How to

Get the Down Payment You Need

If a large down payment is the only thing standing between you and a home purchase, you may be able to bridge the gap with mortgage insurance or the help of a family member. The sooner you start planning and saving, the sooner you will be ready to buy a place of your own.

Low Down Options

The minimum down payment is **5 per cent**; however, lenders typically require mortgage loan insurance if a buyer has less than **20 per cent** to invest. The cost ranges from **1** to **3.25 per cent** of the loan amount, either paid upfront or tacked on to the principal balance. It might be pricey, but it can enable qualified borrowers to get into the market before they would otherwise.

You may even be allowed to borrow a portion of the **5 per cent** down payment, but if you take out a personal loan or a line of credit to get the funds, the payments will be factored into your debt service ratios. You will also have to pay a higher premium for mortgage loan insurance.

Smart Saving Strategies

Coming up with a bigger down payment could save you thousands of dollars over the life of your loan.
Here's how to do it:

Make it Automatic. Determine a savings goal and set up a separate account specifically for down payment funds. Use payroll deduction, if available, to transfer funds each month.

Borrow from Yourself. The Home Buyer's plan allows first-time buyers to use $25,000 ($50,000 per couple) from their RRSP savings for a down payment. Beginning two years after the withdrawal, 1/15th of the total amount is due by the end of each year or else the unpaid amount must be added to your taxable income. Contributions to RRSP accounts are tax deductible and can also result in a considerable tax refund.

Double Up & Sock it Away. Consider sharing a place with friends or family to reduce housing costs, or find other creative ways to limit your living expenses and save more of your income.

Keep Your Money Safe & Sound. It's generally recommended that investors hold money earmarked for short-term goals in guaranteed investments, such as high-interest savings accounts, guaranteed investment certificates (GICs) or Canada Savings Bonds, as opposed to riskier options that could decrease in value.

Special Report - Courtesy of Tom Bushey, Associate Broker, RE/MAX iREALTY INNOVATIONS
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Should You Give Your Child a Down Payment?

71% of Canadian first-time buyers who purchased a home recently used their own resources for their down payment, but 29% relied on funds provided by someone else—usually a family member.[1]

Many people would like to see their loved ones enjoy the quality of life associated with homeownership now, while setting them up to build equity in a property for the future.

Better Than a Legacy

Why you may want to help someone in your family invest in a home:

- Market returns for the safest investments have fallen to the lowest point in decades—government bonds and GICs are only yielding **1** to **3%** or less.[2]
- House prices in Canada have risen steadily. Homeowners saw average annual gains of **6.8%** over the last 11-year period.[3]
- Mortgage insurance is expensive for buyers with low down payments. The average rate amounts to almost **2.5%** of the principal sum.[4]
- Affordability has become a major hurdle for first-timers. Despite the fact that interest rates are still very low by historical standards, prices have risen much faster than family incomes in many parts of Canada.[5]

Sources: 1) Canada Mortgage and Housing Corporation, 2010
2) Bank of Canada, March 2011
3) Canada Globe and Mail, February 8, 2011
4, 5) Canada Globe and Mail, February 6, 2011

Riskier Business

When you might want to think twice:

- You have not set aside an adequate savings cushion or considered how much you will need to live comfortably in retirement.
- Your family member lacks a stable income, good credit, or a history of responsible decision-making.
- There is a chance the homebuyer will need or want to make a move, career-related or otherwise, to another city in the next few years.

Thinking of co-signing?

When you agree to co-sign, you are adding yourself to another borrower's mortgage. Your signature could make it possible for your loved one to obtain a particular loan, but it also means you become responsible for the payments if he or she is unable to pay.