Money Matters

Building credit and home buying

ABC LifeLiteracyCanada

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Welcome to *Money Matters*!

What will you learn?

In today's workshop, you'll learn how to:

- Think about whether buying a home is right for you
- Figure out how much you'll be able to borrow
- Figure out how much you might need to save
- Learn how to build or improve your credit

Do you know ASL?

You can watch ASL videos of the information from the workbook. The playlist of ASL videos for this workbook is at:

https://tinyurl.com/2uezwuu2

You can also find the playlist by scanning this QR code on your mobile device.

Is buying a home right for you?

Ask yourself:

- Why do you want to own a home?
- How will owning a home affect your life?
- Do you have time and energy for extra chores and maintenance?
- Are you prepared for the costs of owning a home?

Pros and cons of renting a home

Renting		Buying	
Pros	**Cons**	**Pros**	**Cons**
Low or no maintenance costs	Rent can increase over time	Freedom to renovate or decorate	Risk of losing value over time
More money available for other things	Not building your own investment	Building your own investment	Unexpected costs for repairs or maintenance
Flexibility. It's easier to move it you want to	May be less stable, such as if the owner decides to sell	Stability and sense of control	May be more expensive up front

Let's talk about it

- Can you think of other pros and cons based on your experience?
- Which pros or cons are most important to you?
- Is renting or owning a better fit for you like right now?
- Are you prepared for the costs of owning a home?

Self-assessment

- ❑ I think I'm ready to buy a home. I understand the costs and want to learn what steps to take to get ready to buy.
- ❑ I want to buy a home, but I'm not sure whether I can afford to. I want to learn how much it might cost and what I can do to make it possible.
- ❑ I want to buy a home eventually, but not right now. I want to make a plan so that I can be ready to buy in 5 or 10 years.
- ❑ I'm not sure if owning a home is right for me. I want to learn more.
- ❑ None of the above apply to me. Here's my situation:

How to pay for a home

Most people don't save up the full price of a home before they buy it. Instead, they save up a **down payment** and get a **mortgage** to cover the rest of the cost.

To get a mortgage, you need to show a **lender** that you can afford to pay it back. You also need to show them that you don't have too much other **debt**.

A **down payment** is the amount of money you put towards buying a home. It's usually only part of the cost of the home.

A **mortgage** is a loan that covers the rest of the cost of buying a home.

A **lender** is a bank, credit union, or company that lets you borrow money, like a mortgage.

Debt is money you've borrowed and need to repay. The amount of debt usually includes the amount you borrowed plus interest.

How to pay for a home

You and the lender will agree on:

- A mortgage amount
- An **interest rate**
- A **term**

You will pay back the mortgage over the term, including the original amount plus **interest**.

That means you will pay back more than you borrowed from the lender.

Interest is a fee you pay to borrow money. When you get a loan or use credit, you need to pay back the amount you borrowed plus interest. The amount of interest is usually shown as a percentage of the money you borrowed.

The **interest rate** is the amount of interest you will pay, like 4%.

The **term** is the amount of time you'll have the mortgage, like 5 years. Most people take several terms to repay a mortgage.

Meet Serena

- She's building her **credit history**

Your **credit history** is information about who you've borrowed money from and how long you take to pay them back.

- She's not sure where she wants to live in the future
- Most of her income is used for living expenses
- She's not sure if she can afford to buy a home right now

Meet CJ and Layla

- Married and want to buy a home
- Both have steady jobs and good credit
- Have paid off most of their debt
- Are saving for a down payment
- Think they're ready to buy a home

Let's talk about it

- Serena knows she isn't ready to buy a home yet. What could she do now to help her get closer to her goal?
- What could Serena do if she feels discouraged about her financial situation?
- What choices do you think helped CJ and Layla feel ready to buy a home?
- Is it risky to buy a home with another person? Or does it make things easier?

Review your financial picture

Look at how much you:

- Earn
- Spend
- Save each month
- Have already saved
- Owe in debt

If you're buying a home with another person, include their income and expenses, too.

Check your credit report

Before they give you a mortgage, lenders look at your **credit report**.

You can look at your credit report, too. Check it before you apply for mortgages. Look for:

- Mistakes
- Your **credit score**

If your credit score is low, you can build or improve your credit before you apply for a mortgage.

Your **credit report** shows your credit history. It says who you've borrowed money from and whether you paid the money back on time.

Your **credit score** is a rating that predicts how likely you are to pay back a loan based on your credit history.

How to get your free credit report

You can get your credit report:

- Online
- By mail
- By phone

Read your credit report carefully. Look for:

- Mistakes, like a wrong address or birthdate
- Accounts that don’t belong to you
- Payments marked “late” when you paid on time

How to get your free credit report

You can order one credit report from each **credit bureau**:

- Equifax
- TransUnion (“Consumer Disclosure”)

A **credit bureau** is a company that collects information about how you use debt and credit. In Canada, the two main credit bureaus are Equifax and TransUnion.

Build or improve your credit

If you don’t have much credit or your credit score is low, it’s ok! You can build or improve your credit.

Credit cards can be a useful tool for building your credit history if you use them well.

Building credit history is hard and can take a long time. You can learn from your mistakes.

Build or improve your credit

Ways to build good credit history

- Pay your credit card bills on time
- If you can't pay the full amount, make at least the minimum payment
- Pay off credit card balances and loans as quickly as possible
- Use only the credit you need (less than 30% of your available credit)
- Don't close a credit card account even if you stop using it

Getting preapproved for a mortgage

Mortgage preapproval means a lender looks at your financial picture and says how much they're willing to lend you and at what interest rate. They'll also estimate your mortgage payments.

Mortgage preapproval is when a lender decides the amount of money they'll lend you, the interest rate, and the payments. Some lenders call it prequalification or preauthorization.

Getting preapproved for a mortgage

- Helps you know how much you can afford to spend on a home
- Preapproval is usually guaranteed for a certain amount of time (for example, 3 or 6 months)
- The lender has to approve the home you decide to buy before it will officially offer you the mortgage
- You don’t have to use the full amount

Thinking about a mortgage

Amortization period

- The length of time you'll take to pay back the full mortgage amount. Lenders use it to calculate your mortgage payments.
- If your down payment is less than 20%, the maximum amortization period is:

  - 30 years if you're a first-time home buyer
  - 30 years if you're buying a newly built home
  - 25 years in all other cases

Thinking about a mortgage

Mortgage term

- The length of time you have your mortgage
- Most terms are between 6 months and 10 years
- Most people take several terms to repay the full mortgage

Thinking about a mortgage

Payment schedule

- Monthly:
  1 payment per month
- Semi-monthly:
  2 payments per month
- Biweekly:
  1 payment every 2 weeks
- Weekly:
  1 payment per week
- **Accelerated** biweekly:
  1 payment every 2 weeks
- Accelerated weekly:
  1 payment per week

Accelerated payments let you pay back more of your mortgage each year, which can save you money on interest.

How much can you borrow?

Lenders use 2 important calculations to decide how much you could afford as a mortgage payment:

1. **Income compared to housing costs**
2. **Income compared to total debit load**

How much can you borrow?

1. Income compared to housing costs

Housing costs include:

- mortgage payment
- property taxes
- heating costs
- 50% of condo or homeowner's association (HOA) fees if you're planning to buy a home that has them

How much can you borrow?

Property taxes are charged by your city or town based on the value of your home.

If you buy a condo or a home in a neighbourhood managed by an HOA, you may be charged **condo or HOA fees**. These fees cover the costs of shared areas like parking, elevators, gyms, and pools.

How much can you borrow?

Your monthly housing costs should be less than 39% of your household income before taxes. It's even better if they're less than 32%.

Multiply those percentages by your total monthly household income to find your max and recommended housing costs.

If you're buying a home with another person, remember to include their income, too

Money math

CJ and Layla's income and housing costs

CJ earns $40,000 per year. Layla earns $45,000 per year.

Together, they earn $85,000 per year.

CJ and Layla's total monthly income = $85,000 ÷ 12 = $

CJ and Layla's max monthly housing costs =

$ _____ × 0.39 = $ _____

CJ and Layla's recommended monthly housing costs =

$ _____ × 0.32 = $ _____

Money math

Serena's income and housing costs

Serena earns $39,000 per year.

Serena's monthly income = $39,000 ÷ 12 = $ _____

Serena's max monthly housing costs =

$ _____ × 0.39 = $ _____

Serena's recommended monthly housing costs =

$ _____ × 0.32 = $ _____

Money math

Your income and housing costs

I earn $ _____ per year.

If I have a partner who will buy a house with me, they earn $ _____ per year

Together we earn $ _____ per year

My total monthly household income =
$ _____ × 0.12 = $ _____

Max monthly housing costs =
$ _____ × 0.39 = $ _____

Recommended monthly housing costs =
$ _____ × 0.32 = $ _____

How much can you borrow?

2. Income compared to total debt load

Your **total debt load** includes:

- housing costs
- car loan or lease payments
- credit card payments
- student loan payments
- line of credit payments
- child or spousal support payments
- any other monthly debt payments

Total debt load is the amount you spend each month on housing costs and debt payments, like car loans, credit card payments, and student loan payments.

How much can you borrow?

Your total debt load should be less than 44% of your household income before taxes. It's even better if it's less than 40%.

Multiply those percentages by your total monthly income to find the recommended and max total debt load.

If you're buying a home with another person, remember to include their income, too.

Money math

CJ and Layla's income and total debt load

CJ earns $40,000 per year. Layla earns $45,000 per year. Together they earn $85,000 per year.

CJ and Layla's total monthly income = $85,000 ÷ 12 = $7,083

CJ and Layla's max monthly total debt load = $7,083 × 0.44 = $ _____

CJ and Layla's recommended monthly total debt load = $7,083 × 0.40 = $_____

Money math

Serena's income and total debt load

CJ earns $39,000 per year.

Serena's monthly income = $39,000 ÷ 12 = $3.250

Serena's max monthly total debt load = $3,250 × 0.44 = $ _____

Serena's recommended monthly total debt load = $3,250 × 0.40 = $ _____

Money math

Your income and total debt load

Try it with your monthly household income:

My monthly household income = $_____

Max monthly total debt load = $_____ × 0.44 = $_____

Recommended monthly total debt load = $_____ × 0.4 = $_____

How much do you need for a down payment?

The government has rules about the minimum down payment you'll need depending on the cost of the home.

Home price	Minimum down payment
$500,000 or less	5% of the price
$500,000 to $1,499,999	5% of the first $500,000 plus 10% of the rest of the cost
$1.5 million or more	20% of the price

If you're self-employed or have a low credit score, your lender might ask for a larger down payment.

How much do you need for a down payment?

Let’s say a home costs $350,000.

What’s the minimum down payment?

5% of the price = $350,000 × 0.05 = $17,500

Minimum down payment = $17,500

Let's try it

What's the minimum down payment for a home that costs $425,000?

5% of the price = $425.000 × 0.05 = $ _____

Minimum down payment = $ _____

Let's try it

What's the minimum down payment for a home that costs $600,000?

5% of the first $500.000 × 0.05 = $500,00 x 0.05 = $ _____

10% of the rest = $100,000 × 0.01 = $ _____

Minimum down payment = $ _____

Is it better to have a bigger down payment?

Paying the minimum down payment

Pros	Cons
• Can buy a home sooner • May be able to buy a more expensive home	• Larger mortgage • Extra cost of **mortgage insurance** • May cost you more in interest over time

Paying a larger down payment

Pros	Cons
• Can get a smaller mortgage • May pay less for mortgage insurance or may not need it	• May have to wait longer to buy a home • Might miss a good interest rate

Is it better to have a bigger down payment?

You can also consider buying a less expensive home. A lower home price means you'll need a smaller down payment. It also means your down payment can stretch further to be a larger percentage of the home's price.

Mortgage insurance protects your lender in case you can't make your mortgage payments. It's required if your down payment is less than 20% of the home's price.

How much do CJ and Layla need for a down payment?

CJ and Layla have been saving to buy a home. They have $15,000 in their down payment account. They decide to do some math to see whether it's enough.

How much do CJ and Layla need for a down payment?

That $15,000 could be…

A 10% down payment on a $150,000 home.

An 8% down payment on a $187,500 home.

A 5% down payment on a $300,000 home.

CJ and Layla might need to pay for mortgage insurance too.

How much do CJ and Layla need for a down payment?

If they want to avoid paying for mortgage insurance, they'll need a 20% down payment. With $15,000, they could buy a home that costs $75,000.

But $15,000 isn't enough for a down payment on a home that costs more than $300,000. CJ and Layla will need to save more money if they want to buy a more expensive home, or if home prices are higher in their area.

Let's talk about it

- What do you think CJ and Layla should do?

Money math: CJ and Layla's down payment

If CJ and Layla save more money, how does their down payment change?

Let's say they wait until they have $19,000 for their down payment.

Here's how to calculate how much they could spend on a home:

- As a 20% down payment: $19,000 ÷ 0.2 = $95,000
- As a 10% down payment: $19,000 ÷ 0.1 = $190,000
- As a 8% down payment: $19,000 ÷ 0.08 = $237,500
- As a 5% down payment: $19,000 ÷ 0.05 = $380,000

Try it yourself

Let's say they keep saving until they have $22,000 for their down payment.

Calculate how much they could spend on a home:

As a 20% down payment: $22,000 ÷ 0.20 = $ _____

As a 10% down payment: $22,000 ÷ 0.10 = $ _____

As a 8% down payment: $22,000 ÷ 0.08 = $ _____

As a 5% down payment: $22,000 ÷ 0.05 = $ _____

Saving for a down payment

Here are some ways to save money for a down payment:

- **Earn extra money**. Try to get a raise, look for a second job, or make extra cash on the side.
- **Cut expenses if possible**. Are there costs you can cut from your budget, like entertainment or going out to eat?
- **Lower your housing costs**. Get a roommate or move to a less expensive place to save on rent.

Where to save your down payment

It's a good idea to keep your down payment money in a separate bank account, not the chequing account you use for everyday spending. That way, you'll be less tempted to spend it on other things, and you can watch it grow over time.

A savings account also protects your money, so you can't lose it. It's not a good idea to invest your down payment money because it could decrease in value before you need it.

A **chequing account** is a bank account that lets you write cheques, pay bills, and do other personal money tasks.

Where to save your down payment

Good choices for down payment savings include:

First home savings account (FHSA)	An special account that helps you save for your first home. You can contribute up to $8,000 per year, to a lifetime limit of $40,000. The money you put in is tax deductible and you don't pay any taxes on money when you withdraw it to buy your first home.
Tax-free savings account (TFSA)	An account that lets you save money tax-free. You can contribute up to a certain amount each year. You won't pay taxes on money you withdraw from your TFSA.

Where to save your down payment

Good choices for down payment savings include:

Savings account	If you've put as much as you can into the FHSA and TFSA for the tax benefits, a regular savings account is also a good place to save for your down payment. A high-interest savings account will help your money grow.
Guaranteed investment certificate (GIC)	A no-risk investment that protects your money and usually offers a higher interest rate than you'd get on a savings account. The catch is that GICs lock away your money for a certain amount of time. They can be a good idea if you don't plan to buy a home for at least a few months. If you buy GICs in your FHSA or TFSA, you won't pay taxes on the interest you earn.

Home Buyer's Plan

If you have a registered retirement savings plan (RRSP), you can borrow up to $60,000 from it to buy your first home, tax-free.

To qualify, you must:

- Be a resident of Canada
- Repay the amount you borrowed within 15 years

These requirements mean it may not be the best place to save for your down payment.

Think about the right home for you

- How much space do you need? How many people will share your home?
- What features are important to you? For example, accessibility, storage, outdoor space, or air conditioning
- What kind of neighbourhood do you want to live in? Downtown, suburban, small town, rural?
- What type of home do you want? Condo, townhouse, duplex, detached house?

Think about the right home for you

- Does it need to be close to your workplace, school, or public transit?
- Does it need to be close to parks, restaurants, cultural centres, or other places?
- Do you want a move-in-ready home or are you willing to do renovations?
- What things on this list are most important to you?

Congratulations

You've completed the *Money Matters* workshop on preparing to buy a home in Canada. You've taken the next step in managing your money.

For the last activity, we hope you will make a pledge. The pledge can be personal or you can share it with others.

A **pledge** is a serious promise to yourself or to others.

My pledge

I pledge to plan to prepare to buy a home by:

My action plan

What I want to do is:

What I can do right now is:

What I will do in the next six months:

Thank you for participating in *Money Matters*!