

Mortgages By Candice: Clarifying Closing Costs



Ten Main Costs of Closing the Deal on Your New Home

[Mortgages By Candice](#) is dedicated to assisting you with the entire home-buying process...not just your mortgage. Based in the Calgary and Okotoks area, [Candice Light](#) is an Accredited Mortgage Professional (AMP) with several years of experience helping clients prioritize their goals and structure their finances to achieve them. Officially affiliated with River City Financial, which has close working relationships with multiple lenders, Candice is able to negotiate favourable deals that work within a clients needs and expectations. [Contact Candice](#) with your questions about how you can make your mortgage work WITH you...not against!

Many home buyers - particularly first-time home buyers - underestimate the closing costs associated with real estate transactions. While some closing costs can be financed in your mortgage, others must be paid out of pocket. Home buyers need to budget for closing costs carefully, as delays can complicate the completion of the real estate transaction or even jeopardize it entirely.

The exact list of closing costs will vary from contract to contract, but they generally include:

- Property transfer fees
- Appraisal fees
- Site survey or title insurance
- Home inspection fees
- Legal fees
- Homeowners' insurance
- Mortgage insurance
- Property taxes
- Mortgage lender/broker fees
- Additional costs

Understanding each of these costs helps home buyers create accurate, sound [financial plans](#) for completing your real estate deal.

Closing Cost #1: Property Transfer Fees

Alberta is the only province to not officially tax the transfer of real estate, but there are fees that apply to all transactions. These fees are based on the value of the property and the registered value of the mortgage, and are currently set as follows:

- \$1 in fees for every \$5,000 of the purchase price
- \$1 in fees for every \$5,000 of the mortgage value

Thus, if a buyer took out a \$450,000 mortgage on a \$500,000 property, a total of \$190 in fees would apply. Albertans are lucky in this regard — these fees are a small fraction of what home buyers in other provinces must pay in property transfer taxes.



Closing Cost #2: Appraisal Fees

Physical appraisal fees generally apply when a home buyer offers a down payment in excess of 20 per cent, or when they buyer is financed through an alternative mortgage lender. Such transactions require that the property be professionally appraised prior to the completion of the purchase, and while the costs of an appraisal vary, they generally run in the neighbourhood of \$300 to \$500.

While a professional appraisal may seem like an unnecessary cost, they help protect the buyer and are well worth the investment. The appraiser will take a number of important factors into consideration to determine the value of a property, including:

- The condition of the home and the property
- The value of comparable homes in the same neighbourhood
- Any improvements being performed on the property that could raise its value

Having a home appraised prevents buyers from overpaying for a particular property, something that is more likely to occur if the buyer is handling the sale without the guidance of a real estate agent.

Closing Cost #3: Site Survey or Title Insurance

In order to sell a home, the seller or his/her real estate representative must have a valid and current site survey available. However, if the site survey has expired or is deemed invalid for some other reason, the responsibility of having a new one performed falls to the buyer. The cost of a site survey is usually around \$300.

As an alternative to performing a site survey, the buyer can instead opt to purchase title insurance. The benefit of title insurance is that it is generally less expensive than a site survey as it typically costs approximately \$200. However, buyers should be aware that they will have to purchase new title insurance every time they take out a mortgage on a property if a site survey is not available. Thus, the homeowner would have to pay an additional \$200 if they decided to [refinance](#) the property down the line. If there is any possibility of future home refinancing, a site survey is a better idea. Surveys remain valid for a period of 20 years.

Closing Cost #4: Home Inspection Fees

Different than an appraisal, buyers should always have a thorough home inspection done prior to completing the purchase of the property. In some cases, the home inspection is done before the buyer makes a serious offer for the home; in other cases, the buyer will submit an offer to the seller that is "contingent on a home inspection," meaning that the buyer may alter or rescind his/her offer if the inspection turns up troubling or unsatisfactory results.

The home inspection is quite possibly the single most important protective measure a buyer can take, and while it is technically an optional step, it should never be skipped under any circumstances. During the inspection, a professional will:

- Evaluate the home's overall condition, from the foundation to the roof
- Check for evidence of structural damage
- Identify areas where future problems could occur
- Assess the integrity of the home's infrastructure (electrical, plumbing, etc.)



If the inspection uncovers problems in one or more of these areas, the buyer can use the inspector's findings as leverage to negotiate a more favourable sale price. Home inspections usually cost between \$400 and \$700.

Closing Cost #5: Legal Fees

All property transactions should be vetted by a real estate lawyer. Contracts should be carefully reviewed before they are signed, and the expertise of an attorney helps safeguard the buyer's interests. In addition, mortgages need to be registered, and the registration process must go through a real estate lawyer or notary public. This typically costs about \$1,200 to \$1,600.

The cost of getting a lawyer to review a real estate contract varies from attorney to attorney. Some lawyers charge a flat fee for contract reviews, while others bill by the hour. Like the home inspection, this step is technically optional, but also like the home inspection, it is strongly recommended.

Closing Cost #6: Homeowners' Insurance

In order to finalize a mortgage, home buyers must present proof of homeowners' insurance. This type of insurance is required because lenders need to protect their interests in case a fire, natural disaster, accident or some other event damages or destroys the home, either before or after the sale closes. While buyers should budget about \$50 per month for homeowners' insurance, actual rates vary and are dependent on factors including:

- The total amount of coverage provided by the policy
- Home safety and security features
- The home's location and its distance from the nearest fire station
- The age of the home
- The condition of the home
- The type of electrical system in the home
- Whether or not the home has a swimming pool



It is necessary to carefully read and completely understand the terms and conditions associated with a homeowners' insurance policy. Homeowners may be required to report certain changes in their living situations to the insurance company in order to maintain continual coverage. Failure to report such items to the insurance company could result in the invalidation of a claim, if one ever needs to be made. Examples of such changes include the construction of an in-ground swimming pool, the conversion of a home to include rental apartments, certain types of home improvement projects, and the addition of new occupants.

Closing Cost #7: Mortgage Insurance

A mortgage insurance premium is applied by lenders to protect their interests in the event that a buyer defaults on their mortgage payments. These premiums are typically only applied to so-called "high ratio mortgages," which are mortgages in which the buyer made a down payment of less than 20 per cent of the total purchase price.

Mortgage insurance premiums can cost anywhere from 0.5 to 2.75 per cent of the mortgage's value, and they are usually higher when alternative financing methods are used. The amortization period also affects mortgage insurance costs. It is typical for lenders to charge an additional 0.2 per cent for every five years of amortization beyond 35 years. Thus, a 40-year amortization term would be subject to an added charge of 0.2 per cent, and a 45-year amortization term would be subject to an additional 0.4 per cent.

Buyers can pay mortgage insurance premiums up front, or add them to the mortgage. The majority of buyers use the second option and split up payments monthly.

Closing Cost #8: Property Taxes

Municipal property tax rates vary from one municipality to the next, and they are typically calculated as a percentage of the market value, or essentially what a home can be sold for. Note that the home's market value is not necessarily the same number as the purchase price. If a buyer got a great deal by paying \$220,000 on a house deemed to be worth \$300,000, the municipality will calculate the taxes based on the \$300,000 valuation. Also, property taxes will rise as the home's value appreciates.



Property taxes are charged annually, and new homeowners are responsible for paying the taxes covering the portion of the year remaining after taking possession of the house. For example, if a buyer took possession of a home on October 1, that buyer would be responsible for 25 per cent of that year's taxes. If the seller has paid property taxes in full for the year when the transaction takes place, the buyer must reimburse the seller. If the property taxes have not been paid when the transaction takes place, the seller must reimburse the buyer for the percentage of the tax for which he or she is responsible.

Closing Cost #9: Mortgage Lender or Broker Fees

Some [lenders](#) charge mortgage application fees, which can be paid up front or added to the mortgage itself. Also, mortgages purchased through a broker may be subject to additional fees, though the buyer may not be responsible for them. If the buyer is responsible for such fees, the broker must disclose this prior to the completion of the financing arrangement.

Closing Cost #10: Additional Closing Costs

Alberta is the only province in Canada that does not have a provincial tax and so thankfully real estate is only subject to GST, or Canada's General Sales Tax. At 5 per cent for most transactions, GST is 3.5 per cent for homes valued at \$350,000 and under. Other costs and fees that may apply to a real estate transaction include:

- Title searches
- Title insurance
- Title transfer fees
- Recording fees
- Home warranties
- Homeowners' association fees
- Pro-rated interest charges

Keep Closing Simple

- Be very careful about making any extra purchases or taking on additional debt.
- Keep your bills and investments up-to-date.
- Never spend your down payment!
- Keep your gift letter handy.
- Do not unnecessarily close any bank accounts.
- Keep all your documentation handy.
- Let your mortgage planner know if there may be any gaps in your employments or earning (such as for surgery).
- Ensure you have disclosed all of your debt.
- Don't change your closing date and remember to satisfy all conditions at least 10 days before closing.
- Get your home and life insurance policies in place.
- Prepare for closing costs.

Closing cost worksheet

Selling Price		\$ _____	A
Less Costs			
Real Estate Commission assuming _____ %		\$ _____	
GST on Real Estate Commission _____ %		\$ _____	
Legal Fee		\$ _____	
Disbursements on Sale		\$ _____	
Payout 1st Mortgage		\$ _____	
Penalty to Discharge 1st Mortgage if applicable		\$ _____	
Discharge Administration fee		\$ _____	
Payout of 2nd Mortgage		\$ _____	
Penalty to Discharge 2nd Mortgage if applicable		\$ _____	
Discharge Administration fee		\$ _____	
Property Taxes (paid up to date)		\$ _____	
Other Debts to be paid out from Sale		\$ _____	
Total Costs		\$ _____	B
Net Cash Available from Sale (A-B)		\$ _____	
Purchase price of new property			
less deposit made with offer	\$ _____		
Additional downpayment (if any)		\$ _____	
Closing Costs			
Land Transfer Tax		\$ _____	
Legal Fee		\$ _____	
Registration Costs/Disbursements on Purchase		\$ _____	
Title Insurance		\$ _____	
Adjustments/Incidentals		\$ _____	
Mortgage Application Fee/Appraisal Fee		\$ _____	
Insurance Premiums or Lender Fee		\$ _____	
PST on Insurance Premiums (if applicable)		\$ _____	
Lenders Application Fee/Commitment Fee		\$ _____	
Interest Adjustment (lender to confirm)		\$ _____	
Property Tax Holdback (lender to confirm)		\$ _____	
Total Closing Costs		\$ _____	

Your Mortgage Planner will work with you to ensure your mortgage covers all of your costs.

