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Condo Financing 101: Buyer Options

There are many reasons people buy condos. For some, it's a lifestyle decision. When living in a condo you are not directly responsible for the upkeep of the property. No more snow shovelling or grass cutting! You still pay for these services, but the cost is shared among all the condo owners. For others, especially if living in the city is an important factor in your decision about choosing where to live, a high-rise condo is a more affordable way to purchase a home.

Mortgage lenders consider income a major factor in deciding how much mortgage they will approve you for. If, based on your income, you don't qualify for a mortgage big enough to buy a single family home and you don't need all the space you get with a single family home, you might qualify for the mortgage you need to buy a high-rise condo.

One of the things that frequently confuses people who buy new condos is that they usually do not take title to the unit when taking occupancy. The occupancy date — some builders call it an 'interim' closing date — is frequently mistaken for the closing date. The purchaser does not take title to the unit until the condo is registered with the municipality and that usually doesn't happen until at least 90 per cent of the building is occupied. The occupancy period can be as long as a year and, until the condo is registered, you must pay an occupancy fee while living in the unit. Your mortgage lender does not advance funds and you don't have to start paying your mortgage until you take title to your unit.

Another thing that some people are surprised to learn is that the total of the deposits you give to the builder from the time of purchase up to the closing date do not have to equal the down payment you finally make on your purchase. On average, builders will collect 20 to 25 per cent of the price of the condo in deposits on your unit between the time of purchase and the closing date. When your unit is ready to close, you can get a mortgage with as little as zero down. People are often relieved to hear that they can get money back on closing, especially if they find themselves short on funds.

If you opt for a down payment of less than 20 per cent of the purchase price, keep in mind that the mortgage will have to be insured and you will have to pay high ratio mortgage insurance premiums. In Canada, high ratio mortgages must be insured by CMHC, Genworth or AIG. It makes no difference which insurance company your lender uses; the insurance fees are the same with each insurer. The premium is determined by the percentage down payment you make on your purchase and the length of the amortization you choose.

To give you an idea of how much insurance costs, let's say you bought a $300,000 condo with a 10 per cent down payment. On a mortgage of $270,000, the insurance premium would be $5,400 (2 per cent of the mortgage amount on a 25-year amortization). The insurance premiums can be paid up front but most people opt to have them added to the mortgage. PST on the insurance premium must be paid at the time of closing. You can find a complete schedule of premiums on Genworth's website at genworth.ca or contact your lender for more information.

Most builders have a representative from a bank on site that can pre-approve you for a mortgage and offer a guaranteed mortgage rate at the time of making your purchase, which will be held for you up until the closing date. It is possible that your 'rate hold' expires prior to closing if the project is delayed. It's wise to get a rate hold in place at the time of purchasing your unit because it costs nothing to do so. If rates go down before the closing you can negotiate a lower rate. If they go up, at least you are protected. It's a good idea to start shopping around for a mortgage at least three months prior to the final closing to make sure you are getting the best deal.

When you buy a resale condo, the seller must provide you with a status certificate which should contain up to date financial statements for the condo corporation, information about any special assessments, proof of insurance and information about the unit you are purchasing. Your lawyer will have an opportunity to review this information and, if he or she advises that you should not proceed with the purchase, you are not obligated to proceed.

When you purchase a property, whether or not it's a condo, it is advisable to put a financing clause in your offer which states that you have five business days to obtain satisfactory financing. By having this clause in your offer, you will be allowed to walk away if you do not obtain satisfactory mortgage financing. Even though you may have been pre-approved for a mortgage, your financing is not firm until you have purchased a property and your mortgage lender has issued a mortgage commitment for that property. CL