

Mortgages

Learning Goals

- discuss advantages/disadvantages of renting vs. owning
- discuss what to look for when buying a house
- terms of mortgages
- other items to consider when buying

Living Arrangements

Rent

lose money

can't
paint
change appliances

sometimes
cheaper

can move out any
time

landlord fixes
things

Own

equity

can be
rented out

sometimes
more exp.

you have
to fix
everything

<https://www.cibc.com/ca/mortgages/calculator/rent-vs-own.html>

You decided to rent an apartment/house.

What do you have to do to rent?

financial proof of income
criminal record check

What costs do you have?

first and last month's rent
utilities (may be included)
coin laundry

Tenant's Rights

- ✓ Your rental home must be in safe and in good repair
- ✓ You must have access to services such as heat, hot/cold water, electricity
- ✓ You have a right to privacy, through the landlord can enter the home for repairs, to show it to prospective tenants, or in an emergency
- ✓ Your landlord can raise the rent once every 12 months and must give you 90 days written notice

Tenant's Responsibilities

- ✓ You must pay your rent on time
- ✓ You must keep the home reasonably clean
- ✓ You are responsible for repairing any damage you cause to the unit
- ✓ If you sign a lease agreeing to rent the property for a specified period of time, you must honor the lease and give 60 days notice before the end of the lease if you do not intent to renew

2. Identify the expenses from the list below that only someone purchasing property would pay, that only a renter would pay, and that both purchasers and renters may pay. Which are one time expenses and which are ongoing?

Expense	Buy	Rent	Both	One time/Ongoing
down payment	✓			✓
Home inspection	✓			✓
Mortgage payments	✓			✓
Land tax <i>Transfer</i>	✓			✓
Repairs and maintenance	✓	<i>inc.</i>		✓
Insurance			✓	✓
Moving costs			✓	✓
Furnishings			✓	✓
Moving costs				
Property taxes	✓			✓
Painting			✓	✓
Legal fees	✓			✓
Appliances	✓	<i>inc</i>		✓
Utilities	✓	<i>inc?</i>		✓
Renovations	✓			

Which appears more expensive, buying or renting?

Buy → building up equity

4. Making Recommendations about Buying or Renting

Example:

Mario and Julia have a net annual combined income of \$75,000. They have no children. The total of their monthly expenses, not including any expenses related to owning or renting, is \$2,000. They have savings of \$35,000. Make a recommendation about which option they should choose?

Option 1: Buying a 1-bedroom condo

Down payment of \$20,000,
monthly mortgage payments of \$1,700,
monthly condo fees of \$300

Option 2: Renting a 1-bedroom condo

\$1,050 per month,
\$80 per month for utilities

Option 1

1 year

$$\text{mortgage } 1700(12) = 20400$$

$$\text{condo fee } 300(12) = 3600$$

$$\text{expenses } 2000(12) = 24000$$

 48000

⊕ savings is down to \$15,000

Option 2

$$\text{rent } (1050)(12) = 12600$$

$$\text{utilities } (80)(12) = 960$$

$$\text{expenses } 2000(12) = 24000$$

 37560

Suppose that Mario and Julia will have a baby in a few months. When Julia takes maternity leave, their combined net income will drop to \$51,500

- a) How will having a baby affect their housing needs?

Budget is tighter

- b) Will Mario and Julia still be able to afford option 1?

yes

- c) What recommendation would you make to them about housing?

Look into bigger places.

You decided to buy a house.

What should you consider when choosing a house?

location

price

size

age → repair?

town / semi / detached

size of backyard

What costs do you have with a

house?

condominium?

lawyer
mortgage

taxes

utilities

condo
fee

(7.6) Introduction to Mortgages

Match up the terms on the left with their definitions on the right.

- | | | |
|-----------------------------|---|---|
| 1. EQUITY: | K | a) The borrower |
| 2. MORTGAGE: | C | b) When the interest rate stays the same for the term of the mortgage |
| 3. MORTGAGE BROKER: | J | c) A special type of borrowing arrangement between a borrower and a lender |
| 4. MORTGAGOR: | A | d) The cost of borrowing money |
| 5. MORTGAGE PAYMENTS: | G | e) A mortgage for which only the regular specified payments may be made for the agreed term. If you want to make early extra payments, or pay the mortgage off early, a penalty is charged. |
| 6. MORTGAGEE: | F | f) The lender |
| 7. PRINCIPAL: | H | g) Regular installments made toward paying back the principal and interest on a mortgage. |
| 8. INTEREST: | D | h) The mortgage amount initially borrowed, or the portion still owing on the mortgage. |
| 9. COLLATERAL: | M | i) When any or all of the amount borrowed as a mortgage may be repaid at any time. |
| 10. OPEN MORTGAGE: | I | j) A licensed person who, for a fee, brings together a borrower in need of a mortgage and a lender willing to provide one. |
| 11. CLOSED MORTGAGE: | E | k) A financial gain (value of home minus amount still owed on the home). |
| 12. FIXED-RATE MORTGAGE: | B | l) A mortgage for which the rate of interest charged varies as the bank rate changes |
| 13. VARIABLE-RATE MORTGAGE: | L | m) Property used to guarantee the repayment of a debt. |

term - length of the mortgage agreement
- usually 1-5 years, rarely 10 years

amortization - gradual elimination of the loan
- usually 25 years

Mortgage Payments:

Payment Frequency is how often a mortgage payment is made. Types of payment frequency include:

- Monthly
- Semi-Monthly
- Weekly
- Accelerated Weekly
- Bi-weekly
- Accelerated Bi-weekly

Example: Rosa will pay \$585.58 per month for her mortgage payments.

Complete the following chart for each type of payment frequency:

Payment Frequency	Definition	Payment Calculation	Amount of Payment	Total Amount per Year
Monthly	Once a month	M	585.58	7026.96
Semi-monthly	Twice a month	$M \div 2$	292.79	7026.96
Weekly	Once a week	$M \times 12$ (months a year) \div 52 (weeks a year)	135.14	7027.28
Accelerated Weekly	Once a week	$M \div 4$ (weeks a month)	146.40	7612.80
Bi-weekly	Every two weeks	$M \times 12$ (months a year) \div 52 (weeks a year) $\times 2$	270.27	7027.02
Accelerated Bi-Weekly	Every two weeks	$M \div 2$	292.79	7612.54