Saturday » June 9 » 2007

# Don't jump for super-size mortgage

## Just because you qualify, don't go overboard for that dream home

**Wendy Mclellan**
The Province

*Monday, June 04, 2007*

If anything unites Lower Mainlanders -- other than a passion for takeout coffee and sunny weekends -- it's real estate. We bond over the increasing price of housing, the lineups to buy condos not even built yet, the cost of renovating a newly purchased half-million-dollar handyman's special, the heady gains on our property-tax assessment notices.

CREDIT: Gerry Kahrmann, The Province

The DeBoers needed a bigger home but refused to sacrifice their lifestyle for it.

If you're not already in the market, chances are you're anxious to buy. But before you start scanning the weekend open-house listing, you might want to consider how much house you can really afford.

"You might technically qualify for a certain mortgage payment, but the lender's calculations won't take your personal budget and lifestyle into account," said Paula Siemens, a mortgage broker with Invis in Vancouver.

"You have to look at all your expenses, then figure out how much you're comfortable paying in housing costs."

CREDIT: Gerry Kahrmann - The Province

Financial planner James DeBoer and his wife Claire are new homeowners. Their daughter plays on her slide in the backyard.

Mortgage lenders use standard calculations, debt-service ratios, to determine how much borrowers can afford to pay. Under these ratios, housing costs -- principal, interest, property taxes and maintenance -- cannot exceed 32 per cent of gross income and total debt can't exceed 40 per cent. For people with strong credit records and low debt, lenders may consider a 44-per-cent total debt ratio rather than using two separate calculations.

The ratios often suggest you can afford a whopping mortgage payment and buy the house of your dreams, but house-hunters need to take a harder look at their financial picture, Siemens said.

"Anything that is not a loan payment isn't factored into those ratios. Gym memberships, life-insurance premiums, RRSP deductions -- all of these should be considered to figure out what you can afford.

"It's not how much you qualify for, but how much you are comfortable paying."

For James DeBoer, the toughest part of his job is talking to clients about the financial reality of the dream house.

"It's really hard to coach people who are determined to get into a particular home and they're willing to take risks," said DeBoer, a certified financial planner with Investors Group in Surrey.

"They are ready to scrape together anything to live in a beautiful home they can't really afford, and it's hard to bring their expectations down."

DeBoer works with his clients to calculate their monthly income and how much their current lifestyle costs. From there, clients can see how much disposable income they have, and how much they are willing to pay for a mortgage.

With a second child on the way, DeBoer and his wife decided it was time to move out of their Surrey townhouse and look for a larger home in their neighbourhood.

"I did a lot of research, and we found a house that fit our budget and I didn't have to make any compromises," he said. "We just weren't willing to give up vacations and retirement savings to get into a house.

"Maybe you can qualify for a high mortgage payment, but what are the sacrifices you will have to make?"

Vancouver money coach Sheila Walkington suggests people practise being homeowners before deciding they can afford to get into the housing market. For example, if they think they can pay $2,000 a month in mortgage and housing expenses, save that amount, less rent costs, for a few months. They should also plan to put aside about $200 a month to deal with inevitable home-maintenance costs.

"It's always good to practise for a few months beforehand, so it's not such a shock when you do start paying a big mortgage payment -- and the more time you have to practise, the better," said Walkington, a certified financial planner and owner of Money Really

Matters.

wmclellan@png.canwest.com



CLOSE WINDOW