

# 8 common mistakes most first-time homebuyers make and how to avoid them

Becoming a homebuyer and applying for a mortgage can seem overwhelming, especially if it's your first time. With the help of one of our expert and dedicated mobile mortgage specialists, it can be easy. They'll meet with you any time to guide you through the process and help you find the best mortgage for your specific needs.

To help you feel more confident and prepared for becoming a first-time homeowner, we've put together a list of eight of the most common pitfalls, which our mobile mortgage specialists can help you avoid.

## 1. Thinking you won't qualify for a mortgage

Dreaming of owning your own home but not sure if you qualify for a mortgage? Even if your credit history is less than perfect, we can help you find a solution.

## 2. Not knowing all the down payment choices

You'll be glad to know that there are different options available depending on how much of a down payment you can afford:

- Conventional mortgage or RBC Homeline Plan® (20% down payment)

- Low down payment mortgage (minimum 5% down)

Low down payment mortgages require mortgage default insurance. The premium can either be paid up front or added to the amount you borrow.

Under the federal government's Home Buyer's Plan, first-time homebuyers are eligible to use up to \$25,000 in RRSP savings per person (\$50,000 for couples) for a down payment on a home. The withdrawal is not taxable as long as you repay it within a 15-year period. To qualify, the RRSP funds you plan to use must have been in your RRSP for at least 90 days.



### 3. Focusing too much on the interest rate, rather than the overall solution

All too often, first-time homebuyers give more thought to interest rates than the mortgage solution itself. While rates are a valid consideration, the different types of mortgages, their payment structures, terms and flexibility will have a much greater bearing on the overall cost of homeownership.

#### Fixed rate mortgage

Fixed rate mortgages offer the security of locking in your interest rate for the term of your mortgage, and your payment amount stays the same, providing ease of budgeting.

The main advantage is that the interest rate stays the same during the term of the mortgage and that you know exactly how much of your payment is applied to principal and interest.

#### Variable rate mortgage

With a variable rate mortgage, your payments remain the same, regardless of fluctuating interest rates. When rates go down, more of your payment goes to pay the principal and less to interest, enabling you to pay off your mortgage sooner. When rates go up, the reverse happens: less of your payment goes toward the principal and more to interest, extending the amortization period.

Many experts believe variable rate mortgages offer the greatest potential for long-term savings on interest costs.

#### Combined fixed and variable rate mortgage

With the RBC Homeline Plan, you can enjoy the advantages of both variable and fixed rates by diversifying your mortgage. That means the variable portion allows you to take advantage of potential long-term savings, while the fixed rate portion protects you if rates rise.

Your mobile mortgage specialist can help you decide which mortgage solution works for you, based not only on your budget but also on your future plans.

### 4. Being unrealistic about how much you can afford to pay for your home

You may be under- or over-estimating how much you can afford to pay for your home. Our online mortgage calculators make it easy for you — all you need to do is log in to [www.rbcroyalbank.com/mortgages](http://www.rbcroyalbank.com/mortgages) and click on the “How much home can I afford?” link. Enter your income and expense information, and the calculator will tell you the maximum mortgage payment amount you can afford each month.

Or you can click on “Mortgage Calculators” to quickly figure out monthly payments for different mortgage amounts and rates. You may find out you can comfortably afford more than you originally thought.

For a more personal touch, contact one of our mobile mortgage specialists. They can quickly help you determine how much you can afford and answer any questions you might have.

### 5. Not considering a mortgage pre-approval

Knowing the amount you will be approved for gives you the confidence to begin looking at homes within your price range. Real estate agents will serve you better because they know you’re a serious buyer. You can easily make an offer to purchase as soon as you find the right home.

At RBC®, your pre-approved mortgage rate will be guaranteed for 120 days<sup>1</sup>. If rates go up during the period, you’re protected. If they go down, you will automatically get the lowest rate for the term selected

### 6. Not choosing your own mortgage payments schedule

Customize your amortization period depending on how much you can afford. Paying off your mortgage sooner saves you interest costs, while a longer amortization period reduces your

regular payment amount and gives you more room to manage your cash flow.

For most people a 25-year amortization is a good starting point for you to consider as stretching your amortization further will increase your interest costs over the life of your mortgage.

In order to qualify for a longer amortization you must make a down payment of at least 20% of the purchase price of the property, to qualify. The maximum amortization is 30 years. If you choose a longer amortization you may wish to consider a strategy to reduce the time to pay off your mortgage over the life of your mortgage as your cash flow allows. RBC’s moneysaving options, such as Double-Up®, accelerated payment, 10% anniversary payment and annual 10% increase in payment amount, can get you on track to an even shorter — amortization period.

Regardless of the mortgage option you choose, buying and owning a home is likely to be one of the biggest financial investments of your life. Creditor insurance can help protect that investment from life’s uncertainties and help give you the confidence that comes with knowing your investment is well protected.

HomeProtector® life and disability insurance can pay your outstanding mortgage balance up to \$500,000 in the event of your death, or can make your regular mortgage payment — up to \$3,000 per month for up to 24 months — if you become disabled.<sup>2</sup>

See [www.rbcroyalbank.com/products/mortgages/home\\_protector\\_insurance.html](http://www.rbcroyalbank.com/products/mortgages/home_protector_insurance.html) for details of coverage.

### 7. Forgetting about closing costs

By this time, you’ve selected a house, picked your mortgage options and are getting ready to finalize everything and make an offer. This means getting down

to certain details and their associated costs. It helps to know what these are up front so you can minimize any last minute complications. When calculating closing costs, it's fairly safe to assume you'll need an additional 1.5% of the purchase price to cover such things as:

- **Professional home inspection:** Always make an offer conditional upon a home inspection. As long as your offer is conditional upon the home inspection, you can have the purchase price reduced to offset the cost of needed repairs or cancel the agreement. You should also inspect the home before moving in to make sure its condition has not changed. A newly built home is usually covered by a builder warranty program.
- **Lawyer or notary fees:** Make sure you work with an experienced real estate lawyer/notary so that all legal aspects of your house purchase are properly completed.
- **Land transfer tax:** Most provinces levy a one-time tax, which is based on a percentage of the purchase price.
- **Property tax/utility bill adjustments:** The purchase price of a resale home is always payable subject to the usual adjustments at closing. This means that any amount that the seller has already prepaid will be adjusted so you pay the excess amount back to the seller, and vice versa. The most common adjustments occur on property taxes and utility bills that have been paid ahead of time. The best way to take control of your property tax payments is to pay them directly to your municipality where applicable. You can pay your tax bill by a variety of methods: a cheque to your municipality, through online banking or (if your municipality allows) an automatic debit from your chequing account.

- **Property insurance:** Your home is probably the biggest investment you will ever make in your life. Property insurance is all about protecting the things you value: your home, your personal belongings and even your financial future. When choosing an insurance company, make sure they offer a range of choices allowing you to personalize your insurance to suit your needs.
- **Moving costs:** Budget for a professional mover, decorating costs and fees for setting up your cable, telephone and other utilities.
- **Ongoing costs:** Don't forget to budget for the cost of maintaining a home, such as heating, electricity, water, repairs and taxes. A good suggestion is to budget at least 1% of the home's value for yearly maintenance expenses.

Owning your own home is a milestone as well as an exciting experience! How often do you get to live in and enjoy your investments? Your mortgage specialist is always available to guide you through the process.

## 8. Not knowing your credit rating

A credit rating is a record of your credit history and current financial situation, which typically translates into a credit rating score. Lenders can use your credit rating to verify your repayment history.

A good credit rating can improve your ability to get loans and mortgages.

If your credit rating needs improvement to help you qualify for a mortgage, you can improve your credit rating by always making at least the minimum payments on your credit cards, loans or utility bills on time.

Checking your history is easy! Simply ask for a copy of your credit rating at either [www.equifax.ca](http://www.equifax.ca) or [www.tuc.ca](http://www.tuc.ca).

### Low down payment mortgage: Comparison of different amortizations\*

**Note:** If you choose an amortization over 25 years, you must have a down payment of at least 20%.

Details	20-year	25-year
Mortgage principal	\$150,000	\$150,000
Default insurance premium @ 90% Loan to Value	\$3,000	\$3,000
Total mortgage principal	\$153,000	\$153,300
Monthly mortgage payment (principal and interest)	\$1090	\$979
<b>Monthly payment reduction from 25-year amortization</b>	\$111	
Interest costs for full amortization** (5 years at 6% interest rate)***	\$108,515	\$140,669
<b>Additional interest cost of extending amortization</b>		\$32,154

## To learn more:

- **Talk to a mobile mortgage specialist**
- **Visit your local branch**
- **Call 1-800 ROYAL® 7-0 (769-2570)**
- **Visit [www.rbcroyalbank.com/products/mortgages/first\\_time\\_home\\_buyers](http://www.rbcroyalbank.com/products/mortgages/first_time_home_buyers)**



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<sup>1</sup> 120-day interest rate guarantee — We guarantee our lowest posted interest rate for the selected mortgage type and term for a 120-day period from the application date. If the mortgage is not funded within the 120-day period, the interest rate guarantee expires. “Posted” means the interest rates posted by Royal Bank of Canada for its residential mortgages. All lending products are offered by Royal Bank of Canada and are subject to its standard lending criteria for residential properties.

<sup>2</sup> This group insurance program is underwritten by The Canada Life Assurance Company. The benefits are subject to certain terms and conditions and there are eligibility restrictions. Please see the HomeProtector booklet for full details.

<sup>\*</sup> Based on a 5-year term.

<sup>\*\*</sup> Compounded half yearly, not in advance.

<sup>\*\*\*</sup> The interest costs for full amortization are based on the selected interest rate being applied throughout the amortization period and the payment remaining constant with no prepayments or skipped payments. These results are for illustrative and general information purposes only.