

# How Much Home Can you Afford?

**W**hether you're buying new or resale, there are always a number of financial considerations above and beyond the purchase price of a house that may be hidden, forgotten or simply overlooked, but still need to be taken into account when you're calculating exactly how much home you can afford.

To help make your calculations a little easier, CMHC has developed an easy-to-use Mortgage Calculator, available on our Web site at [www.cmhc.ca](http://www.cmhc.ca). In general, however, there are a few "rules of thumb" you can use to estimate the maximum house price you can afford, the maximum mortgage amount you can afford to borrow, and the monthly mortgage payments that are right for your budget.

The first rule of affordability is that your monthly housing costs shouldn't exceed 32% of your gross monthly household income. This includes your mortgage principal and interest payments, taxes and heating expenses (or P.I.T.H. for short), as well as half of your monthly condominium fees and entire annual site lease amount, if applicable.

Second, your total monthly debt load shouldn't be any higher than 40% of your gross monthly income. This includes your housing costs, as well as such other debts as car payments, personal loans and credit cards.

Of course, even if you're prepared to cover all you P.I.T.H. expenses, there are still a number of other one-time and ongoing costs you should make sure to factor into your calculations.

One potential additional expense is Mortgage Loan Insurance. Many Canadians either do not have, or have made the financial decision not to provide, a down payment of 25% or more. By insuring lenders against default, Mortgage Loan Insurance allows you to buy a home with a high ratio mortgage for as little as 5% down. Your lender or mortgage broker will calculate the applicable Mortgage Loan Insurance premium amount and application fee for you.

Once you own the home, general maintenance and repairs may come along faster – and cost more – than you expect. If you're buying an older home or "fixer-upper", you may want to consider setting up a separate maintenance fund of \$500-\$1000, and then add to it regularly to cover the inevitable costs of repairs or replacement. To find out more about how to maintain your home or plan a successful renovation, contact your local CMHC office or view our Renovation Guide on-line.

Finally, plan to set aside at least 1.5% of the purchase price of the home to cover the closing costs you may incur. These can include legal fees, GST and PST, land transfer

taxes, survey and home inspection fees, water quality and Estoppel certificate fees, appraisal fees, mortgage broker's fees, moving expenses and service hook-up fees.

For a complete list of costs, order your free copy of the CMHC Home buying Step By Step consumer guide and workbook.

Or, for more information about affordability or any other facet of buying, owning or maintaining a home, please call our toll free line at 1-800-668-2642 or visit our Web site at [www.cmhc.ca](http://www.cmhc.ca).

### Income, Home Price and Down Payment Guide

<b>Household Income</b>	<b>5% Down Payment</b>	<b>Maximum home price</b>	<b>10% Down payment</b>	<b>Maximum Home Price</b>	<b>25% Down payment</b>	<b>Maximum home price</b>
\$25,000	\$3,000	\$60,000	\$6,300	\$63,000	\$18,900	\$75,600
\$30,000	\$3,900	\$78,000	\$8,200	\$82,000	\$24,700	\$98,900
\$35,000	\$4,800	\$96,000	\$10,100	\$101,000	\$30,300	\$121,200
\$40,000	\$5,700	\$114,000	\$12,000	\$120,000	\$36,000	\$144,000
\$45,000	\$6,600	\$132,000	\$13,900	\$139,000	\$41,700	\$166,800
\$50,000	\$7,500	\$150,000	\$15,800	\$158,000	\$47,400	\$189,600
60,000	\$9,300	\$186,000	\$19,600	\$196,000	\$58,800	\$235,200
\$70,000	\$11,050	\$221,000	\$23,400	\$234,000	\$70,100	\$280,400
\$80,000	\$12,500	\$250,000	\$27,200	\$272,000	\$81,500	\$326,000
\$90,000	\$12,500	\$250,000	\$31,000	\$310,000	\$92,800	\$371,200
\$100,000	\$12,500	\$250,000	\$34,800	\$348,000	\$104,300	\$417,200

Figures are rounded to the nearest \$100

### Amortization

This is the amount of time over which the entire debt will be repaid. Most mortgages are amortized over 15, 20, 25 year periods. The longer the amortization, the lower your scheduled mortgage payments, but the more interest you pay in the long run.

### Payment comparison over various amortization periods\*

A shorter amortization means savings on interest payments.

*This example is based on a \$100,000 Mortgage at a 6% interest rate.*

<b>Amortization Period</b>	<b>Monthly Payments</b>	<b>Total</b>	<b>Total interest Paid</b>	<b>Interest Savings**</b>
25 years	\$639.81	\$191,943	\$91,910	n/a
20 years	\$712.19	\$170,925	\$70,902	\$21,008
15 years	\$839.89	\$151,180	\$51,161	\$40,749
10 years	\$1,106.51	\$132,781	\$32,769	\$59,141

\*These are rounded numbers for illustrative purposes only

\*\*Assumes a constant interest rate for the entire amortization period.

**Monthly payment per \$1,000 borrowed \***

Interest rate (%)	Cost per \$1,000	Interest rate (%)	Cost per \$1,000	Interest rate (%)	Cost per \$1,000
6	\$6.40	8.5	\$7.95	11	\$9.63
6.5	\$6.70	9	\$8.28	11.5	\$9.98
7	\$7.01	9.5	\$8.62	12	\$10.32
7.5	\$7.32	10	\$8.95	12.5	\$10.68
8	\$7.64	10.5	\$9.29	13	\$11.03

*\*Amortized over 25 years based on 10% payment*

**Example:**

Oliver and Janet can afford \$800 per month for a mortgage payment. If the prevailing mortgage interest rate is 6%, they will qualify for a mortgage of \$125,000 amortized over 25 years. If the prevailing mortgage rate is 13%, they will qualify for a mortgage of \$72,600. The lower the interest rate, the higher the mortgage for which they qualify.

**Payment frequency \***

This example is based on a \$100,000 mortgage, 25-year amortization and a 6% interest rate.

Payment Frequency	Amount	Amortization Years	Total Interest Paid	Savings vs. Monthly Payment
<b>Monthly</b>	\$639.81	25.0	\$91,910	\$0
<b>Bi-Weekly</b>	\$295.30	25.1	\$91,520	\$390
<b>Weekly</b>	\$147.65	25.1	\$91,406	\$504
<b>Bi-Weekly Rapid</b>	\$319.91	21.0	\$74,314	\$17,596
<b>Weekly Rapid</b>	\$159.96	20.9	\$74,113	\$17,797

*\* Assumes constant interest rate throughout amortization period.*

**Houses that rate 77% or more on the EnerGuide Scale qualify for a 10% reduction of CMHC Mortgage Insurance fees and may also qualify for an extended Amortization period.**