

Question from Devin, 31, in Kenora, Ontario: Kenora has high housing prices that may just be starting to plateau a bit. I've been looking at houses but so far what I've seen seems overpriced for what you get. I'm paying just under \$950 a month for a small two-bedroom apartment with a nice deck and peaceful location. I'm struggling right now with whether or not I should be buying a house and what I can reasonably afford. I'll have my TFSA topped up at the end of this year but is it wise to use it all as a down payment and rely on my other day-to-day savings I've built up for an emergency fund?



Shannon Lee Simmons is a financial planner and founder of [The New School of Finance](#) in Toronto.

Answer: This is a tough question since there is no black-and-white answer. It's common for young people to have to use all assets that they have (TFSA, RRSP and non-registered accounts) to come up with a down payment and it can be worth it. Here are some things to consider.

1. Job security

Ms. Simmons work with young people to help them navigate the new economic climate with personal finance, ethical investing and small business advice.

You don't want to empty your emergency fund if you could potentially lose your job. You should ensure you have at least three months' worth of fixed expenses (bills, groceries, expenses in the new house) in savings if you are an employee and qualify for employment insurance. [Read more about EI here](#). If you are a freelancer, you should have six months of fixed expenses put aside. Don't consider your emergency account as part of the money you can use towards your down payment and closing costs (which will be approximately 2.5 per cent of the value of the

home).

2. Are you able to save up a 20 per cent down payment?

In Canada, if you make a down payment of less than 20 per cent of the purchase price of the home below \$1-million, you will require mortgage default loan insurance. In Canada, there are three insurance providers, The Canadian Mortgage & Housing Corp (CMHC), Genworth and Canada Guaranty. The minimum amount of down payment is 5 per cent of the value of the home. The cost of mortgage loan insurance can be expensive and the less you put down, the higher the insurance premium is. The premium is calculated as a percentage on the outstanding mortgage amount. With a 5 per cent down payment, both **Genworth** and **CMHC** would charge a premium of 3.6 per cent for a standard mortgage. So, if you purchase a \$500,000 home and put down 5 per cent (\$25,000) your mortgage would be \$475,000 and the insurance premium would be \$17,000. The amount charged reduces as you put more money down. If you put down 10 per cent or 15 per cent, you are charged 2.4 per cent and 1.8 per cent, respectively. These are big changes. So, if you've got the the money in your account to get you over the "premium humps" to hit 10 per cent, 15 per cent or 20 per cent, it may be worth it.

3. Will you be house poor?

You should look at your housing affordability from a budgeting point of view as well so you don't end up house poor. Look at your average spending over the last three months to get a good indication of how much it costs to live your life each month. Now, reduce the amount of your monthly rent (\$950) and add in the following estimated costs of the new place:

Mortgage Utilities
Property tax
Home insurance
New transportation costs
Repair and maintenance fund (1 per cent of value of the home each year)

This number is your new average monthly spending. Have a look at it compared to your after-tax monthly income. Are you able to maintain your lifestyle? Are you breaking even? If not, you may want to look at either making a larger down payment to reduce the mortgage payment or reducing the price of the home you are buying.

4. Can you still save for retirement in new home?

You're young and there's still loads of time to save toward your retirement portfolio. Buying a home is a great way to build equity over your lifetime, but it shouldn't be the be-all-end-all of your retirement planning. If you purchase a home, you'll need to ensure you still have wiggle room to save for this portfolio since your mortgage likely isn't going anywhere for another 25 years. Generally, if you're over 30 years old, you should aim to save between 15-20 per cent of your gross income toward retirement, no less than 10 per cent. Remember that your gross income is your income before deductions. If your salary is \$50,000 a year, you're aiming to put away approximately \$7,500 per year. This would be \$625 per month. Obviously this will go up over time as your income increases as well.

If we assume your income will hold relatively constant over the next three to five years, you should add your retirement savings to your monthly estimated costs to ensure you can continue to save.

If you're going to rent for the rest of your life, you need to ensure you're saving more than 15 per cent since you aren't building wealth with mandatory mortgage payments. If you plan on renting, I'd suggest you save at least 20 per cent of your gross income toward retirement and maybe a bit more to ensure that you're capitalizing on the fact that you live well below your means and that you don't have to worry about the roof leaking or furnace breaking. If your basement floods, you can just call your landlord and go for ice cream. Ensure that you are doubling up on the retirement game because you're never going to be mortgage-free and you'll need a larger portfolio than a mortgage-free home owner to support you down the road.

5. Lifestyle

Buying a home is a huge responsibility and major lifestyle change since maintenance can be a lot of work. If you've got the financial part on lock down, then it really comes down to your personal preference for your lifestyle. Some people really love cleaning eavestroughs and spending Saturdays at Home Depot. Just kidding, well, not really.

In short: I'm all for renting if you make up for it on the retirement savings side. I also think buying is awesome as long as you ensure that you have enough money to leave

an emergency account intact, and purchase a home that doesn't leave you house poor and unable to save for retirement.

Editor's note: An earlier version of this article incorrectly stated that Canada has two lenders for mortgage insurance. In fact, Canada has three insurance providers. This online version has been corrected.