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Reality Choices

Making decisions in a changing consumer marketplace

A Roof Over Your Head

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You've already made some important financial decisions, and the decision making isn't over yet. The choices you make now may affect your financial situation for many years to come.

While these decisions may seem overwhelming, resolving them is easier if you have solid information before you start. Here are some questions you need to ask and general information about putting a roof over your head, whether it's a house or a rented unit.

Find information for different jurisdictions through the following links:

Canadian Consumer Information Gateway: **ConsumerInformation.ca**

You may also consult your provincial or territorial office of consumer affairs.

Quebec residents may consult the Régie du logement: **www.rdl.gouv.qc.ca**

Renting Your Roof

- *Can I get out of my rental agreement?*
- *I'm going away for four months. What do I need to know about subletting?*
- *What are my landlord's responsibilities for repairs and upkeep?*
- *Can a landlord come into my apartment anytime?*
- *A landlord told my friend he had to move out in three days. Does my friend have to move?*

These are some of the common questions that landlord and tenant offices have received. The legislation varies by jurisdiction, so the answers will depend on where you live.

It's important that you know your rights and responsibilities under the legislation and where you can get more information and help.

Before you rent:

- Decide what you want.
- Find out what the law says.
- Read and understand what the rental agreement says.
- Find out who will be responsible for repairs and maintenance.
- Know who handles disputes between landlords and tenants.

Rental Agreements

A great deal of information is contained in your rental agreement. It is important to know:

- What type of tenancy period is it — yearly or month-to-month?
- Are heat, lighting, cable or laundry facilities included in the rent?
- Are pets allowed; will there be a pet deposit and is it refundable?
- Who is responsible for grounds upkeep?

Be sure you see a copy of the rental agreement before you decide to rent. Read the entire agreement, and make sure you understand its contents before you sign it.

You need to know what the legislation says about your rights and responsibilities as well as those of the landlord.

What are the tenant's responsibilities?

Find out the answers to the following questions:

- Who is responsible for maintenance and repairs?
- Who is responsible for replacing appliances?
- How do you give notice to end the tenancy?
- What happens if your rent is late?
- Can the landlord evict you?
- Are you allowed to sublet or assign your apartment or house?
- What happens if you don't follow the rules in the tenancy agreement?

What are the landlord's responsibilities?

- Does the landlord have to give you notice before entering your unit?
- Is there a limit to the amount or frequency of rent increases?
- What happens if the tenants above you have loud parties that last well into the morning? Can you take any form of action?
- What happens if the landlord believes you have abandoned the rented premises?

Personal Property Insurance

Tenants often don't think about insurance until after a calamity strikes.

Tenant's insurance covers your personal property such as furniture, wardrobe, sports equipment, sound system, musical instruments, camera, computer, etc., as well as your legal liability if you accidentally cause damage to the premises; for example, by fire, explosion or smoke.

How much would it cost you to replace all of your possessions if your rented place went up in smoke? You may find monthly insurance relatively inexpensive when considering what it would cost you to replace all of your possessions.

Unless you purchase a replacement value endorsement, your claim for loss will be settled on the basis of the depreciated value of your property and not on the replacement cost.

For more information and rates, talk with an insurance agent or broker, or visit the Insurance Bureau of Canada's Web site (**www.ibc.ca**).

Living with a Roommate

Sharing an apartment with one or more roommates is an alternative to bearing all the expenses of renting by yourself. Living with a roommate can be a tremendous amount of fun, but also has the potential for trouble. You will need to make sure that you and your roommate establish some rules and keep the lines of communication open.

As tenants, you need to know what your provincial/territorial landlord and tenant legislation says about sharing a rented unit. For example, do both names need to be on the rental agreement for both people to be considered tenants?

For those sharing accommodations, the person who signs the rental agreement is the person responsible for meeting its terms. Whether your roommate's cheque is sent back from the bank, or he or she has a big party at which the sliding doors are broken, if it's your name on the rental agreement, you're the one responsible. Find out if you would still be held responsible if both names are on the agreement, should your roommate refuse or be unable to pay rent.

Sharing expenses

You will need to keep two budgets: a personal budget and a shared household budget. Apart from rent, consider the utilities, telephone, cable TV, food and cleaning supplies.

Figure out how you divide expenses fairly. Do people sharing a room pay the same rent as a person with a private room? If one person owns most of the furniture, should that be taken into consideration when deciding the rent? What about the person who only sleeps at home — does he or she contribute for food and cable TV?

Moving In: What Is the Cost?

Moving expenses

How do you plan to move your possessions from your current living space to your new home? If you plan to rent a truck for the move, calculate the rental fee and cost per kilometre, as well as the cost of gas and insurance.

First month's rent and security deposit

You will have to pay the first month's rent and the security deposit when you move in. The landlord or a rent review officer holds the security deposit, also called a damage deposit, in case of damage to the premises, unusual cleaning required, or non-payment of rent. Find out if there is a maximum amount the landlord can charge for the security deposit, and what the rules are for getting it back when you move out.

In some places the security deposit is referred to as last month's rent but could be used to cover any damages caused by the tenant. Your landlord will likely require both first and last month's rent to be dated on the day you are signing the lease.

Utility Hookups

Having utilities hooked up can be costly. Companies may ask for a deposit if you've never been a customer before or if you or your roommate has missed utility payments in the past. A word of warning: if the utilities and telephone are connected in your name, you are legally responsible for payment. You may decide for convenience that one roommate will be responsible for paying the bills, and the others will pay him or her accordingly. You'll need to talk with

your roommates about how these arrangements will be made and what happens if someone can't pay.

Utility companies often charge an extra fee for discontinuing or reconnecting services if bills aren't paid. You may also be asked for a deposit.

The telephone can be another source of strife. Long-distance calls are often easier to dial than pay for. Agree to review your long distance bill at the end of each month to allocate the expenses.

Staple food items and first week's groceries

Allow money for staple food items such as flour, sugar, condiments and beverages as well as for your first week's groceries. Set aside enough money for groceries between moving in and your next pay cheque.

Other expenses

How much will you spend on kitchen utensils, dinnerware, linens, bedding and furniture?

ITEM		ESTIMATED COST
Moving expenses		
First month's rent		
Utility hookup/deposit	Telephone	
	Power	
	Heating	
	Water	
	Cable	
Staple food items		
Groceries		
Kitchen utensils and dinnerware		
Linens and bedding		
Furniture		
Other costs		
Total moving costs		

Buying Your Roof

- *Can I afford to purchase a home?*
- *Do I have a secure income?*
- *Am I prepared for the long-term commitment of paying off a house?*
- *How do I compare buying with renting?*
- *What are the costs and savings of a shorter or longer amortization period, or a higher or lower interest rate?*

A home is likely the most expensive purchase that you will make in your lifetime. Buying a home is a huge commitment, and you should not make the decision lightly. Do as much research as you can on everything from the neighbourhood you want to live in, to finding the best real estate lawyer, to the mortgage options available.

Check out the Mortgage Savings Calculator and the Rent or Buy Calculator found in the Spending Smarter section of the Consumer Connection Web site (**consumer.ic.gc.ca**) to find out if buying a home is an option for you.

A word about condominiums

If you are considering a condominium, you'll need more information. Find out if there is any condominium legislation in your jurisdiction.

How Much Does a House Cost — Really?

Most people use a mortgage to finance the purchase, and pay for it over a number of years. Are you ready for this commitment? Is your employment stable? What types of changes may occur in your life in the next five years?

You need to determine how much house you can afford. You may find it helpful to check out *Reality Choices —You and Your Money*, for a comprehensive look at your spending and how much you can afford for a mortgage payment and for the down payment. Your financial institution will help you assess your situation.

Home buying involves immediate expenses and long-term changes to monthly spending. Immediate costs include appraisal, home insurance, legal fees and disbursements, utility hookups, and home inspections. The Canada Mortgage and Housing Corporation (CMHC) Web site (**www.cmhc-schl.gc.ca**) has an on-line Consumer Guide and Workbook that includes an excellent list of other expenses to be considered when calculating your home buying costs.

Monthly expenses will also change with new or increased spending on utilities, repairs, appliances, homeowner's insurance, tools and decorating. All will have to be included in your new spending plan.

The Down Payment

You'll be expected to have money available for a down payment when you ask your lender for a mortgage. The CMHC says down payments generally range from 5 to 25 percent of the purchase price.

The larger the down payment, the smaller the mortgage, and the less interest you will pay in the long run. Also, the amount of down payment will determine if you have to buy mortgage insurance. Mortgage insurance protects the lender if you don't make your payments. It doesn't protect you, the buyer. You pay the premium.

Mortgage Talk

When you know how large a mortgage you can afford, you're ready to decide the conditions of the mortgage:

- the length of the amortization period;
- the term, or length, of the actual loan;
- the method of repayment;
- the frequency of your payments;
- the type of interest rate: fixed or variable; and
- the type of mortgage: conventional or high-ratio, open or closed.

Amortization period

Amortizing a mortgage means paying the debt off over a specific period of time. You make regular installments to repay the principal (the amount that you borrowed) and pay for the interest. Mortgages are usually amortized for between 5 and 25 years. The following example shows how much more you will pay by taking a longer amortization period.

Mortgage: $60 000
Interest Rate: 4.9 percent

AMORTIZATION PERIOD (YEARS)	MONTHLY PAYMENT	TOTAL COST (ASSUMES THE INTEREST RATE REMAINS THE SAME)
10	$633.46	$76 015.20
15	$471.36	$84 844.80
18	$418.59	$90 415.44
20	$392.60	$94 240.80
25	$347.27	$104 181.00

Term

Term is the length of time for which the loan is issued. The term is usually much shorter than the amortization period, which states the time within which the entire mortgage is to be repaid.

The term is important, because your interest rate may be fixed according to the term. (See *Type of interest rate*, page 6.) Suppose you get a $60 000 mortgage amortized over 20 years at 4.9 percent for a five-year term. The balance of the mortgage is due at the end of five years. Unless you can pay off your mortgage at the end of five years, you must renew and renegotiate your mortgage.

The interest rate when you renew may be higher or lower than the previous rate. If the interest rate is higher, your monthly payment increases. If you want the monthly payment to remain the same, you may want to lengthen the amortization period (but this will cost more money in the long run). If the interest rate is lower when you renew, your monthly payment is lower. You may want to have the same monthly payment and shorten the amortization period, which saves you money over the life of the mortgage.

Deciding on a term depends partly on whether you think the interest rate will go up or down. When the interest rate is low, many consumers lock in the rate for long terms. When the rate is high, or fluctuating greatly, many consumers choose shorter terms. You may want to get advice from several sources.

Method of repayment

There are different ways to repay your mortgage. The most common way is to "blend" the payment of principal and interest. Each month, the amount of your payment that goes to interest decreases slightly, and the amount that goes to principal increases slightly. In the early years of the amortization period, most of your payment pays interest on your loan. Toward the end of the amortization period, most of your payment pays principal.

Frequency of payments

If you negotiate a mortgage with weekly payments, you make a few extra payments per year. However, you pay less interest.

For example, let's say that your monthly payment is $600. In one year, you pay $7200 ($600 x 12).

By making weekly payments, you pay $150 each week ($600 divided by four). In one year, you pay $7800 ($150 x 52). Interest is calculated on the principal of the mortgage, so having a smaller principal means that you pay less interest.

Type of interest rate

The interest rate may be *fixed* or *variable*. A fixed interest rate remains the same throughout the term of the mortgage. A variable interest rate floats (varies) during the term of the mortgage. If the interest rate increases, then more of your payment goes toward the interest. If the interest rate decreases, then more of your payment goes toward the principal.

Type of mortgage

You can get a *conventional mortgage* or a *high-ratio mortgage*.

With a conventional mortgage, you usually can't borrow more than 75 percent of the appraised value of the property. This means that you have to make a down payment of 25 percent or more of the property value. Some financial institutions require a down payment of more than 25 percent of the property value.

With a high-ratio mortgage, you borrow more than 75 percent of the value of the property and you will have to buy mortgage insurance to protect the lender.

You can also get an *open mortgage* or a *closed mortgage*.

With an open mortgage, you can make additional payments on the principal or pay off the mortgage completely without notice or penalty. Different types of open mortgages are available, so check with your financial institution.

With a closed mortgage, you cannot make extra payments. Rates are usually lower for closed mortgages.

You can negotiate to make additional payments, such as weekly payments, before you sign your mortgage.

Pay down the mortgage

Because you pay so much interest at the beginning of the amortization period, you can see how important it is to pay down the mortgage (reduce the principal) as soon as possible. You can save a lot of money by choosing a mortgage that lets you make extra payments on the principal.

Mortgage life insurance

If you want to ensure that your mortgage will be paid in full if you die, you may want to buy mortgage life insurance. Check with your lender and insurance company for the rates and coverage.

Mortgage Prepayment Penalties

When you take out a five-year mortgage, the last thing you think about is paying it out before the five years are up. Very often that is exactly what happens. Not because you suddenly become independently wealthy by winning the lottery, but because you move. Our society is much more mobile than generations past.

If a consumer breaches their end of the deal by paying out the mortgage early or by paying down the principal faster than agreed the financial institution will lose money and will want to be paid the lost amount. Each financial institution will have certain allowable early payment provisions in their mortgage contract. If the consumer wants to pay more than is permitted it creates what is referred to as a prepayment penalty.

Remember to think about payout penalties when you negotiate the terms of your mortgage.

Making an Offer to Purchase

Once you have found a house that you want to purchase, there are several things you should do. It is always a good idea to inspect the house thoroughly. Check the plumbing, the roof, the foundation, etc. You may wish to hire a professional inspector to ensure that you don't run into costly surprises.

It is critical that you hire a real estate lawyer to help you interpret legal documents and avoid potential problems.

When you make an offer to purchase a home, be sure to include all pertinent details, such as the following:

- the name of the buyer and the seller;
- a legal description of the property;
- the amount of the offer;
- a list of any extras to be included in the purchase price, such as appliances or window dressing;
- any conditions that must be met before the offer is finalized;
- the date and time that the offer will expire;
- the closing date, including the deadline for signing legal documents and transferring the title; and
- the condition of the home upon transfer of ownership (cleanliness, filled oil or propane tanks, etc.).

You may want to discuss the offer to purchase with a realtor or lawyer before going ahead.

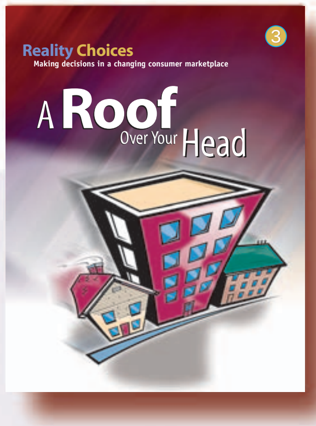
Additional Information

If you need more information, most financial institutions can provide you with comprehensive information in print and on-line.

The Canada Mortgage and Housing Corporation's Web site (**www.cmhc-schl.gc.ca**) has a section on buying a house.

For a listing of licensed real estate agents in your jurisdiction, consult your provincial or territorial office of consumer affairs.

Aussi offert en français sous le titre *Se loger*.



CONSUMER PROTECTION is an important goal for federal, provincial and territorial governments in Canada. In the spirit of cooperation, and to improve efficiency on the consumer front, the Consumer Measures Committee (CMC) was created under Chapter Eight of the *Agreement on Internal Trade*. This agreement is designed to provide a framework for federal, provincial and territorial governments working together in the area of trade within Canada. The CMC, which has a representative from the federal government and every province and territory, provides a forum for national cooperation to improve the marketplace for Canadian consumers by harmonizing laws and providing information. Consumer information targeted to young Canadians between the ages of 18 and 30 is important as these consumers are faced with first-time choices in a complex and changing marketplace.

GOVERNMENTS INVOLVED IN THIS PROJECT INCLUDE:

Canada
Ontario
Québec
Nova Scotia
New Brunswick / Nouveau Brunswick
Manitoba
British Columbia
Prince Edward Island
Saskatchewan
Alberta — Government of Alberta
Government of Newfoundland and Labrador
Yukon Government
Northwest Territories
Nunavut