

5.2 Buying a Home

Focus: technology, number sense

Warm Up	
1. What is 10% of \$200 000? _____	2. What is 5% of \$200 000? _____
3. What is the difference between a bungalow and a two-storey house? _____ _____	4. Approximately what is 5% of \$199 000?
5. How many monthly payments are made in a) 2 years? _____ b) 3 years? _____ c) 5 years? _____	6. How many pays do you usually receive in one year if you are paid a) weekly? _____ b) monthly? _____ c) bi-weekly? _____
7. If you deposit \$100 per month, how much will you deposit in a) 1 year? _____ b) 2 years? _____	8. How old will you be in 25 years?

Paying for a Home

For most people, buying a home is the single biggest financial decision that they will ever make.

- Buying a home usually involves getting a **mortgage**, which is a loan used to buy property. It is repaid in regular payments over a set period of time.
- It can take as long as 25 to 30 years to pay off a mortgage. This is called the **amortization period**.
- Since interest rates are unlikely to remain the same for 25 years, most mortgages are broken down into 5-year **terms**. Term refers to the length of the current mortgage agreement. When the term expires, you can either pay the balance of the mortgage or sign a new mortgage agreement.

Go to pages 45–50 to write definitions for **mortgage**, **amortization period**, and **term** in your own words.

Types of Mortgages

- In a **fixed rate mortgage**, the interest rate is set for the term of the mortgage. That means the payments stay the same for the length of the term.
- In a **variable rate mortgage**, the interest can change every month. Interest rates can go up or down. This means the payments can change.

Go to pages 45–50 to write a definition for **fixed rate mortgage** and **variable rate mortgage** in your own words.

1. Give one advantage of each type of mortgage.

fixed rate _____

variable rate _____

2. a) What risk do you take with a variable rate mortgage?

- b) What advice would you give someone who is considering a variable rate mortgage?

First Time Home Buyer

Before you can buy a home, you need to save for a **down payment**. This is the part of the home price that is not financed by a mortgage. First-time buyers need a down payment of 5%.

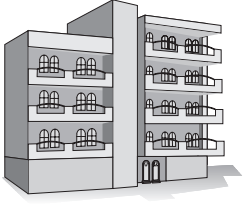
Go to pages 45–50 to write a definition for **down payment** in your own words.

3. List 2 advantages and 2 disadvantages of owning a home. Consider financial and non-financial factors.

Advantages of Buying	Disadvantages of Buying
<p>a) _____</p> <p>_____</p> <p>_____</p>	<p>a) _____</p> <p>_____</p> <p>_____</p>
<p>b) _____</p> <p>_____</p> <p>_____</p>	<p>b) _____</p> <p>_____</p> <p>_____</p>



- 4.** Sun and Rick want to buy a townhouse priced at \$195 000. They need to make a 5% down payment in order to obtain their mortgage.
- a)** Calculate the down payment.



b) How much is the mortgage?

- 5. a)** Maria and Glen plan to buy a house in 2 to 5 years. A 10-year-old bungalow in their community sells for about \$210 000. How much do they need to save to make a 5% down payment?

b) Maria and Glen have a combined net income of \$54 000 per year. How much do they earn per month?

c) They decide to save 10% of their monthly income. How long will it take them to save their down payment?

- 6.** Peter sees a listing for a 3-bedroom bungalow on a small lot for \$121 500.

a) How much is a 5% down payment?

b) Peter works as a line cook for \$10.15/h and usually works 40 h/wk. What is his gross salary in a 4-pay month?

c) Because he still lives with his parents, Peter can save 15% of his gross pay. How long will it take him to save the down payment for this house?

d) His favourite aunt hears about his plans and gives him \$2000 toward the down payment. How long will it take him to save the balance?



How Much Can You Afford?

- According to some financial experts, you should not spend more than 32% of your gross monthly income on housing.
- Housing expenses include mortgage payments, property taxes, and heating expenses.
- For condo owners, the monthly condo fee is also included. This money covers shared expenses like snow removal, grass cutting, and building maintenance.



- 7.** Nayara and Tom want to buy a condominium. Each month, they receive a combined gross income of \$3175. The proposed monthly housing costs for the condo are \$550 for the mortgage, \$175 for property taxes, \$125 for heating, and \$125 for condo fees.

a) What is 32% of Nayara and Tom's gross monthly income?

b) Can they afford the condominium? Explain.

- According to the Canada Mortgage and Housing Corporation (CMHC), you should not spend more than 40% of your gross monthly income to repay debts.
- Debts include housing costs, and other things such as car loans and credit card payments.

- 8.** Nayara and Tom make monthly car payments of \$225. They also pay \$150 on their credit card.

a) What is 40% of Nayara and Tom's gross monthly income?

b) Can they afford to pay the housing costs after paying for their other debts? Explain.

c) What advice would you give the couple if they want to buy the condominium?

- 9. a)** In the Tech Tip on page 171, Kara ended up with a monthly payment of \$ _____.
- b)** Since her amortization period is 25 years, she has agreed to make monthly payments for 25 years! That means she will make _____ monthly payments before she actually owns the house!
- c)** The total that Kara will repay the bank is _____ × _____ = \$ _____.
- monthly payment number of payments total paid
- d)** Add in Kara’s down payment. She will end up paying \$ _____ for this home.
- e)** Suggest two options Kara might use to help her pay back the mortgage more quickly.

- f)** How would your ideas in part e) save Kara money?

- 10.** For each mortgage in #1 of the Tech Tip on page 171, calculate:
- the total amount repaid to the bank
 - the total interest paid over the life of the mortgage

Fixed Rate Mortgage Amount	Monthly Payment	Number of Payments	Total Amount Repaid	Total Interest Paid
a) \$140 000				
b) \$368 000				
c) \$195 000				

- 11.** Look at your answers for #10. Compare the total interest paid and the original mortgage amount.

✓ Check Your Understanding

- 1.** In the previous section, you selected a home to purchase. The purchase price of the home is \$_____.
- a)** Calculate 5% of the purchase price as a down payment.
-
- b)** Calculate the amount of the mortgage.
-
- c)** Research mortgage interest rates. Today's best interest rate for a 5-year fixed rate mortgage is _____.
- d)** Use a TVM solver or an online calculator to determine your monthly mortgage payment. Assume a 25-year amortization period.

N: _____, **I%:** _____, **PV:** _____, **PMT:** _____,
FV: _____, **P/Y:** _____, **C/Y:** _____, **PMT: END BEGIN**

- e)** If you pay this amount every month for 25 years, how much will you pay before you own the home?
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For information about mortgage interest rates, go to www.mcgrawhill.ca/books/workplace12 and follow the links.

