

# How much money can you borrow for your first home?



*How to calculate your new home's price range before you start house hunting.*

Planning to buy your first home is often an exciting time. You get to check out lots of places and imagine yourself living in your dream home. But should you be looking for a four-bedroom, newly renovated house in a great part of town? Or a two-bedroom fixer-upper?

It's essential to know how much you can afford to borrow — and the price range of your new home — when you start house hunting. It can save you time, money and heartache. There's nothing worse than falling in love with your dream home and then discovering that you can't afford to buy it. So, how do you work out how much you can borrow?

## It starts with your debt service ratios

Mortgage lenders work out how much they'll lend you based on your Gross Debt Service ratio (GDS) and Total Debt Service ratio (TDS).

Your GDS is worked out by dividing your monthly income by the total of your monthly mortgage payment, property taxes, heating costs and half of your condo fees, if applicable. TDS also includes any other loan payments you might have.

Mortgage calculators, such as [this one from Cornerstone](#), can help you work out the price range of homes you can afford. To get an accurate figure, you'll need to collect this information:

### **GROSS ANNUAL HOUSEHOLD INCOME**

This is your and your spouse's / partner's annual income *before tax*. Note that if you have just started a new job, you may have to wait until your probation period is over to qualify. If you're self-employed it gets even more complicated, and you should talk to your lender directly.

### **DOWN PAYMENT**

This is the amount you have saved up and has to be at least 5% of the value of your new home. The size of your down payment will affect the size of your mortgage loan. You can read more about down payments in [this article](#).

### **AMORTIZATION PERIOD**

This is the length of time you'll need to pay off your mortgage. It's usually around 25 years for new homebuyers, but some lenders allow 30 years. The amortization period will affect the amount of your monthly mortgage payments. The longer the amortization, the more you can borrow.

### **MORTGAGE INTEREST RATE**

A few years ago, lenders would work out your qualifying mortgage payments based on the interest rate that you had negotiated with them.

However, the government recently introduced a mortgage stress test. You now have to qualify based on the Bank of Canada qualifying rate or 2% above your contract rate, whichever is the highest. You can read more about the stress test in [this article](#).

### MONTHLY DEBT PAYMENTS

This should include any loan payments, such as personal loans, car payments and credit card debt. Many lenders use 3-5% of your overall credit card debt as a monthly payment, rather than your card's minimum payment.

### PROPERTY TAXES

Listings for homes usually include property taxes. If not, your realtor can confirm them.

### MONTHLY CONDO FEES

Lenders qualify you using 50% of the monthly condo fees, if you're thinking of buying a condo. Your realtor can give you this information.

### MONTHLY HEATING COSTS

While this can vary depending on the size of your home, it's typically around \$100 per month.

### YOUR CREDIT SCORE

While your credit score doesn't have a direct bearing on your debt service calculations, it can have a serious impact on how much you can borrow.

Many lenders only give mortgages to borrowers with great credit scores. Anything over 700 should get you the best rates available. However, if your score is below 650, you may have to pay a premium interest rate. The higher your interest rate, the less money you can borrow. It pays to find out your credit score before you start house hunting.

### Help getting started

Your Cornerstone mortgage advisor can help you work out your price range. They can also help you to find the best mortgage for your particular situation.

**Call 1.855.875.2255 today** to book an appointment so you can start confidently looking for your dream home.

