

CAN I AFFORD TO BUY?

Answer:

Perhaps you cannot afford not to. Interest rates continue to be so low that the monthly payments rival what Vernonites are currently paying for rent.

Take for example an apartment or townhouse valued at \$100,000. One can expect to pay \$650-\$750 per month to rent it. To buy it costs \$700 per month at today's 5 year interest rate of 4.75% including the monthly strata fee. Let's say interest rates on your mortgage average roughly 6%, then at the end of the first 10 year period you would have it 24% paid for. I am assuming for purposes of the question that market values remain the same. This is based on half payments every two weeks (a.k.a. bi-weekly). There is also the strong likelihood that the unit will grow to be worth a higher market value during that time, compounding the profit to you.

Look at the math. If you rent you have earned zilch. Borrowers often increase their payments when pay raises are achieved and that improves their equity even more.

Question:

How do you know what financing you can qualify for?

Answer:

You are approved by lenders based on your GDSR and your TDSR. GDSR is your gross debt service ratio and TDSR is your total debt service ratio. To calculate the answer to these ratios, you need only to take your gross monthly income figure (this is the amount before your income tax and benefit deductions) and multiply it times 30% for your GDSR and 40% for your TDSR. To make it easier to follow, let's assume your monthly gross income added to your spouse's monthly gross income is \$3,000. Your GDSR is $30\% \times \$3,000 = \900.00 . This means that if you allow \$100 per month for property taxes, then that leaves \$800 per month to make mortgage payments. These days \$800 per month satisfies payments on a \$140,000 mortgage (based on 4.75%). Not bad at all. However you still need to calculate your TDSR. Your total debt service ratio is 40% of that monthly gross income ($40\% \times \$3,000 = \$1,200$). Suppose you have a visa payment of \$150 per month and a car loan payment of \$375, add those payments together it totals \$525. Deduct that \$525 from your allowable \$1,200 and the leftover amount is just \$675. That means that after those estimated property tax payments of \$100 there is only \$575 left over for mortgage payments. These fixed debt payments

(visa, auto) have reduced the amount you can borrow from \$140,000 to \$93,000. Quite a difference, isn't it?

Realtors and lenders really don't expect you to figure this all out on your own. We are all available to help you through this process. Your realtor will refer you to lenders and mortgage brokers they know and trust to give good competent service and advice.

It is essential that you thoroughly cover off this step before you start looking at property so that nobody's time, including yours, your realtors' or the homeowners' is wasted looking at properties below or above what you can afford.

Question:

What about the amount of down payment?

Answer:

Zero down is possible for those with an excellent credit rating, but this does result in paying 2% or so higher interest rate on the mortgage.

5% is the most common down payment for starter buyers and 15% down is the minimum for most investors.

Down payments can be raised through savings or secured by other collateral.

Jane Field works with Re/Max Vernon. Jane has over 28 years of experience in the real estate business.