
Spend
Smarter
Save
Bigger
250,000
200,000
150,000
100,000
50,000
20,000
10,000
Finding BIG savings
in your Home, Mortgage,
Vehicles, Insurance
and Investments
MARGOT BAI

Errata and Corrigenda

For

Spend Smarter, Save Bigger

1st Edition

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Errata/Corrigenda

***Corrigenda**: an error in a printed work discovered after printing and shown with its correction on a separate sheet*

During the 5 years I wrote **Spend Smarter, Save Bigger**, there were a number of changes in the Canadian financial landscape that required me to modify my text between writing and printing. For example, the Ontario New Home Warranty Program changed their name to the shorter but less descriptive Tarion Warranty Corporation. More significantly, the removal of foreign content limits in RRSPs was a welcome simplification to a topic that many Canadians found daunting. Similarly, the reduction of the GST from 7% to 6% was another welcome change that required a few adjustments in some calculations.

Of course, the one constant in life is change. Below are the changes that have come to my attention since printing. If you are aware of other corrections that you do not see here, please e-mail me or contact me through www.spendsmarter.ca . Should **Spend Smarter, Save Bigger** make it to a second printing, I will endeavour to have these changes incorporated into the manuscript.

Disability and Critical Illness Insurance Page - 93

"While on the subject of insurance, we will sort out life and health insurances, like disability and critical illness, and help you understand what you really need."

Being a licensed insurance representative, I originally wrote about Disability and Critical Illness insurance. However, in editing, I felt that these topics did not relate directly enough to my main theme of finding BIG savings on life's biggest expenses. Though I cut the material, I didn't catch this little reference to it in my lead in to Section 2.

After receiving an enquiry for this material, I decided to post the original text on my website for those with questions in this area. Disability insurance is complex and Critical Illness insurance is still relatively new in Canada. Read my advice on these two important health insurance products here:

"Disability and Critical Illness Insurance - What Do You Really Need?"
www.spendsmarter.ca/sample.php

RealtySellers – Page 114

"You also no longer need a real estate agent to list your home on the Multiple Listing Service. A unique Canadian real estate company, RealtySellers, will list your home on MLS for a flat fee of $695. This gives you all the exposure you really need to sell your home. You would be responsible for preparing and showing your home and negotiating the deal. For an additional fee of $300 RealtySellers will assist you with the closing process… You can learn more about Realty Sellers by visiting their website at www.realtysellers.com."

Unfortunately, in November 2006 the Canadian Real Estate Association (CREA) which owns and operates MLS, changed the rules regarding listing on MLS. The reason given ostensibly was the MLS listings provided by RealtySellers and other low-cost providers were not sufficiently accurate. Whether or not this accusation is true is difficult to ascertain.

CREA doesn't like discount real estate companies like RealtySellers helping their clients advertise their private sales on the same service where agent listings appear. The obvious interpretation of the move by CREA to block discount listings is that they are trying to protect their large majority of commission-based member agencies.

This is a frustrating development for consumers and a move away from freedom of choice and toward corporate monopoly. I was very disappointed when I heard RealtySellers had been blocked from accessing MLS and had suspended operations.

On the plus side, it does give a bit of a boost to private sale websites, the largest of which in Canada is www.bytheowner.com. They will list your home for sale on their website with 6 photos for 6 months for just $299.95. I've spent many hours browsing their listings and actually prefer their site to MLS as they provide more detailed information and often more photos too. They also provide lots of helpful information on selling privately and caution that the private sale process usually takes longer than an agent sale with the average being 90 days.

To learn more about what happened to RealtySellers, read:

"Online Turf War Claims Discount Real Estate Broker"
www.globeinvestor.com/servlet/story/GAM.20061130.RREAL30/GIStory

My Private Sale Experience

In the fall of 2007, I had the opportunity to help my mom sell her house privately and used the services of www.bytheowner.com. I was very pleased with the result and found the process easier than I had anticipated. We conducted open houses on 3 consecutive weekends. After turning down a low-ball offer on the second weekend, we secured a fair offer on the third weekend. The buyers were very reasonable to deal with and we readily agreed to a purchase price, closing date and other terms. Since we both had real estate lawyers assisting with the transaction, we both had the professional legal assistance we needed to ensure things would go smoothly and that our interests were properly looked after.

After selling a home privately, I believe the savings were worthwhile. On a private sale, buyers expect to get a discount on the price since they know you are saving the commission so you can generally expect to sell for less than an agent would. The key is that the savings need to be shared between buyer and seller and not given solely for the benefit of the buyer.

It is difficult to know for sure how much money we saved since we don't know what price we might have gotten with a realtor selling the home. However, the home I was selling was in need of a fair bit of work and had a few issues that would have been unacceptable to a number of buyers. At best, I think an agent might have gotten us around $8,000 more than I did. My guess is that we were ahead somewhere around $5,000 - well worth the effort in selling privately. However, I also believe that, because we were not factoring in a sales commission, we were more comfortable offering the home at a lower price, which helped us secure a faster sale.

One thing I learned from conducting the open houses is that many of the visitors came not as a result of the website listing but because of the Open House signs we had posted. Having really good, professional signage directing people to your open house will make a big difference in the amount of traffic you get. However, even though the listing was not always the first point of contact, it was an easy place to refer people who called as a result of seeing our lawn sign or ad in the paper.

On an interesting side note, we also found that older buyers had not viewed the listing online while most younger buyers had seen it. The young couple that purchased my mom's home did find it online first and came specifically to see the house as a result of the online listing.

Mortgage Loan Insurance Pages 128 - 129

"If your down payment is between 5 and 9.99% the Canadian Mortgage and Housing Corporation will add 3.25% of your mortgage amount to your mortgage balance as premium for "Mortgage Loan Insurance" or MLI. On a $250,000 mortgage with 5% down, MLI adds $8,125 to your mortgage debt at the outset!"

To their credit, CMHC has reduced this premium charge. In fact, just a few years ago, this fee was a whopping 3.75% However, they reduced it to 3.25% in 2004, and in 2005, reduced it again to 2.75% where it stands today. So on a $250,000 mortgage with 5% down, the fee will add $6531 to the mortgage balance, representing a savings of $1594 compared to 3.25% quoted in the book.

More information on the reductions in MLI can be found here:

"First Time Home Buyers Benefit from Lower Costs"
www.cmhc-schl.gc.ca/en/co/moloin/moloin_012.cfm

The current table of MLI premiums (Oct 2007) as found on the CMHC website follows:

Down Payment	MLI premium as % of Loan Value
Up to and including 80%	1.00%
Up to and including 85%	1.75%
Up to and including 90%	2.00%
Up to and including 95% Traditional Down Payment Flex Down	2.75% 2.90%

Another major change on the subject of Mortgage Loan Insurance is the reduction of the down payment needed to avoid having to pay MLI. Traditionally home buyers needed a minimum 25% down payment to qualify for a "conventional" mortgage and escape MLI premiums. Anything less than 25% and MLI premiums would be calculated based on the size of the down payment on the total loan amount.

In April 2007, Bill C-37 came into effect which reduced the minimum down payment necessary to avoid MLI from 25% to 20%. In other words, now if you can put 20% down on any home purchase, you will pay no MLI premiums.

This seemingly small change is hugely significant to Canadian home buyers and homeowners. It means that many people who would have had to pay MLI will avoid those fees, saving thousands of dollars.

I am personally very excited about the possibilities this change opens up for me as a real estate investor. I can now tap into 80%

of the equity in my home to use for down payments on additional properties without paying those nasty MLI premiums on my primary residence. Since I also only need to put 20% down on my investment properties to avoid MLI, this means I will be able to buy more or larger properties than I could if required to put 25% down to avoid MLI premiums. The other 80% can be a conventional mortgage secured directly on the investment property itself.

For more information on this change, read this CBC article: "Mortgage insurance change makes home buying easier: bankers" http://www.cbc.ca/money/story/2007/04/20/mortgage-insurance.html

Excerpts:

> "A federal law that lowers the level where mortgage insurance is required came into effect Friday, and bankers say the change could save many would-be homebuyers $2,000 or more.
>
> "For the last 40 years, homebuyers have been required to buy mortgage insurance from CMHC or another insurer unless their down payment equaled at least 25 per cent of the purchase price.
>
> "One of the changes in Bill C-37 is to cut the requirement for mortgage insurance to purchases with a down payment of less than 20 per cent.
>
> "The effect of that change is that at least 10 per cent of buyers will now not have to buy insurance, BMO Bank of Montreal vice-president Cid Palacio told CBC News.

> "Based on a home price of $300,000, a buyer with a 20 per cent down payment can save about $2,500 on insurance premiums, she estimated."

Spousal RRSPs Pages 266 - 269

Canada Revenue Agency has provided Spousal RRSPs as a way for couples to plan to have equal income streams in retirement. It is a bit of a silly dance they made Canadians do, juggling their RRSP contributions in an attempt to ensure income is spread evenly between partners in retirement and taxed at the lowest possible rate. While financially savvy Canadians who took advantage of this tax planning tool found themselves paying less tax in retirement, those who did not know about the problem and did not plan for it were not so lucky.

Enter Finance Minister Jim Flaherty who announced pension income splitting for seniors in his October 2006 budget. Specifically, starting in the 2007 taxation year, retired couples receiving payments from a pension, RRSP or RRIF may allocate up to half of the proceeds to their spouse for income tax reporting purposes.

Sheesh, all that effort and planning rendered completely unnecessary in a single budget announcement! Nevertheless, this is a great boon for the many seniors who find themselves with unequal pension income. Not only does this potentially reduce tax payable, but it may also increase the amount of Old Age Security (OAS) the couple is eligible for.

Further information on pension income splitting for seniors can be found at:

"Tax Relief for Canadian Seniors"
www.fin.gc.ca/pensioncalc/factsheet_e.html

Margot Bai graduated from the University of Guelph with a B.A. in Honours Psychology and is currently working as a licensed insurance professional. Ms. Bai shows Canadians the best ways to save. To learn more, visit her website: www.spendsmarter.ca