

Buyers – What You Must Know!

This article will help you understand the **hidden costs** of buying a property and how to **protect** yourself against **closing cost surprises**.

The excitement of buying a first home, a second property, cottage, or investment property, makes for an amazing experience. To make that experience excellent, there are **several things to beware of**.

Since 1996, I have acquired much **experience and wisdom helping both buyers and sellers**. My advice in this article is mainly focused on educating yourself on **Closing Costs** so that you can **avoid** monetary short falls.

Types of Buyers:

There are a several types of buyers:

1. Second time Buyer (looking to upsize, downsize, move laterally, or get out of the market).
2. First time Buyer.
3. Investment Buyer.
4. Cottage/vacation property Buyers.

The buyers discussed here are:

1. Second time Buyers.
2. First time Buyers.

You may not think that there is much difference between a first time and second time buyer, but there is. **The biggest difference is how these Buyers will come up with funds on closing.**

YOU SHOULD KNOW: Lenders are getting **tougher** on financing. The last thing you want, is having your financing pulled two days before closing. This can happen to both **first time** and **second time Buyers**.

Worse case scenario, you end up not having the minimum down payment required to fulfill your mortgage requirements and your funding is pulled a day or two before closing on your new property.

Since the majority of my clients are Second Time Buyers - we'll BEGIN with Second Time Buyer cost considerations:

SECOND TIME BUYER – Cost Considerations:

1. **Down Payment:** The main difference between a **first** and **second** time Buyer is where their down payment comes from. **Second time** buyers buy up, down, laterally, or want to get out of the market. The **key** here is that they have a **home already** AND have (usually) **financially**

grown with the real estate market – ideally, making **hundreds of thousands of tax free money** called home **equity**. This home **equity** can easily be **used towards** the next purchase.

You will need to qualify for a mortgage. Keep in mind: even if you have been prequalified and the bank has committed to a mortgage, the bank/lender/underwriter can re-check on your credentials right up to closing and can **pull your funding**.

2. **Mortgage Qualifications and Fees:**

- a. **Qualify for a mortgage:** Second time Buyers must **qualify** and obtain a mortgage **approval** for their purchase (if a mortgage is needed – obviously). **Income** must be **proved**, just as with the first time Buyer.
- b. **CMHC fees:** May apply. This is an insurance cost for High-Ratio Mortgages. Depending on your down payment, your CMHC fee will increase or decrease. Understanding how much equity you can put down will help you understand how much your CMHC will be, if applicable. This is something to discuss in detail with your Lender.
- c. **Mortgage Appraisal fee:** charged by the bank. Usually \$300 to \$500. Sometimes the bank will waive this fee.

3. **Closing Costs:** This is where the **second time buyer** must pay **special attention** to **closing costs**. Sometimes, when there is **a lot of equity** in the home, **second time** buyers may **overlook closing costs**. They may wrongly feel that there is a lot of equity to go around, thus less **scrutiny is placed on accurately determining closing costs**. You may also have specific circumstances which cause you to have additional closing costs not listed below – which your lawyer would inform you of.

- a. **Land Transfer Tax (LTT):** If the **second time buyer** is **buying up**, most likely they will be purchasing something close to a million or more – as is the case with most of my clients in Toronto.

On a residential home **within** Toronto, the Residential Land Transfer Tax (**LTT**) consists of the Provincial Land Transfer Tax (PLTT) + Toronto Land Transfer Tax (TLTT). On homes **outside** of Toronto the PLTT only applies. Simply put, just double the Provincial Land Transfer Tax and that is what you'll pay within Toronto for Land Transfer Tax.

i. Here are **some examples of LTT** on Ontario homes, in and out of Toronto:

- **Within Toronto:** **\$800K** purchase amounts to **\$24,950**.
- **Not in Toronto:** **\$800K** purchase amounts to **\$12,475**.

- **Within Toronto:** **\$1M** purchase amounts to **\$32,950**.
- **Not in Toronto:** **\$1M** purchase amounts to **\$16,475**.

- **Within Toronto:** **\$1.2M** purchase amounts to **\$40,950**.
- **Not in Toronto:** **\$1.2M** purchase amounts to **\$20,475**.

- **Within Toronto:** **\$1.4M** purchase amounts to **\$48,950**.
- **Not in Toronto:** **\$1.4M** purchase amounts to **\$24,475**.

Use my LTT calculator (found further below) to calculate your LTT.

- ii. Because the **LTT** can **greatly deplete your equity**, this may result in your planned **down payment** moving into a **lower down payment category**, thus **increasing your loan to value**, which now subjects you to a **greater CMHC fee and Provincial Sale Tax due on the CMHC fee**. Keep in mind that the CMHC fee is rolled into the mortgage, but the **PST due** on this CMHC fee **must be paid on closing**. Since CMHC fees are high, you may be paying **thousands of extra dollars in PST**, and even more on the interest on your rolled in CMHC fee over the many years of your mortgage.

Worse case scenario, you end up not having the minimum down payment required to fulfill your mortgage requirements and your funding is pulled a day or two before closing on your new property.

- b. **Lawyer fees**: Selling side: \$650 - \$1000 plus disbursements. Buying side: \$800 to \$1,500 plus disbursements. If you are selling and buying, there will be lawyer fees for both transactions. Many lawyers charge extra for a home over \$1M.
 - c. **Title insurance**: \$350 to over \$1,000, depending on your purchase price, and type of ownership. Title insurance policies vary significantly from one company to another. However, when it comes to basic title protection, policy coverage among insurers is similar.
 - d. **Provincial Sales Tax**: 8% PST Charged on CMHC fees.
 - e. **Adjustments**: **\$400 – \$1,000 and up. The Buyer will be required to reimburse the seller for any prepaid property taxes, utility bills, or oil or propane (heating fuel) left in the tank.**
 - f. **Parking fees & application fee**: **\$100 - \$300** to transfer licensing of front pad parking space, or to apply for on street parking. Keep in mind that some areas have restrictions on street parking and limit those spaces, which can be restricted or limited.
4. **Realtor Fees**: If you are selling your home, calculate the cost of Realtor fees and subtract from your equity. This will impact the amount of equity that you can put towards your new purchase.
 5. **Home Inspection Fee**: \$350 to \$550. In depth report on the health of the home.
 6. **Moving Costs**: This can vary greatly depending on what and where you are moving too.
 7. **Home Insurance**: Account for higher costs of home insurance if you bought a larger home and/or your postal code has changed. Insurance prices are also dependent on where you live.
 8. **Property Tax**: If you bought at a higher price point, then you will incur higher property taxes. If you bought a new infill build or substantially renovated house, expect property taxes to increase. Property taxes are always posted on the MLS listings – yet may not be up-to-date, nor account for interim taxes and won't reflect the price you pay for the home. Keep in mind that the city will use your purchase price to set your new property tax rate. This can translate into significantly higher taxes than what is posted on the MLS listing. Make sure that you account for these increases.
 9. **Property Survey**: \$1,200 to \$2,500. Rarely needed today as Title Insurance is almost always used. However, it may be required in a few special circumstances.

10. **Miscellaneous Costs:** \$500 – \$2,000. Incidental costs that may pop up, unexpectedly.

FIRST TIME BUYER – Cost Considerations:

1. **Down Payment:** If you fall into this category, you will most likely be funding your purchase via a **mortgage AND your life savings** for a **down payment**. Keep in mind that you must come up with your **closing costs** over and **above** your **down payment**, and fulfill mortgage commitments right up to the **day of closing**.

You will need to qualify for a mortgage. Keep in mind: even if you have been prequalified and the bank has committed to a mortgage, the bank/lender/underwriter can re-check on your credentials right up to closing and can **pull your funding**.

2. **Mortgage Qualifications and Fees:**

- a. **Qualify for a mortgage:** First time Buyers must **qualify** and obtain a mortgage **approval** for their purchase (if a mortgage is needed – obviously). **Income** must be **proved**.
- b. **CMHC fees:** May apply. This is an insurance cost for High-Ratio Mortgages. Depending on your down payment, your CMHC fee will increase or decrease. Understanding how much down payment you can put down will help you understand how much your CMHC will be, if applicable. This is something to discuss in detail with your Lender.
- c. **Mortgage Appraisal fee:** charged by the bank. Usually \$300 to \$500. Sometimes the bank will waive this fee.

3. **Closing Costs:** These closing costs may not seem like a big deal, but these costs can be **huge** and eat up much of your **planned down payment** towards the home. This can **cause** you to be placed into a much **higher CMHC fee**. Worse, you may **fail** to meet the minimum requirements for your down payment – **losing your mortgage** days before closing – thus losing your deposit and/or being sued by the Seller. You may also have specific circumstances which cause you to have additional closing costs not listed below – which your lawyer would inform you of.

- a. **Land Transfer Tax (LTT):** For most Buyers buying in Toronto, they will be purchasing something close to a million or more – as is the case with most of my clients in Toronto.

On a residential home **within** Toronto, the Residential Land Transfer Tax (**LTT**) consists of the Provincial Land Transfer Tax (PLTT) + Toronto Land Transfer Tax (TLTT). On homes **outside** of Toronto the PLTT only applies. Simply put, just double the Provincial Land Transfer Tax and that is what you'll pay within Toronto for Land Transfer Tax.

- i. Here are **some examples of LTT** on Ontario homes, in and out of Toronto:

- **Within Toronto:** \$800K purchase amounts to **\$24,950**.
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Use my LTT calculator (found further below) to calculate your LTT.

- ii. **LTT Breaks for First Time Buyers:** Breaks are available for First Time Buyers that will help reduce the LTT, but have very specific criteria. For the sake of simplicity, the LTT rates and examples are the full rates without any breaks. Your lawyer will advise you if you are eligible.
 - ii. Because the LTT can **greatly deplete your down payment**, this may result in your planned **down payment** moving into a **lower down payment category**, thus **increasing your loan to value**, which now subjects you to a **greater CMHC fee and Provincial Sale Tax due on the CMHC fee**. Keep in mind that the CMHC fee is rolled into the mortgage, but the **PST due** on this CMHC fee **must be paid on closing**. Since CMHC fees are high, you may be paying **thousands of extra dollars in PST**, and even more on the interest on your rolled in CMHC fee over the many years of your mortgage.
 - iii. **Worse case scenario**, you end up not having the minimum down payment required to fulfill your mortgage requirements and your funding is pulled a day or two before closing on your new property.
- b. **Lawyer fees:** Buying side: \$800 to \$1,500 plus disbursements. Many lawyers charge extra for home over \$1M.
 - c. **Title insurance:** \$350 to over \$1,000, depending on your purchase price, and type of ownership. Title insurance policies vary significantly from one company to another. However, when it comes to basic title protection, policy coverage among insurers is similar.
 - d. **Provincial Sales Tax:** 8% PST Charged on CMHC fees.
 - e. **Adjustments:** \$400 – \$700 and up. The Buyer will be required to reimburse the seller for any prepaid property taxes, utility bills, or oil or propane (heating fuel) left in the tank.
 - f. **Parking fees & application fee:** to transfer licensing of front pad parking space, or to apply for on street parking. Keep in mind that some areas have restrictions on street parking and limit those spaces.
4. **Realtor Fees:** If you are selling your home, calculate the cost of Realtor fees and subtract from your equity. This will impact the amount of equity that you can put towards your new purchase.
 5. **Home Inspection Fee:** \$350 to \$550. In depth report on the health of the home.
 6. **Moving Costs:** This can vary greatly depending on what and where you are moving too.

7. **Home Insurance:** Account for higher costs of home insurance if you bought a larger home and/or your postal code has changed. Insurance prices are also dependent on where you live.
8. **Property Tax:** If you bought at a higher price point, then you will incur higher property taxes. If you bought a new infill build or substantially renovated house, expect property taxes to increase. Property taxes are always posted on the MLS listings – yet may not be up-to-date, nor account for interim taxes and won't reflect the price you pay for the home. Keep in mind that the city will use your purchase price to set your new property tax rate. This can translate into significantly higher taxes than what is posted on the MLS listing. Make sure that you account for these increases.
9. **Property Survey:** \$1,200 to \$2,500. Rarely needed today as Title Insurance is almost always used. However, it may be required in a few special circumstances.
10. **Miscellaneous Costs:** \$500 – \$2,000. Incidental costs that may pop up, unexpectedly.

Summary of Costs Associated With Buying A Home For: 1st & 2nd Time Buyers:

Insurance Costs for High-Ratio Mortgages 0.60% – 4.5%

- ❖ If your down payment is less than 20% of the purchase of the price of your home, you must pay a one-time insurance amount of your loan premium. Also, some banks still may want to charge a CMHC fee up to 35% - so check with your lender to be sure.
- ❖ If you are a **second time buyer**, there are Loan Insurance providers that will allow you to port your existing Mortgage Loan Insurance, however, you still must come up with the Mortgage Loan Insurance for the difference. See chart below:

LOAN-TO-VALUE (MORTGAGE)	Premium on Total Loan	Premium on Increase to Loan Amount for Portability
Up to and including 65%	0.60%	0.60%
Up to and including 75%	1.70%	5.90%
Up to and including 80%	2.40%	6.05%
Up to and including 85%	2.80%	6.20%
Up to and including 90%	3.10%	6.25%
Up to and including 95%	4.00%	6.30%
90.01% to 95% — Non-Traditional Down Payment**	4.50%	6.60 %

Premiums in Manitoba, Quebec, Ontario and Saskatchewan are subject to provincial sales tax. The provincial sales tax cannot be added to the loan amount.** Down Payment Requirements — Traditional sources of down payment include: Applicant's savings, RRSP withdrawal, funds borrowed against proven assets, sweat equity (<50% of min. required equity), land unencumbered, proceeds from sale of another property, non-repayable gift from immediate relative, equity grant (non-repayable grant from federal, provincial or municipal agency). Non-traditional sources of down payment include: Any source that is arm's length to and not tied to the purchase or sale of the property, such as borrowed funds. The above table has been obtained from CMHC and is subject to change without notice.

Mortgage Appraisal

\$250 – \$500

- ❖ Usually, your bank will charge this fee for determining the property's value for mortgage purposes. They may choose to waive this fee.

Land Transfer Tax (LLT)	See calculations.	<ul style="list-style-type: none"> ❖ These fees are paid to the government whenever a property changes ownership. • amounts up to and including \$55,000: 0.5% • amounts exceeding \$55,000, up to and including \$250,000: 1.0% • amounts exceeding \$250,000, up to and including \$400,000: 1.5% • amounts exceeding \$400,000: 2.0% • amounts exceeding \$2,000,000, where the land contains one or two single family residences: 2.5%. <p>If you are buying in Toronto, then simply multiply the Land Transfer Tax by 2. This will double the LLT which is payable on closing.</p>
Lawyer Fees	\$650 – \$1,500 and up.	<ul style="list-style-type: none"> ❖ Selling side: \$650 - \$1000 plus disbursements. ❖ Buying side: \$800 to \$1,500 plus disbursements. ❖ If you are selling and buying, there will be lawyer fees for both transactions. Many lawyers charge extra for a home over \$1M. Usually, if you are doing both transactions with the same lawyer, you can get a better price.
Title Insurance	\$350 – \$1,000 and up.	<ul style="list-style-type: none"> ❖ Depending on your purchase price, and type of ownership. Title insurance policies vary significantly from one company to another. However, when it comes to basic title protection, policy coverage among insurers is similar. ❖ Your lawyer will already have a title insurance company that they are comfortable working with, so you won't need to worry about finding one. ❖ Title insurance typically protects home buyers against loss from risks. A few examples are: <ol style="list-style-type: none"> 1. Another person having an ownership interest in the property; 2. Outstanding liens; 3. Construction without a permit; 4. Fraudulent title dealing; 5. Breach of zoning bylaws; 6. Other circumstances which could result in loss.
Provincial Sales Tax	8% PST	❖ 8% PST Charged on CMHC fees.

Adjustments	\$400 – \$1,000 and up.	❖ The Buyer will be required to reimburse the seller for any prepaid property taxes, utility bills, or oil or propane (heating fuel) left in the tank.
Parking Fee & Application Fee	\$100 – \$300 and up.	<ul style="list-style-type: none"> ❖ Transfer licensing of a front pad/laneway parking space, or to apply for on street parking. Keep in mind that some areas have restrictions on street parking and limit those spaces, which can be restricted or limited. ❖ Your lawyer can do this for you at time of closing. Keep in mind that a transfer of an existing license may take a few months. ❖ There is also a yearly fee associated with your front pad/laneway/on road parking.
Realtor Fees	1% to 5%	❖ If you are selling your home, calculate the cost of Realtor fees and subtract this fee from your equity. This will impact the amount of equity that you can put towards your new purchase.
Home Inspection Fee	\$350 to \$550	❖ In depth report on the health of the home. The home inspector evaluates the structures & systems within the home, and provides you with a written report. Many home buyers put a condition in their Offer to Purchase on obtaining a satisfactory Inspection Report.
Moving Costs	\$500 to \$5,000 and up.	❖ The cost of a professional mover or a rental truck varies. Factors that influence cost are: distance and where you are moving too, delays in the move, the kind of contents you have, etc.

<p>Home Insurance</p>	<p>\$1,000 per year and up.</p>	<ul style="list-style-type: none"> ❖ Account for higher costs of home insurance, especially if you moved up and bought a more expensive home. Don't be cheap with insurance! Get the proper coverage for both your home / condo AND your contents. Buyers must understand the protection they have in their policies. ❖ I personally know two homeowners who had a total of \$20,000 of coverage for both contents and their structure. One friend found out only after they had a fire. The other friend found out when their basement flooded. ❖ If their property burnt to the ground, they would have been out hundreds of thousands of dollars with no recourse. It was the insurance company that told my friends that they had enough coverage. DO NOT TRUST THAT YOUR INSURANCE COMPANY WILL GIVE YOU THE PROPER COVERAGE. CHECK THIS AND VERIFY IT YOURSELF. If you are paying very little for home insurance, there is something wrong. ❖ I personally have increased my premiums for maximum coverage for the home and its contents on all of my properties – well worth the money spent!
<p>Property Tax</p>	<p>\$2,500 - \$10K and up.</p>	<ul style="list-style-type: none"> ❖ If you bought at a higher price point, then you will incur higher property taxes. If you bought a new infill build or substantially renovated house, expect property taxes to significantly increase. Property taxes are always posted on the MLS listings – yet may not be up-to-date nor account for interim taxes. Account for these increases.
<p>Property Survey</p>	<p>\$1,200 - \$2,500 and up.</p>	<ul style="list-style-type: none"> ❖ Rarely needed today as Title Insurance is almost always used. However, the survey may be required in a few special circumstances. The survey illustrates the property boundaries and measurements, specifies the location of buildings on the property, and indicates any easements or encroachments. Most homes do not have an up-to-date valid survey. It also takes weeks to obtain a survey, and for this reason, surveys are not mandatory by the lender. Furthermore, Title Insurance usually steps in to protect the homeowner without a survey.
<p>Miscellaneous Costs</p>	<p>\$500 – \$2,000</p>	<ul style="list-style-type: none"> ❖ Incidental costs that may pop up, unexpectedly.

Conclusion:

I've included most costs associated with a typical closing.

Ultimately, it will be your **Lender** and **Lawyer** who will calculate the **exact costs**. Ensure that you seek the **expert advice** of your lender and lawyer to **accurately** calculate your **costs** and requirements for a **successful** closing.

Call me if you have any questions.

Roland Hack, Broker, 416-543-7348, Sutton West Realty Inc., Brokerage.

Information subject to change without notice. Not intended to induce breach of contract of buyers or sellers.

http://www.trebhome.com/buying/ltt_calculator/ltt_calculator.htm

Land Transfer Tax Calculator

Calculate Land Transfer Tax (Residential)

Enter the purchase price: \$
(no commas or decimals)

Provincial Land Transfer Tax (PLTT) Amount \$	Toronto Land Transfer Tax (TLTT) Amount \$	Total Land Transfer Tax (PLTT + TLTT) Amount \$
<input type="text"/>	<input type="text"/>	<input type="text"/>
(Applies to all Ontario properties including Toronto)	(Applies to Toronto properties only)	(Applies to Toronto properties only)

PLEASE NOTE THAT THE CITY OF TORONTO HAS APPROVED CHANGES TO THE TORONTO LAND TRANSFER TAX, WHICH TOOK EFFECT FOR TRANSACTIONS CLOSING ON OR AFTER MARCH 1, 2017, TO HARMONIZE TORONTO LTT RATES WITH THE PROVINCIAL LAND TRANSFER TAX. AS SUCH, THE TORONTO LAND TRANSFER TAX IS EQUAL TO THE PROVINCIAL LAND TRANSFER TAX INDICATED IN THE CALCULATOR ABOVE.