# Reality Choices

# A Roof Over Your Head

This publication is intended to provide general information only and is not a substitute for legal advice.

## WHAT'S INSIDE



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Finding a suitable place to live can be simplified by following a systematic approach and gathering solid information before you start. Here are some questions to ask, and general information about putting a roof over your head, whether you are buying or renting your roof.

## RENTING YOUR ROOF

- A landlord told my friend he had to move out in three days, does my friend have to move?
- How do I get my security deposit back?
- What are my landlord's responsibilities for repairs and upkeep?
- Can a landlord come into my apartment anytime?
- I'm going away for four months, what do I need to know about subletting?

The following publications are your key sources of information about you and your landlord's rights and responsibilities in Alberta under the ***Residential Tenancies Act:***

- **Information for Landlords**
- **Information for Tenants**
- **Electricity and Natural Gas Contracts**
- **Sub-meters for Rental Units**
- **Renting a Mobile Home Site**
- **Buying and Owning a Condominium**

### Before You Rent

- Decide what type of accommodation you want and where
- Find out what the law says
- Read and understand what the rental agreement says
- Find out who will be responsible for repairs and maintenance
- Know who handles disputes between landlords and tenants in your community

If you are renting a condominium from the unit owner, the condominium association also has rights, even though it isn't your landlord. **Information for Landlords** and **Information for Tenants** has more information.

### Rental Agreements

A great deal of information is contained in your rental (or tenancy) agreement. It is important to know:

- What type of tenancy period it is — fixed term, month-to-month, week-to week?
- Are heat, lighting, cable or laundry facilities included in the rent?
- Are pets allowed?
- Who is responsible for grounds upkeep and unit maintenance and repair?
- Who is responsible for replacing appliances?

Be sure you see a copy of the rental agreement before you decide to rent. Read the entire agreement, and make sure you understand its contents before you sign it. In Alberta, the tenancy agreement cannot take away any of the tenant's rights provided by the ***Residential Tenancies Act.***

### Landlord and Tenant Rights and Responsibilities

You will find out the answers to these questions in the publications **Information for Landlords** and **Information for Tenants**

- How do you give notice to end the tenancy?
- What happens if your rent is late?
- When and how can the landlord evict you?
- What happens if you don't follow the rules in the tenancy agreement?
- What is the limit to the amount or frequency of rent increases?
- When do you get your security deposit back after you move out?
- What happens if the landlord believes you've abandoned the rented premises?

## PERSONAL PROPERTY INSURANCE

Tenants often don't think about insurance until after a calamity strikes.

Tenant's insurance covers your personal property such as furniture, clothing, sports equipment, sound system, musical instruments, camera, computer, etc.; and your legal liability if you accidentally cause damage to your premises and others, for example, by fire, explosion or water.

How much would it cost you to replace all of your possessions if your rented place went up in smoke or if you had water and smoke damage from someone else's fire? You may find monthly insurance relatively inexpensive when considering what it would cost you to replace all of your possessions.

Unless you buy a replacement value endorsement, your claim for loss will be settled on the basis of the depreciated value of your property and not on the replacement cost. Some items such as jewelry, furs, collections, and computer software may need additional insurance often called "riders" or "floaters".

For more information and rates talk with an insurance agent or broker. The **Insurance Bureau of Canada** has more information about tenant's insurance on its Web site (see page 8).

*A word of warning - if the utilities and telephone are connected in your name, you are legally responsible for payment.*

## LIVING WITH A ROOMMATE

Sharing an apartment with a roommate(s) is an alternative to paying all the expenses of renting by yourself. Living with a roommate(s) can be a tremendous amount of fun, but also has the potential for trouble. You will need to make sure that you and your roommates establish some rules and keep the lines of communication open.

At the beginning of the tenancy you and your landlord need to agree on who is allowed to live in the rented premises. All tenant's names should be on the tenancy agreement.

In Alberta, a landlord can give an occupant who isn't allowed to be there 14 days notice to leave.

As well, if the tenant has moved out, the landlord can give an unauthorized occupant 48 hours notice to move out.

For those sharing accommodation, the people who sign the rental agreement are responsible for meeting its terms. If one can't pay the rent or does damage, the other could be held responsible.

### Sharing expenses

You will need to keep two budgets: a personal budget and a shared household budget. Apart from rent, consider the utilities, telephone, insurance, cable TV, food and cleaning supplies.

Figure out how you divide expenses fairly. Do people sharing a room pay the same rent as a person with a private room? If one person owns most of the furniture, should that be taken into consideration when deciding the rent? What about the person who only sleeps at home — does he or she contribute for food and cable TV?

## MOVING IN -- WHAT IS THE COST?

### Moving expenses

How do you plan to move your possessions from your current living space to your new home? If you plan to rent a truck for the move, calculate the rental fee and cost per kilometer, as well as the cost of gas and insurance. You could also hire a moving company. For more information about hiring a moving company, see Reality Choices – **Shopping for Satisfaction**.

### First month's rent and security deposit

You will have to pay the first month's rent and the security deposit when you move in. If the landlord has done the incoming and outgoing inspection report, he or she can keep all or part of the security deposit if:

- The premises are damaged,
- Unusual cleaning is required after you move out, or
- You owe rent after you move out.

The landlord must put the security deposit into an interest-bearing Alberta trust account and must pay you interest according to the legislation. Current and past interest rates can be found in the publication along with information about getting your security deposit back when you move out. You can calculate the **security deposit interest owing** online.

### Utility Hookups

Having utilities hooked up can be costly. Companies may ask for a deposit if you've never been a customer before or if you or your roommate has missed utility payments in the past.

You may decide for convenience that one roommate will be responsible for paying the bills, and the others will pay him or her accordingly. Keep records of who paid what bill. You'll need to talk with your roommates about how these arrangements will be made and what happens if someone can't pay.

Utility companies often charge an extra fee for discontinuing or reconnecting services if bills aren't paid.

If tenants pay the utility company directly for electricity or natural gas, they can choose to purchase either or both from a marketer. If you choose this option, be sure to read the contract carefully. It will tell you when and under what conditions you can cancel the contract.

Find out what happens if you move to premises where electricity or natural gas is included in the rent. For more information read **Electricity and Natural Gas Contracts**.

If you pay the utilities, the Utilities Consumer Advocate (UCA) will explain your choices about how to buy electricity and natural gas.

Created in 2003, the UCA represents consumer interests in Alberta's electricity and gas markets. UCA's main purpose is to protect Alberta's residential consumers, small businesses, and farmers. The UCA strives to give real, unbiased answers that are easy to understand. By giving real knowledge, consumers are able to make informed choices that will best fit their needs.

In affiliation with the Government of Alberta, the UCA also has the power to investigate, mediate and express consumer concerns to both government regulators and the utilities industry.

You may contact the UCA at 310-4822 or email them at ucahelps@gov.ab.ca. Visit the UCA website to view a list of electricity and natural gas retailers at www.ucahelps.alberta.ca.

The telephone can be another source of strife. Long-distance calls are often easier to dial than pay for. Agree to review your long distance bill at the end of each month to allocate the expenses.

### Staple food items and groceries

Allow money for staple food items such as flour, sugar, condiments and beverages as well as for your first week's groceries. Set aside enough money for groceries between moving in and your next pay cheque.

### Other expenses

How much will you need to spend on kitchen utensils, dinnerware, linens, bedding and furniture?

Estimate your expenses by completing this Moving Expense form.

| Item | | Estimated Cost |
|---|---|---|
| Moving expenses | | |
| First Month's rent | | |
| Security deposit | | |
| Utility hook-up/deposit | Telephone | |
| | Power | |
| | Heating | |
| | Water | |
| | Cable | |
| Staple food items | | |
| Groceries | | |
| Kitchen utensils and dinnerware | | |
| Linens and bedding | | |
| Furniture plus any delivery charges | | |
| Other costs | | |
| | | |
| | | |
| | | |
| **Total moving-in costs** | | |

## BUYING YOUR ROOF

### Can I afford to buy a home?

- Do I have a secure income?
- Am I prepared for the long-term commitment of paying for a house?
- How do I compare buying with renting?
- What are the costs and savings of a shorter or longer amortization period, or a higher or lower interest rate?

A home is likely the most expensive purchase that you will make in your lifetime. Buying a home is a huge commitment, and you should not make the decision lightly.

Do as much research as you can on everything from the neighbourhood you want to live in, to finding the best real estate lawyer, to the mortgage options available.

*The information in this module is a start. Learn as much as you can about mortgages and amortization, the costs of buying and living in a house, and how an offer to purchase should be worded to protect you. It's strongly recommended that you hire a real estate lawyer to help you interpret legal documents and avoid potential problems.*

Check out Industry Canada's **Mortgage Savings Calculator** and the **Rent or Buy Calculator** to find out if buying a home is an option for you.

If you are buying a new home, look at the warranty coverage for your deposits and defects.

Canada Mortgage and Housing Corporation's book **Homebuying Step by Step** has information about the process, checklists and worksheets to help you make the right decision for you.

### A word about condominiums

If you are considering a condominium, you'll need more information. Read the publication **Buying and Owning a Condominium.**

## HOW MUCH DOES A HOUSE COST -- REALLY?

Most people use a mortgage to buy a house, and pay for it over a number of years. Are you ready for this commitment? Is your employment stable? What types of changes may occur in your life in the next five years?

Home buying involves immediate expenses and long-term changes to monthly spending. Immediate costs include an appraisal of the home you want to buy, home insurance, legal fees and disbursements, utility hookups, and home inspections. **Homebuying Step by Step** has a checklist.

Monthly expenses will also change with new or increased spending on utilities, repairs, appliances, homeowners insurance, tools and decorating. All will have to be included in your new spending plan.

You need to determine how much house you can afford. You may find it helpful to check out Reality Choices – **You and Your Money**, for a comprehensive look at your spending. It will help you identify:

- How much you can afford for a mortgage payment;
- How much you have available for the down payment; and
- How you will need to adjust your monthly spending when you are living in the house.

Your financial institution will also assess your situation when you apply for a mortgage.

### The down payment

You'll be expected to have money available for a down payment when you ask your lender for a mortgage. The Canada Mortgage and Housing Corporation (CMHC) says the down payment generally ranges from 5–25 percent of the purchase price but it can be more.

The larger the down payment, the smaller the mortgage, and the less interest you will pay in the long run. Also, the amount of down payment will determine if you have to buy **mortgage insurance**. Mortgage insurance protects the lender if you don't make your payments. It doesn't protect you, the buyer, but you pay the premium. The premium is usually added to the principal of the mortgage.

## MORTGAGE TALK

When you know how large a mortgage you can afford, you're ready to decide the conditions of the mortgage:

- The length of the amortization period
- The term, or length, of the actual loan
- The method of repayment

- The frequency of your payments
- The type of interest rate: fixed or variable
- The type of mortgage: conventional or high-ratio, open or closed.

| Mortgage $60,000 | Amortization period (years) | Monthly payment | Total cost (assumes the interest rate remains the same) |
|---|---|---|---|
| | 10 | $ 633.46 | $ 76,015.20 |
| Interest Rate 4.9 percent | 15 | $ 471.36 | $ 84,844.80 |
| | 18 | $ 418.59 | $ 90,415.44 |
| | 20 | $ 392.60 | $ 94,240.80 |
| | 25 | $ 347.27 | $ 104,181.00 |

*Deciding on a term depends partly on whether you think the interest rate will go up or down. When the interest rate is low, many consumers lock in (fix) the rate for long terms. When the rate is high, or fluctuating greatly, many consumers choose shorter terms. You may want to get advice from several sources.*

## Amortization period

Amortizing a mortgage means paying the debt off over a specific period of time. You make regular payments to repay the principal (the amount that you borrowed) and to pay the interest. Mortgages are usually amortized for between five and 25 years. The example above shows how much more you will pay by taking a longer amortization period.

## Term

Term is the length of time for which the loan is issued. The term is usually much shorter than the amortization period (the time it will take to pay off the entire mortgage).

The term is important, because your interest rate may be fixed according to the term. (See Type of interest rate on Page 7).

Suppose you get a $60,000 mortgage amortized over 20 years at 4.9 percent for a five-year term. The balance of the mortgage is due at the end of five years. Unless you can pay off your mortgage at the end of five years, you must renew and renegotiate your mortgage with your existing lender or a new lender.

The interest rate when you renew may be higher or lower than the previous rate. If the interest rate is higher, your monthly payment increases. If you want the monthly payment to remain the same, you may want to lengthen the amortization period (but this will cost more money in the long run).

If the interest rate is lower when you renew, your monthly payment is lower. You may want to have the same monthly payment and shorten the amortization period, which saves you money over the life of the mortgage, and pays off the mortgage faster.

## Method of repayment

The most common way to repay your mortgage is to “blend” the payment of principal and interest. Each month, the amount of your payment that goes to interest decreases slightly, and the amount that goes to principal increases slightly. In the early years of the amortization period, most of your payment pays interest on your loan. Toward the end of the amortization period, most of your payment pays principal.

## Payment frequency

If you negotiate a mortgage with weekly payments, you make a few extra payments per year. However, you pay less interest. For example, let’s say that your monthly payment is $600. In one year, you pay $7,200 ($600 x 12).

By making weekly payments, you pay $150 each week ($600 divided by four). In one year, you pay $7,800 ($150 x 52). Interest is calculated on the principal of the mortgage, so having a smaller principal means that you pay less interest.

### Type of interest rate

The interest rate may be fixed or variable. A fixed interest rate remains the same throughout the term of the mortgage. A variable interest rate floats (varies) during the term of the mortgage. If the interest rate increases, then more of your payment goes toward the interest. If the interest rate decreases, then more of your payment goes toward the principal.

### Type of mortgage

You can get a conventional mortgage or a high-ratio mortgage.

With a **conventional mortgage**, you usually can't borrow more than 75 percent of the appraised value of the property. This means that you have to make a down payment of 25 percent or more of the property value.

Some financial institutions require a down payment of more than 25 percent of the property value.

With a **high-ratio mortgage**, you borrow more than 75 percent of the value of the property and you will have to buy mortgage insurance to protect the lender.

### Open or closed mortgage

You can also get an open mortgage or a closed mortgage.

With an **open mortgage**, you can make additional payments on the principal or pay off the mortgage completely without notice or penalty. Different types of open mortgages are available, so check with your financial institution.

With a **closed mortgage**, you cannot make extra payments. Rates are usually lower for closed mortgages.

You can negotiate to make additional payments, such as weekly payments, before you sign your mortgage.

***Pay down the mortgage***

*Because you pay so much interest at the beginning of the amortization period, you can see how important it is to pay down the mortgage (reduce the principal) as soon as possible. You can save a lot of money by choosing a mortgage that lets you make extra payments on the principal.*

### Mortgage life insurance

If you want to ensure that your mortgage will be paid in full if you die, you may want to buy mortgage life insurance. Check with your lender and your insurance agent or broker to compare the rates and coverage. Mortgage life insurance is not the same as mortgage insurance covered on page 5.

## MAKING AN OFFER TO PURCHASE

Once you have found a house that you want to purchase, there are several things you should do. It's always a good idea to inspect the house thoroughly. Check the plumbing, the roof, the foundation etc. You may wish to hire a professional inspector to ensure that you don't run into costly surprises.

When you make an offer to purchase a home, be sure to include all pertinent details, such as the following:

- The name of the buyer and the seller,
- The legal description of the property,
- The amount of the offer
- A list of any extras to be included in the purchase price, such as appliances or window dressing,
- Any conditions that must be met before the offer is finalized. Make sure you word the conditions carefully so that they meet your needs.
- The date and time that the offer will expire,

- The closing date, including the deadline for signing legal documents and transferring the title,
- The condition of the home upon transfer of ownership – e.g., Cleanliness.

You may want to discuss the offer to purchase with a realtor or lawyer before going ahead.

*It's important to note that once you've signed an offer to purchase and any conditions have been met, you have a binding contract.*

## FOR MORE INFORMATION

### Service Alberta

**Consumer Contact Centre**
Edmonton: 780-427-4088
Toll-free in Alberta: 1-877-427-4088
www.servicealberta.ca

Join us on facebook

**Alberta Youth Consumer Champions**
www.facebook.com/youthconsumerchampions

**Office of the Utilities Consumer Advocate**

Toll-free in Alberta: 310-4UCA (310-4822)
www.ucahelps.alberta.ca

**Canada Mortgage and Housing Corporation**
Toll-free: 1-800-668-2642
www.cmhc-schl.gc.ca/en/index.cfm

**Insurance Bureau of Canada**
Edmonton: 780-423-2212
Toll-free: 1-800-377-6378
www.ibc.ca

## REFERENCES

For this module, A Roof Over Your Head, be sure to print the following referenced publications.

- **Information for Landlords**
- **Information for Tenants**
- **Electricity and Natural Gas Contracts**
- **Sub-meters for Rental Units**
- **Renting a Mobile Home Site**
- **Buying and Owning a Condominium**

### Other links referenced in this module

Service Alberta: ***Residential Tenancies Act***
www.servicealberta.ca/624.cfm

Service Alberta: Reality Choices –
**Shopping for Satisfaction**

**You and Your Money**
www.servicealberta.ca/561.cfm

Service Alberta: **Security Deposit Interest Calculator**
www.servicealberta.ca/978.cfm

Industry Canada: **Rent or Buy Calculator**
www.ic.gc.ca/eic/site/oca-bc.nsf/eng/ca01821.html

Canada Mortgage and Housing Corporation:
**Homebuying Step by Step**
www.cmhc-schl.gc.ca/en/co/buho/hostst/index.cfm