

# Mortgage smarts - separating *fact* from *fiction* for first-time buyers

by PETER KINCH

**I**f you're a first-time homebuyer, you're hearing a lot of talk in the real estate market these days. Will prices go up? Will the market crash? Will I ever be able to afford a house? How will the new mortgage rule changes affect me? How will I ever pay off this debt?

It's easy to get caught up in all the noise, but harder to separate the fact from the fiction. As I edge closer to celebrating my first half century on this planet, I find myself using the phrase "If I knew then..." more and more - which got me thinking about the next wave of first-time homebuyers, and what pearls of wisdom I could bestow on them.

I had an interesting conversation with a colleague the other day regarding property values in Vancouver. He relayed me a story of a friend who had bought a house on the west side of Vancouver in the mid 1990s and it is now worth more than four times the amount he paid. In terms of equity, it was the equivalent of winning the lottery. We pondered the question, what will people be saying 20 to 25 years from now? Is it quite possible that a young 25-year-old couple today might look back in the year 2033 and say "If only we had bought that house back in 2013? Why didn't we? Oh yeah, there were new mortgage rules and a lot of global uncertainty..."

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## HERE ARE A FEW THINGS THAT I'VE LEARNED ABOUT REAL ESTATE

1. Real estate has peaks and valleys, but there has never been a future peak that is lower than the past one. Just give it time.
2. Time is your ally. Time can turn any bad real estate decision into a good one.
3. Equity is your safety net. It can supplement a pension and give you financial options in later years.
4. Your mortgage is a forced savings program.

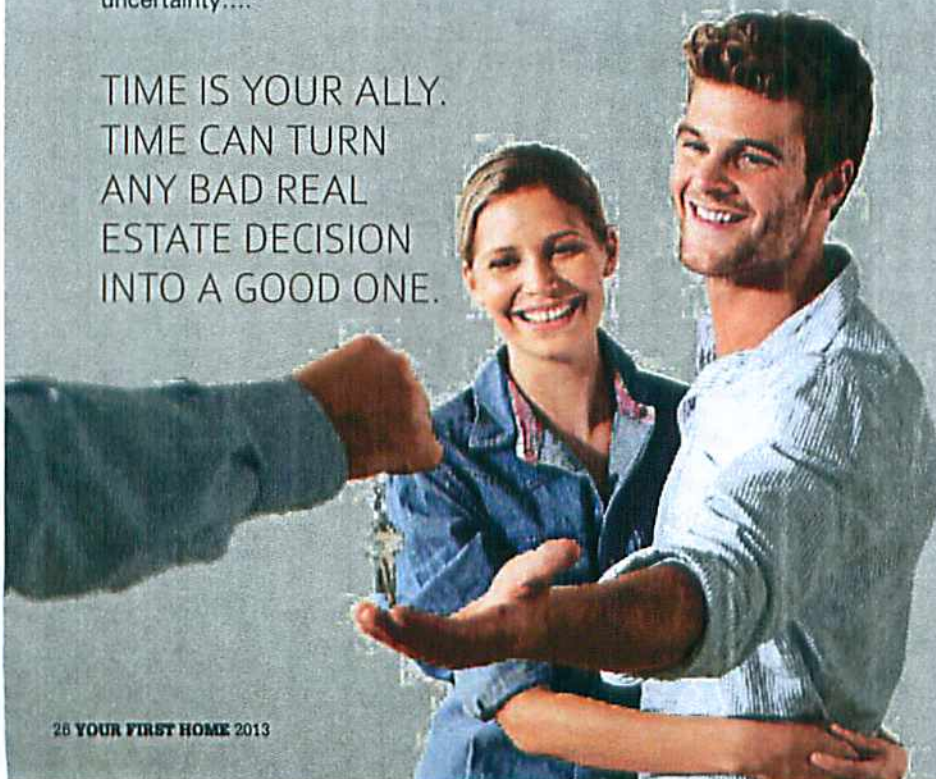
## SO LET'S ASSUME THAT 20 TO 25 YEARS FROM NOW, YOU'LL BE LOOKING BACK AND SAYING TO YOURSELF ONE OF TWO THINGS

- > I'm sure glad I bought that first house, or
- > I wish I had just bought something back in 2013

A lot of people are in this situation today and paralyzed by all the noise around them. And in the absence of facts or perspective, fear will take over. So what are the factors that are influencing your decisions today?

## NEW MORTGAGE RULES

Yes, there are new mortgage rules that have been implemented over the past few years, but in some respects, this could be to your



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advantage. Many first-time homebuyers are unaware that you can still buy a home with as little as five per cent down. The main rule change that impacts your ability to afford a home is that you can no longer access a 30-year amortization. Your payments will now be determined based on you paying off that mortgage over a maximum 25-year period. Although this does make your payments a little higher in the beginning, it increases the amount of equity you build with each payment (remember your forced savings plan).

In addition, the rule changes imposed by the government have had the exact effect they were hoping to accomplish, which was to slow what was becoming an overheated housing market. Again, this is to the advantage of first-time buyers because it will help to bring house prices back within your range.

#### GLOBAL UNCERTAINTY

There is no doubt that we live in an age of global uncertainty and face the threat of financial chaos in Europe and a pending credit crisis in the U.S. However, this is not the first time our world has faced these challenges, and it won't be the last. The key factor to look at is what you can control in your world. Ask yourself about your own employment options – your own employment future. The key to creating long-term wealth in real estate through equity is your ability to afford your monthly mortgage payments and making them consistently over a long period of time – regardless of what is happening on the other side of the world. If you do so, one day you'll wake up and realize two things:

1. Your mortgage is paid off, and
2. Your house is worth more than the day you bought it – regardless of what happened during the years in between.

So if you're a first-time homebuyer in 2013, here's my advice to you: create a budget that you can afford and be comfortable with. Buy a home that does not put a strain on your budget. Focus on taking baby steps and don't get overwhelmed by the big picture. Make the monthly payments into that forced savings program called a mortgage, and then let time be your friend and real estate will do what it has done for many generations before – eventually go up as your mortgage goes down – and that is what we call "creating equity."

And then maybe, just maybe, as you're about to celebrate your first half century on this planet, you'll look back and say, "I'm glad I got started in 2013."



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