Can this woman with a modest income afford to buy a home?

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Though her income is modest, Penelope dreams of one day owning a home of her own. She is 41, single and living in small-town British Columbia, where a studio apartment or tiny house would cost about $175,000.

She is a prodigious saver, tucking away 36 per cent of her net income. She earns $45,000 a year before tax working at a non-profit organization and doing some freelancing.

"I have no assets other than $11,000 in my tax-free savings account, $12,000 in my registered retirement savings plan (I started late) and a $1,000 emergency fund," Penelope writes in an e-mail. Because she has no work pension, she is also tasked with providing for herself after she is no longer willing or able to work.

"I live frugally and carry no debt," she adds. "I try to put between $600 and $1,000 a month into my TFSA and RRSP. I like my job and though I'd like to earn more, I don't anticipate a change of profession any time soon. But with my current income, will I ever be able to retire? And is home ownership completely out of the question?"

We asked Renée Verret, a Toronto-based financial planner at Money Coaches Canada, to look at Penelope's situation.

What the expert says
Years of living frugally to pay back student loans have accustomed Penelope to "super saving," Ms. Verret says. She recommends Penelope continue to save for another three years before buying a home even though it might mean she has to work longer before retiring. She can use the federal government's Home Buyers' Plan to borrow the down payment from her RRSP and draw funds from her TFSA for closing costs.

The Home Buyers' Plan allows borrowers to repay the loan over 15 years. Payments in Penelope's case would be about $585 a year. Otherwise, it will be added to taxable income.

As a first-time home buyer, she will be exempt from paying land transfer tax in B.C. because her home's purchase price will be below the $475,000 limit, the planner says. Penelope's current income will support an accelerated biweekly mortgage payment estimated at $417 based on a 3.25-per-cent interest rate, a five-year term and a 25-year amortization. The accelerated payments will cut the amortization to 22.2 years, or Penelope's age 67, if she buys by 2018. The mortgage payment includes Canada Mortgage and Housing Corp. insurance on the high-ratio loan.

“If Penelope buys in three years, she will likely still have a mortgage through to age 66 or 67,” Ms. Verret says. “So working to age 67 is recommended to cover her mortgage for those one or two years to prevent her from reducing her retirement savings at the beginning of her retirement.”

Buying the home will “significantly reduce” Penelope’s savings, the planner notes. Over the course of her career, Penelope expects her income will rise, perhaps topping out at $60,000 a year, the planner notes. At her current salary, even after buying, she could save $1,800 a year to her TFSA. When she gets a raise, she should direct it to savings. The planner assumes no further RRSP contributions for the time being.

“At a later date, perhaps at a higher level of income, Penelope can always elect to move some of her TFSA funds into her RRSP,” Ms. Verret says.

Penelope’s target retirement income is $25,000 a year after tax. Her current lifestyle, without the savings component, would cost her $23,000 net in today’s dollars.