Special

Mortgages

Tools and research open the door for

Canada's first-time homebuyers



Canadians are using research, planning and professional advice to find the right home despite a tighter regulatory environment. ISTOCKPHOTO.COM

The first-time homebuyer is one of the primary engines of the real estate market in Canada – without them, it becomes impossible for mid-level buyers to move up the real estate ladder, leaving even higher-end properties to languish on the market.

A stricter regulatory environment has reduced affordability and introduced some barriers, so first-time buyers' success increasingly depends on setting out on their home search armed with the tools, advice and strategies.

"People are becoming more prepared, especially the first-time homebuyers we're seeing," says Jennifer Bissonnette, a mortgage specialist with RBC in Toronto. "They're speaking with a mortgage professional to find out what is affordable for them."

In major urban markets such as the greater Vancouver and Toronto regions, many first-time homebuyers are also choosing new condo developments, which give them additional time to plan for their purchase. "Many are 24 months, sometimes 30 months, from completion, which provides the opportunity to save for another two or three years," says Ms. Bissonnette.

While it may seem like delayed gratification, a two- or three-year roadmap can actually help would-be homebuyers achieve their dreams more quickly, says Ms. Bissonnette. "At this stage, many people are still living from payday to payday, so we look at their cash flow first. What are their expenses right now and how soon are they going to buy? What do they need to pay off or save in order to achieve that goal?"

The Home Buyers' Plan, which allows qualified first-time buyers to borrow up to $25,000 each from their RRSPs, can be particularly helpful for young professionals, who also benefit from the tax savings. "There is a misconception that it has to be used for your down payment, but it can also be used for closing costs such home inspection fees, land transfer tax and legal fees," she explains. "It's a great program."

Despite the fact that the maximum amortization period for mortgages has been reduced to 25 years, and some additional restrictions exist for borrowers who have less than 20 per cent down payments, it's encouraging for buyers to know that it is still possible to purchase a home with a down payment as low as five per cent, says Debbie McPherson, senior vice-president of sales and marketing at Genworth Canada.



"There is a misconception that [the Home Buyers' Plan] has to be used for your down payment, but it can also be used for closing costs such home inspection fees, land transfer tax and legal fees."

Jennifer Bissonnette
is a mortgage specialist with RBC in Toronto

"With mortgage insurance, buyers can avoid losing out on a great opportunity and can start building equity in a home sooner," she stresses. "If they meet certain eligibility criteria, they have access to the same competitive interest rates."

The buying environment has changed over the last 18 to 24 months, says Diana Zitko, an accredited mortgage professional in the Vancouver region. "Buyers are not qualifying for as much as they were in previous years, while home prices have stayed relatively the same."

The harsher environment makes it even more essential for would-be buyers to be pre-approved before starting their home search, she says. "We take their application, pull their credit, and let them know exactly what they're qualified for, within their means and comfort zone. That way, they're ready to make an offer when they find the right home."

It's also critical to put together the best professional advice team, she suggests. "A great realtor will help them find the right home within their price range; our job is to find the best mortgage product and rate."

While the excitement of buying a first home can be all-consuming, the right professionals will help their clients think about the bigger picture and the longer term. For example, says Ms. Zitko, "If our clients are taking a five-year term, we help them ensure they'll still be able to afford their payments if rates go up before they renew in five years."

Conversely, if homebuyers find they are $50,000 or $100,000 away from the kind of home they want, or they don't have the credit rating they need, "we help them make a plan to pay down debt or save more money to get to that point," she says.

For all homebuyers, finding the right property starts with being realistic about affordability, says Ms. McPherson. But that caution is doubly important for first-time buyers, who don't have experience with the additional costs of owning a home.

"Closing costs, legal fees, condo fees, if purchasing a condo, insurance premiums, land transfer tax, municipal tax and utilities are some of the key expenses to consider when evaluating not only the overall closing costs, but ongoing basic monthly expenses," she explains.

While it is still subject to insurance qualifications and a home appraisal, a thorough pre-approval can help prevent disappointment for buyers later on, says Ms. Zitko. "We often see people who were pre-approved but didn't provide all the necessary documentation at the time. When they write the offer, they're asked for their job letters and pay stubs, and there may be new debt – suddenly the numbers aren't working."

An understanding of how credit works can help make sure that doesn't happen. "Lenders now want to see a score of 650 to 680, with an absolute minimum of 600. We had a couple with borderline credit who went shopping for a car after pre-qualifying; they didn't realize that each car lot was doing a credit check that reduced their score by 30 points," she recalls. "It meant they had to wait six months longer before they could buy a home."

A home is probably the largest purchase and most important investment that individuals make in their lifetime, says Ms. McPherson. In addition to mortgage professionals, who will help homebuyers understand their mortgage options and evaluate their means, "industry professionals can recommend other key advisers – such as financial planners, realtors and real estate lawyers – who have important roles to play in the homebuying process."

TIPS

Before taking on the responsibility of buying and owning a home, Canadians should ensure they are financially and emotionally ready, says Debbie McPherson, senior vice-president of sales and marketing at Genworth Canada. She recommends starting with three key steps.

1. Evaluate your financial situation, making sure you understand what you can afford.
2. Research the real estate market. Consider the type of house and neighbourhood that best suits your needs.
3. Consult a mortgage or real estate industry professional, who can do much more than negotiate the best mortgage rate or send you listings. A qualified professional will guide you through the process and help you make educated and responsible choices.

INSIDE

Equipping youth with the skills they need to manage debt effectively. Page M 2

Mortgage insurance brings homeownership within reach sooner. Page M 3

Variable or fixed-rate? The answer depends on you. Page M 4

THE BIG PICTURE

Financial planning helps ensure better mortgage choices

Between paying for living expenses, mortgage instalments and taxes – not to mention saving for children's education and retirement – it's not easy for Canadian families to get ahead.

But it is possible, given the right advice. A recent study found that "advised households" working with financial advisers for four to six years accumulate 1.58 times more assets than "non-advised households." Conducted by the Centre for Interuniversity Research and Analysis of Organizations, the study also found that families with advice have 4.2 times the median assets of those without it.

As a home is usually a family's largest asset until the decade prior to retirement, it follows that getting professional advice can maximize its value.

Deciding to buy a home should therefore trigger a broader financial planning discussion, says financial planner Kevin Gebert, author of *Financial Fotographs*, a book designed to help families have effective conversations about money.



Financial planning is proven to help Canadian families achieve their goals faster, including home ownership and debt repayment. ISTOCKPHOTO.COM

"When my clients come to me wanting to purchase a home, the first thing we do is go through their budget and cash flow," he says, adding that the next step is a conversation with a mortgage broker to find out what they currently qualify for. If that number doesn't align with the kind of home they have in mind, a plan is put in place to increase income, pay down debt or save for a bigger down payment.



"The mortgage amount homebuyers qualify for is not always the amount they can comfortably afford."

Kevin Gebert
is a financial planner and author of Financial Fotographs

A comprehensive financial plan also includes considering the realities of owning versus renting, he notes. "People often feel that if they're paying $900 in rent, a $900 mortgage payment is affordable."

But the additional costs of ownership, such as strata fees and taxes, can mean not quite being able to make ends meet or taking on a bit more debt each month.

The mortgage amount homebuyers qualify for is not always the amount they can comfortably afford, says Mr. Gebert.

A financial plan helps ensure you can continue to make payments at renewal time even if rates rise, or if the child you're hoping for arrives, he says. "We all know that tomorrow won't be the same as today."

Families with RRSP assets can use those funds for their first home purchase through the Home Buyers' Plan, but it's not uncommon to take a loss on investments that were once made with a long-term view.

Advisers, Page M 2

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MORTGAGES

OPINION

Financial literacy critical to managing tomorrow's debt



By Gary Rabbior,
President, Canadian Foundation for Economic Education

Financial responsibilities have become ever more complex and challenging. Most of us have never had any preparation to assume such responsibilities and make effective decisions.

We all watched recently as the United States Congress, Senate and White House played a dangerous game of cat-and-mouse with respect to increasing the U.S. debt ceiling. There is a lot of borrowing these days – by individuals and households as well as governments – often more than can be afforded. Historically low interest rates aren't helping, as they create a strong incentive to take on more debt.

Dealing with today's financial challenges is not easy. From managing daily expenses, paying down loans, and assuming education and housing costs to saving for retirement and caring for aging parents, it all feels like a "perfect financial storm." More and more people are turning to debt as a financial lifeline, a way to get by today and deal with the future tomorrow. But tomorrow will soon come, and the decisions we make today will yield benefits – or impose costs.

People don't want to be in debt trouble; we're always worried about money. Financial responsibilities have become ever more complex and challenging. Most of us have never had any preparation to assume such responsibilities and make effective decisions.

What can be done? We can take steps to improve financial literacy and help people better manage debt and debt decisions. This includes:

- Knowing how to set debt limits and factor debt into a budget.
- Knowing that lenders look for the "3 Cs": capital (assets), character and capacity (ability to pay).
- Calculating the total cost when using debt and paying interest.
- Knowing the implications of missing payments, paying late or paying only minimum monthly balances.
- Understanding your credit rating: what it is, why it's important, how to check it, how to maintain a good one.
- Understanding the concept of amortization. Your payback period matters a lot; shortening it can save thousands.
- Considering that every decision involves a trade-off. Pause to think what can be given up today and in the future.
- Knowing the questions to ask before taking on debt. Read the fine print; know the details.
- Recognizing signs you may be heading for debt trouble. Are you finding it difficult to save anything? Continually short of money? Using savings to pay debt costs? Near your credit limit on all or most of your credit cards? Missing payments or due dates for bills? Making only the minimum payments on your credit cards? Unaware of how much you owe?



No child should graduate from high school without knowing the implications of missed or late payments, says financial literacy expert. ISTOCKPHOTO.COM

There are many ways that people can learn to better manage debt. If we are going to give more responsibility to individuals and households to manage their financial affairs, we must ensure they have the knowledge and skills to do so confidently and competently.

We must find innovative ways to help today's adults with such issues. But we especially need to start among young people. Surely during 12 to 14 years of schooling we can prepare them for the financial decisions, challenges and opportunities they face.

We can equip young people with the knowledge and skills that can help them set and achieve realistic goals, hopes and dreams. Many people struggling to manage the present are borrowing to levels that may jeopardize the years ahead. We can make sure our kids are better prepared to build a successful – and affordable – future.

FROM M 1

Advisers: Planning pays off

"As soon as a client mentions wanting to buy a home, we ensure that portion of the RRSP is protected from short-term volatility risk," says Mr. Gebert.

Once the home is bought, a financial plan ensures that every spare dollar is used to its fullest advantage. For example, "if an individual is considering an RRSP contribution, we first calculate what they would save on interest if they used that money to make an early payment on their mortgage instead."

The primary residence is a generous tax shelter, he notes. "If we can increase a client's net worth by paying down debt versus increasing an asset, knowing we can make up time down the road on RRSP contributions, that's what we focus on."



"You can't just look at the mortgage. You have to look at the entire picture."

Paula Roberts
is an accredited mortgage professional in the greater Toronto area

Especially in a stricter regulatory environment that makes refinancing difficult, choosing a mortgage with flexibility should lifestyles change is also essential, says Paula Roberts, an accredited mortgage professional in the greater Toronto area.

"A young couple buying their first home may not have daycare expenses, so they can make higher mortgage payments in the early years in order to build equity faster. When children arrive, they can reduce their payment, and increase it again when the children are in school," Ms. Roberts says.

"You can't just look at the mortgage," she adds. "You have to look at the entire picture."

If only shopping for a first home was this easy…



With a little help from Genworth Canada, shopping for a first home doesn't have to be complicated. We understand the importance of owning a home and having the information your clients need to make smart homeownership choices. Our promise is to help them with homebuying basics such as understanding down payment options, maintaining good credit and staying on budget.

Find us on Facebook! Visit **Genworthsmartshopper.ca** for tips and resources to help achieve homeownership dreams.

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ADVICE

Mortgage insurer provides tools for homebuyers



Debbie McPherson, senior vice president of sales and marketing at Genworth Canada, answers questions about mortgage insurance and its benefits for Canadian homebuyers.

What is mortgage insurance?
Mortgage insurance enables homebuyers with less than 20 per cent down payment the opportunity to purchase a home at the same competitive interest rates available to buyers with a larger down payment.

Mortgage insurance is mandated by the government and protects the lender in case of borrower default.

Mortgage insurance can also provide other homebuyer benefits. For example, Genworth Canada offers a homeownership assistance program. Through this program, we work with lenders and their customers to find solutions to prevent homeowners facing temporary financial difficulties from losing their home.

Are there tools online that can help a first-time buyer evaluate the costs associated with buying a house – from buying (land transfer tax, legal costs, etc.) to owning (tax, utilities, condo fees, etc.)?
There are many online tools available to help first-time homebuyers evaluate their readiness to buy a home. Genworth Canada's consumer website – *homeownership.ca* – includes a number of tools that are easy and free to use. These include mortgage calculators, home planners, homeownership and financial planning videos, articles and more.

What are some of the more popular mortgage insurance products used today to help buy a home with a lower down payment?
Genworth Canada's most popular mortgage insurance product is the standard purchase product, our *Homebuyer 95* program, which gives qualified borrowers, including self-employed individuals, the opportunity to own a home with as little as a five per cent down payment.

Additional niche products that appeal to first-time buyers include our:

- *New to Canada* program, which allows eligible recent immigrants who do not yet have established credit profiles in Canada to qualify for a five per cent down payment option; and
- *Purchase Plus Improvements* program, which can help qualified homebuyers make tailored improvements to their home, immediately after taking possession – and this all with one manageable mortgage payment, at a competitive interest rate and with as little as five per cent down.

Another popular feature of mortgage insurance is our *Energy Efficient Housing* program that offers savings, including a 10 per cent refund on the mortgage premium, to homeowners who purchase new energy-efficient homes.



Recent immigrants who do not yet have established credit profiles in Canada may qualify for a five per cent down payment using mortgage insurance products. ISTOCKPHOTO.COM

Are there other benefits to mortgage insurance, beyond making low down payment purchases possible without high interest rates?
Genworth Canada-insured homeowners benefit from additional peace of mind when purchasing their home, thanks to our Homeowner Assistance Program. This program is designed to help homeowners who qualify for the program get through unanticipated financial hardships that might temporarily impact their ability to make their mortgage payments. These situations normally arise as a result of job loss, sudden illness, divorce or other financial emergency. Working closely with the borrower and their lender, we try to find alternative solutions, such as capitalized arrears, increased amortization periods or deferred payments, to keep homeowners in their home.

INSURANCE

Protect your home – and your investment

The terrible flooding in Alberta earlier this year struck an emotional chord with Canadians across the country. For most families, their house is their largest asset, but even more importantly – it's home.

Natural disasters are a vivid reminder that putting the right insurance in place is essential, says Paula Bandi, a product manager at RBC Insurance. "You're protecting the financial and emotional well-being of your family."

Most lenders require proof of insurance before closing a home purchase, which may take homebuyers by surprise and result in a rushed decision-making process. It's important to begin by understanding the different things that homeowner policies can cover, says Ms. Bandi, such as:

- The building, which includes the home and any additional structures such as a garage, fence and shed.
- The contents, such as furniture, electronic devices and other personal belongings.
- Liability coverage, which provides financial protection to cover liability arising from accidents, such as your child breaking a neighbour's window, your surfboard injuring another tourist during a beach vacation or a pizza delivery person slipping on your steps.
- Additional living expenses that may be incurred if your home is damaged and needs to be repaired.

One common error is underestimating the value of personal belongings, says Ms. Bandi. "It's important to make a thorough assessment of everything you have accumulated, because it can amount to a lot more than you initially think. As well, most policies have limits on the value of articles such as jewelry or artwork, so any additional value over and above that limit should be scheduled with your insurance company for additional premium and protection."

"You're protecting the financial and emotional well-being of your family."

Paula Bandi
is a product manager at RBC Insurance

Talking through deductibles and any limits on your coverage with an insurance agent can help ensure there are no unpleasant surprises should the worst happen, she says.

It's also important to keep up with any preventative maintenance required by your policy and to protect against occurrences that may not be covered. "Insurance is designed for the unpredictable and accidental, such as fires, windstorms or theft," says Ms. Bandi. "But there are many things you can do inside and outside of your home to protect it."

Such measures include sealing cracks in basement walls, ensuring your plumbing is up to date, maintaining your fire alarm and having your roof inspected regularly, she says.

SAFEGUARDS

An RBC survey conducted in 2013 found that:

30 per cent of Canadians have a barrel or other device for collecting rain water runoff.

Most common water-related damage experienced by Canadians includes: water seepage/leakage inside homes (36 per cent), roof leaks (32 per cent), basement flooding (29 per cent) and broken or burst pipes (16 per cent).

When thinking of extreme weather events, 21 per cent of Canadians are concerned about damage to property from high winds; 18 per cent are concerned about damage to property from water damage.

The top preventative measures Canadians have taken to help prevent water damage outside of their home include: maintain eavestroughs and downspouts (51 per cent); install downspout extensions and splash pads (29 per cent); landscaping such as grading (23 per cent); clear off snow from roof (20 per cent).

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MORTGAGES

OPINION

Record-low mortgage rates can't last. Sound familiar?

With bond markets reflecting the possibility of a U.S. Treasury default, Government of Canada bonds provided a safe haven in October, moderating yields. Along with that shift came increasing expectations that lenders might lower fixed-term mortgage rates, after slight increases in the spring and in September.

Once again, uncertainty is the norm for homeowners who have mortgage terms maturing in the next six months.

"The possibility of higher rates is a hot topic right now," says Todd Lawrence, senior vice-president of mortgages and lending at CIBC. "Many Canadians are talking about it, given what the bond market has been doing."

CIBC research conducted in August found that half of Canadians believe that interest rates will be higher a year from now, up from 38 per cent in January, which may have a significant impact on the kind of mortgage they opt for. "In that poll, we also asked respondents whether they'd choose a fixed or variable-rate mortgage; 56 per cent said they'd now choose a fixed-rate mortgage, up from 45 per cent back in January," Mr. Lawrence reports.



"If you have other debts linked to variable rates, then obviously you'd be more sensitive to a change in rates and may want to look more seriously at a fixed-rate mortgage."

Todd Lawrence
is senior vice-president of mortgages and lending at CIBC

But given the unpredictability of rates, it is far more important to consider your individual circumstances when deciding on a mortgage product, he stresses. "Whatever option you choose, you need to be comfortable with your mortgage payment today as well as when rates rise and your life evolves."

The predictable payments that come with a fixed-rate mortgage are more suited to new homeowners and those who don't have a lot of excess cash flow in their budgets, Mr. Lawrence explains. In addition, he says, "If you have other debts linked to variable rates then obviously you'd be more sensitive to a change in rates and may want to look more seriously at a fixed-rate mortgage."

Your comfort level with uncertainty should also play a central role in the decision-making process, he adds.

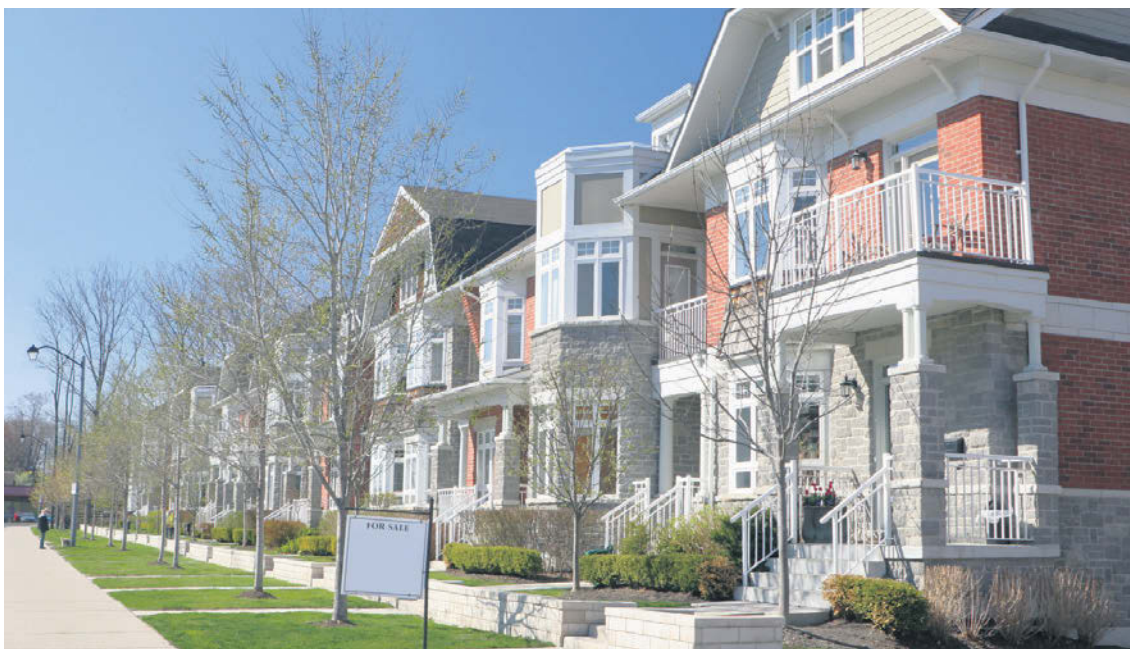
Jim Murphy, president and CEO of the Canadian Association of Accredited Mortgage Professionals, agrees that individual circumstances should play a much greater role in the process than rate forecasts.

"Our research indicates that the tightening regulatory environment has affected affordability and choice, particularly for first-time homebuyers, and a lot has been written about household debt levels and the record-low rate environment," he says. "But being conscious of your own financial situation, doing lots of research and working with an experienced, accredited professional will always help ensure you achieve your goals."

As for the possibility of rising rates, Mr. Murphy reports that with the reduction in Canada's economic growth forecasts for 2013 and 2014, some analysts predict that Bank of Canada rates are unlikely to change until 2015. "The last couple of years have been an interesting time. We're in a very low-rate environment, and we believe rates are unlikely to change in 2013 or 2014," he says.

Variable rates are currently lower than a five-year fixed mortgage, giving borrowers with flexibility in their cash flow an opportunity to pay off their mortgage faster by increasing their payments to the level they'd be paying with a fixed-rate product, notes Mr. Lawrence. By doing so, "if rates rise, you will have limited the impact.

"Your mortgage shouldn't be viewed as a single transaction, but as a significant component of your overall financial plan," he adds. "It's important to get the right advice and to start planning early."



The predictable payments that come with a fixed-rate mortgage are well suited to new homeowners and those with less flexibility in their budget. ISTOCKPHOTO.COM

DATA

Key CIBC poll findings

Percentage of Canadians who would choose a fixed-rate mortgage if they were to acquire, refinance or renew a mortgage today, by region:

	August 2013	January 2013
National	56%	45%
Atlantic Canada	66%	37%
Quebec	51%	45%
Ontario	58%	41%
Manitoba and Saskatchewan	52%	64%
Alberta	54%	47%
British Columbia	61%	49%

Percentage of Canadians who would choose a fixed-rate mortgage if they were to acquire, refinance or renew a mortgage today, by age:

	August 2013	January 2013
National	56%	45%
18-24	51%	39%
25-34	51%	54%
35-44	56%	46%
45-54	64%	45%
55-64	64%	46%
65+	48%	35%

ADVICE

Navigating tough borrowing environment a challenge for self-employed

If you're among the 15 per cent of Canadians who are self-employed, then qualifying for a mortgage is becoming more difficult, especially with stringent mortgage lending guidelines recently introduced by the federal government.

But it's not impossible, experts say. You just have to start planning early, get effective advice and employ winning strategies.

"The biggest challenge for both lenders and borrowers is income verification," says Chris Kiskunas, a regional sales manager with RBC in Toronto. Without pay-stubs and employment history, Canadians who are self-employed need to be able to provide information that a bank can use to verify their income, and therefore their ability make mortgage payments. "There was a time when coming in with a big down payment was enough, but that's no longer the case. Now you need to speak to the nature of the business you are involved in, be able to explain the business cycle, how revenues are driven, and what the trends are," she says.

Advisers at financial institutions typically will want to see detailed financial statements and three years' worth of tax returns. Ms. Kiskunas says that lenders will invariably perform due diligence to ensure there are sufficient assets to substantiate declared income. But they are also sophisticated enough to understand that there can be mitigating circumstances, such as the perfectly reasonable strategy where business owners leave money in the company instead of paying themselves big salaries, in order to reduce their tax burden, she says. "We look at things like that."



"There was a time when coming in with a big down payment was enough, but that's no longer the case."

Chris Kiskunas
is a a regional sales manager with RBC in Toronto

It goes without saying that credit scores count in lender calculations, but people with past bankruptcies are not automatically exempt. At the same time, potential borrowers who have previous credit issues need to be prepared to address and clear them up.

She adds that banks typically have lending-to-equity ratios in the range of 65 to 70 per cent, but it is not unheard of for potential borrowers to exceed these limits. For such people there is always the possibility of mortgage insurance, which protects lenders against default. The cost of the insurance is typically rolled into monthly mortgage payments.

Today's more rigorous demands from lenders can be confusing, says Ms. Kiskunas, suggesting that it's best to sit down with an adviser at a financial institution. "They can walk you through the process and explain why you need what you need and how it is used to assess eligibility," she says.



Self-employed would-be homebuyers are finding it more challenging to qualify. ISTOCKPHOTO.COM

QUALIFYING



Self-employed individuals make up a large and growing segment of lending portfolios, and many financial institutions have designed special mortgage financing programs for these homebuyers, says **Deepak Bansal**, an accredited mortgage professional in Toronto.

But since the federal government tightened up mortgage financing rules last year, qualifying self-employed homebuyers has become a challenge, he says. "In the last few months alone, more and more lenders have tightened up their own policies even further."

He recommends the following key strategies to improve the odds, stressing that, "lenders need to understand the true nature of your business."

Consistency. Stay in the same industry for at least two years; don't move from one industry to another too often. Lenders and insurers like to see consistency, as it helps justify the "reasonability" of the income being declared.

File your taxes and have supporting documents ready. File your income tax returns annually. In addition, have these commonly requested documents on hand: two to three years of personal Notice of Assessments; two to three years of T1 Generals with Statement of Business Activities; a copy of your business licence or registration; and two to three years of financial statements.

Maintain good credit and debt levels.

Consult a mortgage professional who has experience working with self-employed individuals. Don't be afraid to interview your broker and ask them how many self-employed mortgages they have worked on in the past 12 months. This initial consultation will help you understand what you can qualify for; what documents are required, depending on the nature of your business; and how to improve your credit scores if required.



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MORTGAGES

UPGRADES

Study finds two-thirds of Canadian homeowners plan to renovate soon

According to a recent poll, 65 per cent of Canadian homeowners are planning to renovate their home in the next 12 months.

In keeping with longer-term trends, the most popular renovation projects are bathrooms (38 per cent) and kitchens (33 per cent) according to the Scotiabank Home Renovations Poll released in early October. It also found that men are more likely than women to renovate their basements.

For those concerned about the heavy debt load among Canadians, it delivered good news: 73 per cent of respondents plan to use cash savings to pay for their renovations. Less positive was the fact that one out of four don't have a renovation budget.



"To be successful and stay on budget, you have to stay on plan."

David Stafford
is managing director of real estate secured lending at Scotiabank



Fall is a great time to being putting plans in place for a spring renovation, including any required financing. ISTOCKPHOTO.COM

The poll shows that people are investing in improving and maintaining their homes, often their largest asset, says David Stafford, managing director of real estate secured lending at Scotiabank.

Achieving the best renovation outcome depends on choosing the right means of payment as well as having an effective project management plan in place, he says. "To be successful and stay on budget, you have to stay on plan. People get into trouble when they decide they don't like the tile once it's installed, or when they don't provide their contractor with complete information."

If you're organized up front, he stresses, "the project will go a lot smoother and the disruption to your home will be minimized."

Larger projects – such as totally redoing an older home, adding on a room or finishing a basement – also require a detailed financial plan, along with the right borrowing and payment tools.

As the spring is prime time for renovation, fall is a great time to start getting a budget in place, says Mr. Stafford. "If you're going to refinance your home or arrange a line of credit, it's good to get that all organized before you shop for a contractor and price out your project, much the way you'd find out what you could afford for a mortgage before you buy a house."

Arranging financing in advance provides all-important affordability guidelines. These will help inform decisions about how extensive and expensive the renovations will be, as well as choices about materials, finishes and appliances.

Once the budget is established, a line of credit is a useful tool for making purchases and paying contractors, he says. "You don't borrow the money until you need it. Everything ends up on one convenient statement to help you keep track of what you paid for and to whom."

One such product, the ScotiaLine Personal Line of Credit, comes with a Visa card and a chequebook. "You're not managing a whole bunch of different accounts, and you can keep that spending away from your day-to-day activity," says Mr. Stafford. "And it's at line-of-credit rates, which are obviously far more beneficial from a financing standpoint."

When the project is complete, homeowners may then want to transfer the balance to a loan or add it to their mortgage, upon renewal.

More Canadians are including energy efficiency as one of their renovation goals. Scotiabank's EcoLiving website has a calculator that helps homeowners quantify the time and cost it will take to make energy upgrades based on annual energy savings, says Mr. Stafford, noting that such improvements almost always pay off. "To the extent that you're doing a project anyway, when you've gutted your kitchen, are finishing the basement or adding an addition, there is a huge opportunity to increase your home's energy efficiency at the same time."

While people tend to invest a lot of time choosing stone countertops and stainless-steel appliances, it's also a great time to add insulation, choose Energy Star appliances and consider LED lighting, he notes. "A small difference in the initial price can have a massive payback over time. And as energy costs rise, the payback accelerates."

TIPS



Find a contractor who works for you

As hosts of three hit TV series, Property Brothers, Buying & Selling, and Brother vs. Brother, Drew and Jonathan Scott have more than 15 years of experience in real estate and renovation. They've recently launched a two-year partnership with Scotiabank designed to help Canadians achieve the home renovation outcomes they're aiming for.

Jonathan and Drew offer five key tips to help choose the right renovation professionals:

1. **Do your research**. Get recommendations and interview potential contractors.
2. **Meet in person** and make sure the candidates can answer your questions in a way that satisfies you.
3. **Check references** and ask to see finished projects they have done in the past.
4. **Create a project plan** and get bids – remember, the cheapest bid isn't always the best bid.
5. **Get it in writing**. Create a contract detailing the scope of work, a payment schedule and proof of insurance.

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Also check out "Money and Youth: A Guide to Financial Literacy" a resource for teenagers and young adults - www.moneyandyouth.cfee.org.

