

8 common mistakes most first time homebuyers make and how to avoid them

Applying for a mortgage and becoming a home buyer can seem overwhelming especially if it's your first time.

With the help of one of our expert and dedicated Mortgage Specialists, it can be easy. They'll meet with you anytime to guide you through the process and help you find the best mortgage for your specific needs.

We've put together a blueprint of the most common pitfalls and how to deal with them, so that you can feel confident and prepared to take the first steps towards homeownership!

Here are some of the pitfalls our mortgage specialists can help you avoid.

1 Not knowing your credit rating.

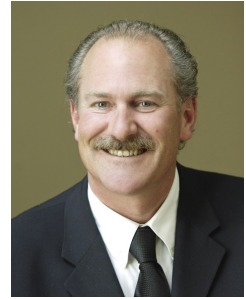
A credit rating is a record of your credit history and current financial situation which is typically translated into a credit rating score. Lenders can use your credit rating to verify your repayment history. A good credit rating could improve your ability to get loans like mortgages. If your credit rating

needs improvement to help you qualify for loans, you can improve your score by always making at least the minimum payments on your credit cards, loans or utility bills in a timely fashion.

Checking your history is easy! Simply ask for a copy of your credit rating at either www.equifax.ca or www.tuc.ca. A small fee will apply.

2 Being unrealistic about how much you can afford to pay for your home.

You may be under or over-estimating how much you can afford to pay for your home. Our online mortgage calculators make it easy for you – all you need to do is to log in to www.rbcroyalbank.com/mortgages and click on the “How much can you afford” calculator in the tools section. Enter your income and expense information and the calculator will tell you the maximum mortgage payment amount you can afford each month. Or you can



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always click on the mortgage calculator to quickly figure out monthly payments for different mortgage amounts and rates. You may find out you can comfortably afford more than you originally thought; or for a more personal touch, contact one of our RBC Mortgage Specialist. They can quickly help you determine how much you can afford and answer any questions you might have.

3 Not considering a mortgage pre-approval.

Knowing the amount you will be approved for gives you the confidence to begin looking at homes within your price range. As long as you earn sufficient income and have no major credit issues or large debt, you should be pre-approved for a mortgage. At RBC®, your pre-approved mortgage rate will be guaranteed for **90 days (or lower if rates drop) so you can continue shopping around and don't have to commit to anything right away.

4 Assuming you will not qualify for a mortgage.

Have you ever been declined for a mortgage for any reason, even bankruptcy, and still dream of owning your own home? If you don't qualify for a mortgage with RBC your RBC mortgage specialist may still be able to help you get the home of your dreams by finding an alternative mortgage solution. Although an alternative mortgage may cost a little more initially, once your credit situation has improved we may be able to help you lower your mortgage cost in the future.

5 Not knowing all the downpayment choices.

You'll be glad to know that there are different options available depending on how much of a down-payment you can afford:

- conventional mortgage (25% down-payment)
- high-ratio mortgage (minimum 5% down)
- no down-payment mortgage (must have minimum 1.5% value of the home set aside for closing costs)

As high-ratio and no down-payment mortgages have lower down-payments, they require a higher mortgage loan insurance premium. The premium is added to the amount you borrow. As a first time home-buyer, you can also use money saved in your RSP towards a down-payment with a maximum of \$20,000 per person.

Based on a \$150,000 purchase price, the following chart shows different down-payment options.

Type of Mortgage	% Down Payment	Amount of Down Payment
Conventional	25%	\$37,500
High Ratio	5%	\$7,500
No down payment	0%	\$0 (\$2,250 must be available for closing costs)

6 Too focused on interest rate rather than the overall solution.

Your mortgage specialist is there to help you decide which mortgage solution works best for you and fits not only your budget but within your future plans.

- fixed rate mortgage: offers you the security of locking in your interest rate for the length of your mortgage term (anywhere from 6 months to 10 years). The interest rate for a fixed mortgage tends to be somewhat higher than for a variable rate mortgage.
- variable rate mortgage: your interest rate will fluctuate according to the changes in the lender's prime rate. However, over time, you could have greater savings on long-term interest costs. Worried about not knowing how much you'll pay regularly? At RBC, your regular payment remains the same on a variable rate mortgage*, only the portion of the payment allocated to principal and interest will fluctuate with RBC prime rate†.
- combination (fixed/variable): If you want to benefit from the best of both worlds (the security of a fixed rate and the potential long term savings of a variable rate mortgage) you should consider the RBC Homeline Plan™. Keep in mind you need to have 25% equity in your home in order to take advantage of this option.

7 Not choosing your own mortgage payments schedule.

Customize your amortization period depending on how much you can afford. Paying off your mortgage faster saves on interest costs, while a longer amortization period (such as the RBC 35 year option) reduces your regular payment amount and gives you more room to manage your cash flow. Because extended amortization means increased interest costs and

paying down a mortgage more slowly, this option isn't for everyone. A 25 year amortization period should be the starting point as stretching the amortization to 35 years can increase your total interest costs by 50% over the life of the mortgage. If you decide a longer amortization is appropriate, consider a strategy to reduce amortization over the life of the mortgage. RBC's money-saving options, such as Double Up[®], accelerated payment, 10% anniversary payment and annual 10% increase in payment amount, can get you back on track to a 25 year – or even shorter – amortization period.

Regardless of the mortgage option you choose, buying and owning a home is likely to be one of the biggest financial investments of your life. Creditor insurance can help protect that investment from life's uncertainties and help give you the confidence that comes with knowing your investment is well-protected.

HomeProtector[®] life and disability insurance can pay your outstanding mortgage balance up to \$500,000 in the event of your death, or can make your regular mortgage payment - up to \$3,000 per month for up to 24 months - if you become disabled.**

See www.rbcroyalbank.com/products/mortgages/home_protector_insurance.html for details of coverage.

8 Forgetting about closing costs and other non-banking details.

By this time, you've selected a house, picked your mortgage options and are getting ready to finalize everything and make an offer. This means getting down to some picky details. It helps to know what these are so you can minimize any last minute complications. Here are some things to consider and budget for:

- **Professional home inspection:** Always make an offer conditional upon a home inspection. As long as your offer is conditional upon the home inspection, you can have the purchase price reduced to offset the cost of needed repairs or cancel the agreement. You should also inspect the home before moving in to make sure the condition has not changed. A newly built home is usually covered by a builder warranty program.
- **Lawyer or Notary fees:** Make sure you work with an experienced lawyer/notary so that all legal aspects of your house purchase are properly completed.

- **Property taxes:** Look for the previous year's payments in the property listing given to you by your real estate agent. Although property taxes fluctuate, you'll have a general idea of how much you should expect to pay.
- **Property Insurance:** Your home is probably the biggest investment you will ever make in your lifetime. Property insurance is all about protecting the things you value: your home, your personal belongings and even your financial future. When choosing an insurance company make sure they offer a range of choices allowing you to personalize your insurance to suit your needs.
- **Property value:** Know that when buying a home, there is a possibility that the property value will fluctuate. Typically over time property values increase and buying a home is generally considered to be a good investment.
- **Moving costs:** Budget for a professional mover, decorating costs and fees for setting up your cable and telephone and other utilities.
- **Ongoing costs:** Don't forget to budget for the cost of maintaining a home, such as heating, electricity, water, repairs and taxes. A good suggestion is to budget at least 1% of the home's value for yearly maintenance expenses.

Owning your own home is a milestone as well as an exciting experience! How often do you get to live in and enjoy your investments? Your mortgage specialist is always available to guide you through the process.

Details	25-Year	30-Year	35-Year
Mortgage principal	\$150,000.00	\$150,000.00	\$150,000.00
Default insurance premium @ 90%LTV	\$3,000.00	\$3,300	\$3,600.00
Total mortgage principal	\$153,000.00	\$153,300.00	\$153,600.00
Monthly mortgage payment (principal and interest)	\$978.91	\$911.87	\$868.23
Monthly payment reduction from 25-year amortization		\$67.04	\$110.68
Interests costs for full amortization (assuming a 6.00% interest rate)	\$140,673.00	\$174,964.08	\$211,056.60
Additional interest cost of extending amortization from 25 years		\$34,291.08	\$70,383.60

You can also learn more about mortgages online at
www.rbcroyalbank.com/products/mortgages/first_time_home_buyers

For more information regarding Creditor Insurance visit your local RBC Royal Bank branch or contact the Insurance Service Centre at 1-800-ROYAL 2-3 (1-800-769-2523).



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* If interest rates increase sharply and your interest costs exceed your regular mortgage payment amount, then your regular payment amount will be increased until it again covers your interest costs.

† Rate of interest announced by Royal Bank of Canada from time to time as its prime rate.

** 90 day interest rate guarantee - We guarantee our lowest posted interest rate for the selected mortgage type and term for a 90 day period from the application date. If the mortgage is not funded within the 90 day period, the interest rate guarantee expires. "Posted" means the interest rates posted by RBC for its residential mortgages.

All lending products are offered by Royal Bank of Canada and are subject to its standard lending criteria for residential properties.

†† This group insurance program is underwritten by The Canada Life Assurance Company. The benefits are subject to certain terms and conditions and there are eligibility restrictions. Please see the HomeProtector Booklet for full details.