



# THE FIRST TIME HOMEBUYER'S GUIDE



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# THE PROCESS

Purchasing a property is one of the most significant transactions one will make in their lifetime. The significance and impact that it can have are meaningful; often times, it's a place to call home or to raise a family, but it can also be a long-term investment or a smart retirement plan.

The first-time homebuyer's guide is intended to give you a brief, but informative overview of the process of purchasing a property, so that you are better prepared when the time comes to make your first transaction. Since real estate deals usually involve timelines and large sums of money, the more prepared you are to handle these tasks, the more comfortable you'll be.

## WHAT ARE THE STEPS TO BUYING YOUR FIRST PROPERTY?

**Let's get right to it. Here's a breakdown of what to expect:**

1. **Financial ability**—See what you can afford.
2. **Work with an agent you trust**—For those who aren't real-estate professionals or unfamiliar with the process of purchasing property, this is the best option. A buyer won't pay the commission and having a professional narrow down choice, streamline the process and negotiate in your best interests is key to a smooth closing.
3. **Property search**—Find a property that meets your financial ability and your personal needs.
4. **Offer**—Put in an Agreement of Purchase and Sale and negotiate the terms of the deal.
5. **Meet conditions**—If your contract is conditional on certain elements, you'll need to work to get them satisfied to waive and fulfill the conditions stipulated in the contract and have a firm and binding deal.
6. **Finalize financing**—With a firm deal, your lender can finalize the paperwork to be ready for closing.
7. **Meet with your lawyer**—This step is crucial to review documents for closing and bring the remaining deposit and funds to close your deal.
8. **Close the transaction and pick up your keys!**

Now that you have a basic roadmap of how to get to your final destination of property ownership, let's take a closer look at the important aspects.

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# FINANCING

THE FIRST AND MOST IMPORTANT STEP TO BUYING A PROPERTY IS FIGURING OUT HOW TO AFFORD ONE. WHILE SOME PEOPLE MAY HAVE THE CASH AT HAND TO PURCHASE WITHOUT THE ASSISTANCE OF A LOAN, MOST WILL RELY ON A MORTGAGE TO HAVE THE MONEY AVAILABLE FOR PURCHASE.

**So, What's a Mortgage?** A mortgage (or a “charge,” as it's legally referred to) is a loan that is secured against title to a property. Once it's registered against title to property, if there is a default in payments or obligations, the lender has very specific rights to enforce its loan. These rights are governed by law under the Mortgages Act and stipulate the procedures a lender can take to collect. Essentially, the right to take possession of the property and sell it under a power of sale, is guaranteed. In this way, a secured mortgage or charge differs from a simple loan, which is not secured.

It's important to work with a mortgage professional who can help figure this out with you. Because of the special nature of mortgage loans, they are regulated. You'll need to be upfront about your income, your assets and your debts in order to complete an application. Once this information is given, you'll be able to see what kind of mortgage you qualify for.

## **Conventional Mortgage**

The most common type of mortgage is the institutional mortgage. This type of loan comes from a bank or a financial institution, which must follow government rules on lending. Institutional lenders are regulated, so that they don't incur too many risks and because of this, their rates are usually lower than other private options.

Each lender has a variety of different conventional mortgage options—from fixed payments and fixed interest rates to secured lines of credits with floating interest rates, or even a combination of the two. There are also different tiers of conventional/institutional lenders. From the big banks with storefront locations to credit unions and lenders who strictly deal in mortgages, a mortgage broker will have a variety of options to shop from.

## **Private Mortgage**

A private mortgage is a loan, which is received by a non-institutional lender that is also registered against title to a property. A non-institutional lender can either be a person, people, or a company who decides to loan money and register the loan on title to the property.

Since “private” lenders are not banking or financial institutions, they are not as highly regulated as conventional institutional lenders and therefore generally take higher risks in lending. For this reason, their rates and fees are often higher and the legal process involved is also different.



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For private mortgages above \$50,000.00, two lawyers are required. It's most common for the borrower to be responsible for the lender's legal fees in this transaction as well. This becomes relevant when calculating how much you can afford.

### **Closing Costs**

Closing costs for the purchase of your property generally include legal fees, adjustments, and taxes. Adjustments refer to adjustments to the purchase price. We'll talk about them a little later, but they include prepaid property-related costs or in the case of newly built homes, a variety of additional costs, which are found in the Agreement of Purchase and Sale.

Land transfer tax is a cost that must be added to the purchase of a property. If you are purchasing in the City of Toronto, for instance, you'll be subject to the Municipal Land Transfer Tax (Toronto) as well as the Provincial Land Transfer Tax (Ontario). These taxes increase as the value of the property increases, so it's important to ensure they are being calculated correctly. For First Time Home Buyers, however, there will be a rebate. For Provincial Land Transfer Tax (Ontario), the rebate is for a maximum of \$4000.00. For Municipal Land Transfer Tax, the rebate is for a maximum of \$4475.00. It's important to note that having been a homeowner to any property in the world disqualifies you from being a First-Time Home Buyer. Also note, that spousal ownership of property may also disqualify you from the rebate, so it's important to talk to your lawyer first if you have questions on eligibility.

### **Statement of Adjustments**

The Statement of Adjustments is a document that will form part of your transaction. This document shows the "adjustments" to the purchase price and how much your lawyer will need to pay the seller in order to close the deal. It shows the price you agreed to purchase the property, a credit for the deposit given with the offer as well as compensation to either the buyer or the seller for items relating to the property or to the Agreement of Purchase and Sale.

Residential resale transactions include an adjustment for property taxes and for condominium units, they also include an adjustment for maintenance fees. This aims to compensate a vendor for any overpayment in property taxes (taxes that are due after the sale date) or to the purchaser for taxes due and not yet paid. A buyer is responsible for property taxes and maintenance fees from the day of closing forward, so this statement uses a prorated calculation to ensure the appropriate side is credited.

### **The Down Payment**

Once you've qualified for a mortgage, you'll know just how much of a down payment will be required to close the deal. While you will likely have to put down a deposit with the offer, that deposit may sometimes represent only a portion of the down payment which is required for the purchase altogether. Your lawyer will take into account any deposit made with the offer, and you'll be required to bring in any remaining down payment needed, together with an amount for closing costs, before your closing date.

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IN THE PURCHASE OF A NOT-YET-CONSTRUCTED OR A NEW CONSTRUCTION HOME, ADJUSTMENTS BECOME MUCH MORE NUMEROUS AND OFTEN UNKNOWN UNTIL CLOSE TO THE CLOSING DATE IT'S IMPORTANT WITH THESE CONTRACTS TO HAVE THEM FULLY REVIEWED BY A LAWYER AND TO BE WELL PREPARED TO ABSORB ADDITIONAL FEES TO THE PURCHASE PRICE ON YOUR CLOSING DATE.

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# THE AGREEMENT OF PURCHASE AND SALE

**The Agreement of Purchase and Sale is the crux of any property purchase.** This agreement lists what you'll be buying, how much you'll be buying for, the deposit you'll give to the seller to show your good faith and intention to complete the transaction, timelines for closing and any conditions that must be met before the transaction is done. It's important to ensure the agreement fully represents what you are intending to purchase. Once firm and binding, it can be difficult to change the terms of the agreement.

## **The Property**

An Agreement of Purchase and Sale identifies the property which is being purchased. It's important that the property is identified correctly and that any parking or locker units are included for the purchase of condominium purchase as well. If the property is subject to any changes or improvements, these should be very clearly spelled out in the contract.

A buyer must do all the investigations to a property's condition before entering into a firm contract. In real estate transactions, all matters must be conveyed in writing and the principle of caveat emptor applies. This principle means "buyer beware," meaning a buyer must satisfy themselves regarding the quality and suitability of the property, before agreeing to buy it. A purchaser is entitled to the property in the state it was in at the time the Agreement of Purchase and Sale was signed. For this reason, an inspection of the property by a qualified inspector is always recommended as many issues regarding the condition of the property are not visible by the average person.

## **The Closing Date**

The closing date in the Agreement of Purchase and Sale is the date both parties must fulfill their end of the deal. For a buyer, this means having all the money available and sent to the seller, together with signed legal documents. For a seller, this means giving the property in the state it was promised on that day. If either side can't fulfill their obligations by the time and date stipulated in the contract, there is a breach of contract. A breach of contract usually means extra costs for all parties or sometimes, as serious as a loss of deposits and potential court action against them.

## **The Deposit**

A deposit given to the vendor is given as security to the Agreement of Purchase and Sale. Its purpose is to provide the seller with security that the offer will be completed by the purchaser in accordance with the offer. If the purchaser cannot close the deal as agreed upon, then the deposit is generally forfeited.

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A deposit with an Agreement of Purchase and Sale is often confused with the deposit needed under a mortgage approval. While a mortgage may demand a certain amount of the purchase price is paid for by the purchaser (such as 5% or more), the deposit on an Agreement of Purchase and Sale doesn't always reflect that same amount. That deposit does, however, contribute to the money required by the purchaser as down payment to the purchase. These amounts are all reviewed with you and your lawyer prior to the transaction closing.

The bigger the deposit, the more risk of loss the purchaser has if they are unable to close. A seller will usually want the highest deposit possible, as the higher the deposit is, the more security they have that the deal will close. If it can't close, the seller is able to cash in a larger amount to absorb any losses.

### **Conditions**

An Agreement of Purchase and Sale is often entered into based on conditions. The most common conditions are those related to financing, inspection or review of a Status Certificate (for condominium purchases). Once conditions are fulfilled or waived, the Agreement of Purchase and Sale becomes firm and binding, which means if one side can't close the deal on closing day, they are held responsible for breach of contract.

A financing condition ensures that the deal is not binding until suitable financing options have been obtained by the purchaser. This is very important to determine the financial ability to close the deal and to minimize risk of losing a deposit or getting sued later on. When the market conditions allow, this step is always recommended.

An inspection condition ensures that the contract is not binding until an inspection of the property has been undertaken and the purchaser can become familiar with any deficiencies with the property. After all, the ruling principle in real estate is caveat emptor—buyer beware! It's important to satisfy yourself that the property doesn't have significant issues that may affect the price. Once complete, an inspection report can assist in justifying or negotiating a price change.

When you purchase a condominium unit, you are buying title to a unit as well as a percentage of ownership in a corporation that owns all the shared facilities and property. A Status Certificate is a document you'll want to review with your lawyer to ensure the corporation is being run well and does not create a financial risk to you down the line. Having a condition for this review in a condominium purchase is likely.

We've only touched on some of the most common conditions, but you can be as creative and specific as you desire when it comes to the Agreement of Purchase and Sale. Each property is different and each person and their needs are different. Working with an agent and lawyer who can help navigate this for you is critical of a smooth real estate transaction.



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# CHECKLIST TO PREPARE YOU FOR CLOSING

 FINALIZE MORTGAGE

 GET HOME INSURANCE

 CALL UTILITY COMPANIES

 MAKE MOVING ARRANGEMENTS

 BOOK ELEVATOR IF NEEDED

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# THE CLOSING PROCESS

1. Lawyer receives your Agreement of Purchase and Sale and completes the title search and other legal processes.
2. Lawyer receives the mortgage documents, reviews and prepares legal documents
3. Lawyer reviews and compiles financials, which include adjustments, land transfer tax and other taxes, legal fees and mortgage advance
4. Meet with lawyer to review your documents and sign
5. On the day of closing, funds and documents are advanced to the seller, the seller sends keys and documents, once both lawyers are satisfied with each other's packages, the land registry is amended to complete the transfer of title. Deal closed!
6. Purchaser may retrieve keys to the property!



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# ONGOING PROPERTY MATTERS

Being a property owner comes with benefits, but also with obligations.

You'll need to make sure your property taxes are kept up-to-date, maintenance fees paid on condo properties and the ongoing maintenance of the property is kept up to standards.

If you're a condominium owner, each year, your condominium will have an annual general meeting.

It's important to go to those to know what's happening with the property and what changes may come in the future.

# GETTING STARTED

While these tasks may seem daunting at first, owning can be very rewarding. If you're on your way to homeownership, congratulations on moving towards your goal.

We hope this has been a helpful first step towards a final closing and look forward to working with you to close your deal.

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