Unit 4

Effective Consumer Purchasing

Housing and Furnishings

Types of houses

1. Condominiums

- a form of ownership that can apply to almost all types of housing
- generally found in apartment buildings or townhouses
- You own the unit, or "condo", but you do not own the land it is built on or any common space outside your unit.
- charged monthly "condo fees" to maintain indoor and outdoor common areas shared by the condo owners
  - includes parking areas, elevators, carpets, front entrances, and any recreation facilities.
  - These monthly fees can vary widely and are in addition to your mortgage payments.
  - Each condominium property has rules the owners of each unit must follow.

House Vs. Condo Video Clip

2. Detached House (Bungalow)

- a house that stands on its own.
- tends to be the most expensive type of home to purchase due to the land costs
- own both the house and the land it is on.
- repair or maintenance you must pay for yourself.
- Owner pays monthly bills for water and heat,(depending on town/province)
    - Also pays other bills (like telephone and cable television).
- Owners are free to make changes to their house, inside and out
    - must obey local bylaws and apply for renovation and building permits when necessary

3. Semi-detached House

- a home joined to another on one side.
- Owners are only responsible for the care and maintenance of their own side.
- own their side of the property, including the land it is on.
- responsible for the care and maintenance of their side according to local bylaws.
- usually less expensive than fully detached houses

4. Duplex/Triplex

- a building that is divided into multiple units
- each household has its separate entrance and is responsible for the care of its own unit.

The home buying process

Phase 1: Determine home ownership needs

- What type of housing should I (we) buy?
- How much can I (we) afford to spend?

Phase 2: Locate and evaluate a home

- Where do I (we) want to live?
- What aspects of the home need improvement?

Phase 3: Price the property

- What is an appropriate market price?
- How much negotiation movement exists?

Phase 4: Obtain financing

- How much down payment is available?
- What are current mortgage rates?
- Can I (we) qualify for a mortgage?
- What type of mortgage should be selected?

Phase 5: Close the purchase transaction

- What is the closing date?
- What funds and documents will be needed for the closing?
- Is everything understood before the final signing?

Qualifying for a mortgage

- Determine an estimated value of the home you would like to purchase.
- Obtain funds for a down payment
  - savings/ gifts/ loans from family members.
- Reduce other debts/ improve your credit record
- Compare fees,services,and mortgage rates for different lenders.
- Prepare the mortgage application.

Your mortgage acceptance will be based on your credit record

The amount of the mortgage for which you qualify will be influenced by:

- Your income
- The amount available for a down payment
- Current mortgage rates

Types of mortgages

1. Open mortgage:
   - Interest rate fluctuates with the market
   - Flexible to pay without penalty at any time
   - More popular when interest rates are falling
   - Sometimes called a “variable rate”mortgage

1. Closed mortgage:
   - A set term eg.,5 years,10 years
   - A fixed rate of interest
   - Provides security
   - Less flexibility for making payments

3. Convertible mortgage:
   - Provides a low rate for a short period of time
   - Must “lock in”before the time period expires

4. Split-term mortgage:
   - Combines features of different mortgage types

5. Reverse mortgage:
   - Provides income to the homeowner
   - A loan that is a paid back with interest

6. Refinancing:
   - Obtaining a new mortgage on your current home
   - Usually a penalty for breaking the existing mortgage agreement

Costs commonly incurred by a person buying a home:

- Title search fee ($50-$150) Title insurance ($100-$200)
- Lawyer’s fee (amount varies) Appraisal fee ($100-$300)
- Credit report ($25-$75) Home inspection ($200-$400)
- Reserves for home insurance and property taxes (amount varies) Interest paid in advance (if applicable)
- CMHC Insurance (depends on the Land transfer tax (amount varies) amount of the loan)
- Mortgage Registration Fee ($50)
- GST on new home purchase (“new home” means you are the original owner of the home and you are entitled to a rebate of

RENT OR BUY???

RENT		BUY	
Advantages	***Disadvantages***	***Advantages***	***Disadvantages***
Ease of mobility	No chance to build equity	Investment and building equity	Financial risks related to having down payment funds, obtaining a mortgage, and fluctuating property values
Fewer responsibilities	Restricted lifestyle, when it comes to decorating, having pets,and other activities	Pride of ownership	Limited mobility if a home is difficult to sell
Lower initial costs	Legal concerns	Flexibility in using the property	Higher living costs due to repairs and maintenance

Portfolio Sheets

- Rent or Buy Portfolio sheet
- How much house can you afford?
    - http://www.practicalmoneyskills.ca/calculators/calculate/mortgage.php?calccategory=home
- Computing mortgage payments (Activity C)
- buying a home quiz sheet

Transportation

Public transportation

- All cities and most major towns in Canada have a public transportation system with one or more ways to travel, such as:
    - Bus
    - Train
    - Subway
    - light-rail trains
    - streetcars (trams)
- To use public transportation, you must buy a ticket or a transit pass.
    - Transit passes give you unlimited use of public transportation for a certain period (one month or more).
    - They are usually cheaper than buying many tickets if you plan to use public transportation often.

Private Transportation

- Car/Truck/motocycle

Other forms of transportation

- **Air**
  - All main cities have airports with regularly scheduled flights to and from many places.
  - Some places don't have a main airport, such as small towns or rural areas.
  - If you're travelling to a place without an airport you'll need to:
    - fly to the nearest main airport
    - rent a car or take a train or bus to your final stop

  - To fly in Canada, you need:
    - a piece of photo identification issued by the federal, provincial or territorial government in Canada, **or**
    - a foreign passport

- **Rail**
  - Canada's rail network runs across the country.
  - Trains in Canada are safe and comfortable. It's often cheaper to buy train tickets in advance.
  - You can find out more and buy tickets from Via Rail Canada or going to a train station in person.

- **Bus**
  - Travel by bus can be very long if you have to go a great distance.
  - Benefits:
    - is often the:
      - cheapest way of travelling between cities
      - only way of getting to smaller towns if you're not driving a car
    - most buses have air conditioning and a washroom on board
  - The largest network of bus routes is run by a company called Greyhound and its partners.

- **Ferry**
  - In coastal areas of Canada such as British Columbia and the Atlantic region, ferry boats are a common way to travel.
  - Many ferries transport both passengers and vehicles.
- **Taxis**
  - All cities and towns have one or more companies that offer taxi service.
  - Taxis are quite expensive, so many people only use them when they don't have another option.
  - If you want to know how much your trip will cost, ask the driver before the trip starts.

    Taxi costs include:

    - set rates used by meters to calculate the cost of your trip based on mileage and fees
      - these rates are fixed and can't be negotiated
      - you pay the amount shown on the meter at the end of your trip
    - optional tips for the driver, especially if they help you with lots of bags
  - Taxi drivers have an official identification card to show that they are licensed by the city.
    - Can find the card on the dashboard of the taxi.

- **Walking and cycling**
    - Walking and cycling are healthy and cheap ways of getting around Canadian cities and towns.
    - You can usually get a map of bicycle routes from:
        - local bike shops
        - your city government:
            - website
            - information kiosks

Buying a Car

When looking at getting a new vehicle there are many different options for how you pay, and how you go about owning that vehicle

Options include:

- Buying and owning the vehicle
    - Through a Loan, or paying full purchase price
- Leasing the vehicle
    - You "rent" the vehicle for a period of time and then have the option to purchase or get a different vehicle

All these options apply to new and used cars.
Which option you choose depends on a variety of factors, **most importantly is how much you can afford to spend on that vehicle**.

Cost isn't the car itself, you also have to include

- Insurance, warranty, maintenance, gas, licensing, registration.

When exploring the options you need to keep in mind:

When Buying:

- **Term** – How long you will be paying.
- **Interest rate** – How much it will cost, if you need a loan.
- **Delivery Charge** – charge based on how far the vehicle needs to be shipped.

When leasing:

- Security Deposit
- Term, Interest Rate
- Kilometre allowance – how many km's you can drive before you are charged extra.
- Option to purchase – If you are allowed to purchase the vehicle after the lease is up.
- Residual Value – the estimated value of the vehicle at the end of the lease

When Leasing to Buy:

- Term, Interest Rate, Km allowance.
- Residual value – How much will the car be worth after the lease is up?
- Maintenance of an older vehicle.

Payment Schedule – How often you pay back the loan used to purchase your vehicle.

Two payment options:

- *Monthly Payments*
  - You pay a predetermined amount once a month
  - Better for lower interest rates
- *Bi-Weekly Payments*
  - You pay a pre-determine amount every two weeks
  - The payment will be less than half the amount you pay monthly
  - Because you pay more frequently, the total interest is kept down

Terms involving Loans

- **Principal**:the amount of the loan including interest that has not yet been paid off.
- **Interest:** the amount charged for borrowing the money, usually written as a percentage.
    - i. *Interest can be charged at different times:*
        - a. Annually (Per Year)
        - b. Semi-annually (Charged twice a year)
        - c. Monthly (Charged 12 times per year)
    - ii. *Interest can also be charged in different ways:*
        - a. Compound (Interest charged on top of interest)
        - b. Simple interest; a flat rate is charged (i.e. $25 per year)

Buying a Used Vehicle

Advantages	Disadvantages
• Cost less than new cars • Will depreciate at a lower rate (i.e. The cars value won't drop as much each year after you buy it)	• No warranty in most cases • More maintenance required as the car gets older • Car has been driven more, more km's

Buying a New vehicle

Advantages	Disadvantages
• Warranty can be purchased • Lower maintenance costs • Better safety and tech features	• Most expensive • Higher month to month cost • The cars value will decrease at a faster rate than an used car.

Leasing & Leasing to Own

Lease agreement: a contract between the person leasing the car and the car dealer.

Includes information about the lease:

- The length of the lease.
- How many km’s you can drive in a given year.
- The monthly and total cost of the lease including the cost to purchase the car after the lease is over (Residual Value).
- Who pays for repairs and other expenses?

Advantages	Disadvantages
• Lower monthly payments • Short lease terms	• Constant payments • Never own the vehicle • Limit on driving

Calculating the Cost of buying a vehicle

To check the cost of a vehicle:

Log onto www.vmrcanada.com;

1. Click on "Canadian Used Car and Truck Prices"
2. Check the indicated boxes with the options indicated/wanted
3. Click on "Calculate Final Value"

To check the cost of insurance on a vehicle:

Log onto https://auto-estimate.cooperators.ca/; Fill in the required Info. Use the following information of the rest.

1. You drive less than 15,000 km/year
2. You drive to work is less than 15 km
3. You have no tickets (Hopefully...)
4. Use 1 for the number of years with the current insurance provider
5. Use $500 and $300 deductibles
6. Use "No" for driving convictions (Once again hopefully...)

Portfolio Sheet on estimated book value & Insurance

Example:

For the types of vehicles below determine their estimated book value along with the insurance premiums

https://auto-estimate.cooperators.ca/

1. Ford F150, 4 wheel drive (2005-XLT) Long bed with 105,000 km, Privacy glass, and a heavy duty towing package.

    a. Vehicle Price:

    a. Insurance Price:

Portfolio sheet

Example:

Using http://www.cars.com/go/advice/financing/calc/loanCalc.jsp

Calculate the monthly payment on a 4 year (48 months) loan for the purchase of the following vehicles.

These payments do not include licensing, administration or delivery fees.

a. A car that cost $21,000 before taxes (Tax rate =15%) with an interest rate of 9% per year.

Payment=____________

The total cost of a loan is the is based on the monthly payment and how many times that payment is made (payment x # of months)

Ex: Calculate the total cost of the loan (i.e. principle + interest) for each of the previous examples.

a. A car that cost $21,000 before taxes (Tax rate =15%) with an interest rate of 9% per year.

   Total Cost=___________

The total interest accumulated by a loan can be calculated by taking the total cost of a loan and subtracting the total cost of the vehicle. (payment x # of months – starting cost of vehicle+Tax)

Ex: Calculate the amount of interest for each of the previous examples.

a. A car that cost $21,000 before taxes (Tax rate =15%) with an interest rate of 9% per year.

   Total interest=___________

Working with Leases and Loans

Use the lease payment calculator at “tcalc.timevalue.com”

1. Calculate the lease payment on a $32,000 car that includes taxes on a vehicle over 4 years with no advanced payments. Determine the following:

    a. Lease Payment: __________

    a. Total Interest Paid:__________

    a. Residual Value: $15,000

Insurance

Many different types of insurance.

We will focus on three:

1. Automobile
2. Life
3. Home

1. Automobile

- is mandatory if you own a vehicle.
- All Canadian provinces and territories require drivers to have at least liability and accident benefits/bodily injury coverage. Some provinces may require additional coverage.
- The insurance may be provided by public or private insurers or, in Quebec, by a combination of both.

Mandatory insurance

- **Liability insurance:**
  - covers losses (such as injury or death) that your vehicle causes to other people or damage to their property.
  - It does not cover the cost of repairs to your own vehicle.
- **Accident benefits/bodily injury insurance:**
  - covers the cost of your own medical expenses and loss of income when you are in an accident.

Optional insurance

- **Collision insurance:**
  - covers the cost of repairing or replacing your vehicle if you hit another vehicle or object.
- **Comprehensive insurance"**
  - covers the cost of repairing or replacing your vehicle due to other types of damage or loss, such as vandalism, fire or theft.
  - does not cover loss or damage to your vehicle if you hit another vehicle or object in a collision.

- Most auto insurance policies do not cover the loss of personal possessions, such as golf clubs, clothing or personal electronics, stolen from your vehicle.

- These losses are usually covered by your home or tenant insurance.

2. Life

- Provides a financial payment to your **beneficiary** upon your death.
- When you buy a life insurance policy, you name a **beneficiary**—*the person (or persons) who will receive the payment.* The insurance company pays the amount of your insurance to the beneficiary after your death.
- Some life insurance policies have a **cash value**—*an amount that the insurer will pay you if you cancel your policy.* Others do not.

- Life insurance companies generally require you to complete a detailed medical questionnaire or exam before approving you for a policy.
- You should answer the questions honestly to avoid problems when making a claim.
- If the insurer conducts an investigation after you or your beneficiary submits a claim and discovers that the medical questions were not answered properly, or that you did not include material facts, the insurer could void the contract and refuse to pay the claim, even though you have already paid premiums.

There are two main types of life insurance:

1. **Term life insurance**
2. **Permanent life insurance**

Term Life Insurance

How it works

- Provides coverage if you die during the term or duration of the policy.
- Once the term ends, the coverage ends, and you or your beneficiaries will not receive any payment. Term life insurance is not intended for full life coverage.
- If you are renewing your term coverage, you may need to complete a new medical questionnaire or exam.

Cost of premiums

- Are generally less expensive than permanent life insurance premiums at the beginning of the term.
- Premiums are usually fixed for the length of the term, often at intervals of five or ten years.
- Term policies frequently expire before the person dies. Then premiums may increase when you renew the policy and may become very expensive later in life.

Cash value

- Does not usually accumulate a cash value.

Permanent life insurance

How it works

- Provides coverage throughout your lifetime.

Cost of premiums

- At first, premiums are usually higher than for term life insurance, but may be lower than term premiums in later years.

Cash value

- Generally accumulates a cash value that is returned to you if you cancel your policy.
- Most policies will also allow you to take out a loan against the value of your policy.
- Loans that you have not repaid reduce both the death benefit and any cash value.

3. Home

Home or property insurance pays for damage to or loss of your house, condominium or property. It may cover:

- damage, theft or loss of your personal possessions
- personal property stolen from your vehicle
- damage or injury to others who visit your home or property (for example, if someone falls in your driveway and is injured)
- accidental damage you cause to others' property (for example, if a fire that starts in your house causes damage to your neighbour’s house).

Most financial institutions require you to get home or property insurance before giving you a mortgage.

There are many levels of home insurance:

- comprehensive or "all perils" insurance (which covers both the building and the contents for all risks that are not specifically excluded)
- basic or “named perils” insurance (which covers you only for specifically named risks).

Tenant (renter's) insurance

May cover:

- damage to or loss of your possessions
- damage to or loss of your possessions outside your home, such as personal property stolen from your vehicle
- accidental damage you cause to any part of the apartment building or home you are renting (for example, if your bathtub overflows and floods your apartment or causes damage to the apartment building or other tenants' property)
- injury caused to visitors to the building by an accident you caused
- additional living expenses for a period of time if your apartment becomes uninhabitable due to some reason covered under your policy.