount (a home selling for \$500,000 would have a tax of \$8,000). There is an exemption for first-time buyers with several qualifying factors. It is best to discuss this with your CBM broker, notary or lawyer to make sure you qualify for the exemption. If you do have to pay this tax you want to make sure you have enough funds available to cover this cost. This is not an item lenders allow you to add to the mortgage.

As Home prices have increased dramatically since the inception of this tax in 1987, our industry has been lobbying the BC provincial government to lower this rate of taxation to reflect the current house prices.

**Closing costs # 12: GST**

In Canada, there is a 5% GST (Good and Services Tax) on new homes and also “substantially” renovated homes. It is very important that you understand whether this tax applies to your home purchase or not. There are some rebates to help consumers, but just like the property transfer tax exemption there are rules and limits on these rebates. As this tax is so high, you **HAVE TO** be aware of whether it applies to your situation or not. Remember there will also be GST charged on any Real Estate fees or commissions you are paying, so be sure to add these to your closing costs.



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*Lance Cook*

President, CBM

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