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Are you ready for the big leap?

You want to buy your own home. It's likely the biggest purchase you'll ever make. What's next? Before jumping into online searches and going to open houses, you'll need to know that you can afford to buy and maintain a home. Here are a few key points to keep in mind.

Save for your down payment

- One of your first steps is setting a goal for your down payment and creating a plan to reach it. The more you put down, the shorter the life of your mortgage and the less interest you'll pay over the years.
- The minimum down payment in Canada is generally 5%[1]. But if you put down 20% or more of the home's purchase price – known as a "conventional mortgage"[2] – your interest rate will be lower. That's because lenders see you as a lower-risk borrower. If you put down between 5% and 20%, you'll have a "high-ratio mortgage" and will have to pay for mortgage insurance on top of your regular mortgage payments. The higher the down payment, the lower the mortgage insurance, which ranges between 1% and 2.9% of the principal amount of your mortgage.

The Home Buyers' Plan ("HBP")

- If you're a first-time home buyer and your down payment needs a boost, you can withdraw up to $25,000 from your RRSP to put toward a down payment, under Canada's Home Buyers' Plan ("HBP").[3]
- Withdrawals under the HBP must be repaid to your RRSP within 15 years. If the amount due in a given year is not repaid, it will be included as income for that year.[4]

How much house can you afford?

- According to the Canada Mortgage and Housing Corporation (2017), as a rule of thumb, mortgage payments, housing-related costs, and other monthly debt payments shouldn't exceed 40% of your gross income.
- Keep an eye on interest rates. At historic lows for years, interest rates could rise. You may be able to afford a home now, but will that still be true if interest rates go up?
- Housing-related costs include recurring expenses like utilities, phone and cable, maintenance and repairs, home insurance, property taxes and condo fees (if applicable).
- Also consider closing costs – one-time expenses you pay when your home purchase closes. Examples are legal fees, home inspection, title insurance, land transfer taxes, and moving costs.

Get pre-approved

- Getting a pre-approved mortgage from a lender will tell you exactly how much the lender is willing to lend you.
- You'll also get an estimate of your mortgage payments and will be able to lock in current interest rates for a specific period of time.
- Pre-approval doesn't oblige you to get a mortgage from that lender, and it doesn't cost anything.

Go to **www.canada.ca** to learn more about the Home Buyers' Plan and try our easy-to-use **mortgage calculator** at **manulifebank.ca** to determine what you can afford, and estimate what your expected payments may be.

[1] www.canada.ca/en/financial-consumer-agency/services/mortgages/down-payment.html
[2] www.cmhc-schl.gc.ca/odpub/pdf/60946.pdf, page 9
[3] www.cra-arc.gc.ca/hbp/
[4] www.canada.ca/en/revenue-agency/services/tax/individuals/topics/rrsps-related-plans/what-home-buyers-plan/repay-funds-withdrawn-rrsp-s-under-home-buyers-plan.html

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