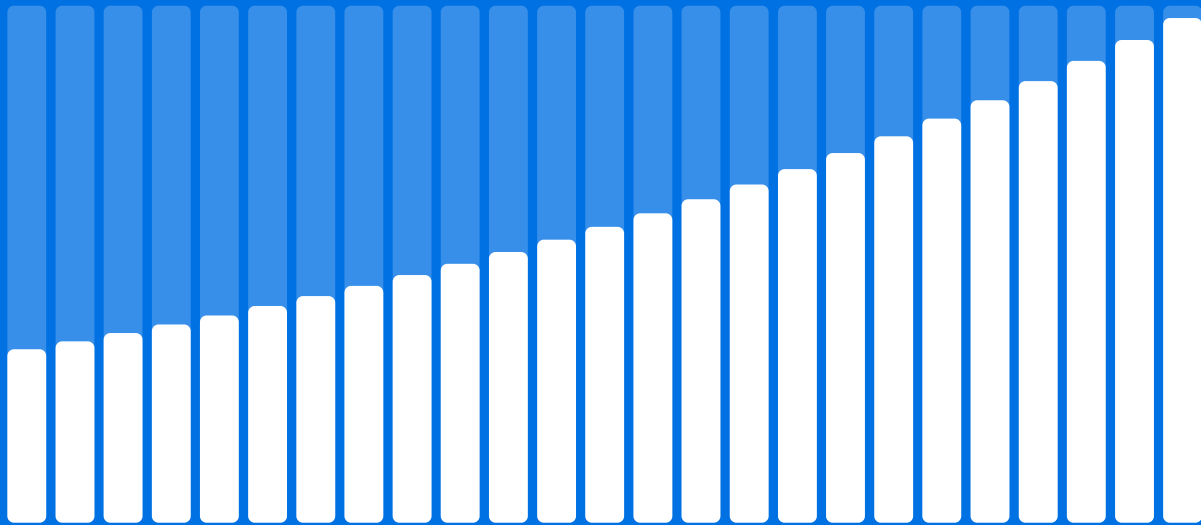


Home Buying Basics

Mortgages, down payments, debt ratios, interest rates and closing costs, in plain language.



5%

minimum down payment on the first \$500,000

39% / 44%

the GDS and TDS limits lenders use

+2%

the stress test on your mortgage rate

Gurvinder Nokwal

Sales Representative, Bridge Realty Inc., Brokerage

(519) 532-6005 · info@homesbynokwal.ca · homesbynokwal.ca

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Before you start

Buying a home is exciting, and the money side can feel like learning a new language. This guide explains what every buyer in Ontario should know before talking to a lender: how a mortgage works, how much you need to put down, how lenders decide what you can borrow, fixed and variable rates, and the costs of closing.

Every example uses the same home: a **\$550,000 house in Woodstock**. Rates are examples for illustration, not quotes.

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Key numbers at a glance

5% Minimum down payment on the first \$500,000	39% Maximum GDS: housing costs as a share of gross income	44% Maximum TDS: all debt payments as a share of gross income	+2% or 5.25% Stress test: you qualify at the higher of the two
2.80% to 4.00% Mortgage insurance premium with less than 20% down	\$4,000 Largest Ontario land transfer tax refund for first-time buyers	\$40,000 Lifetime FHSA limit (\$8,000 a year)	\$60,000 RRSP Home Buyers' Plan limit per person

How a mortgage works

A mortgage is a loan to buy a home, with the home as security. Four words explain almost everything:

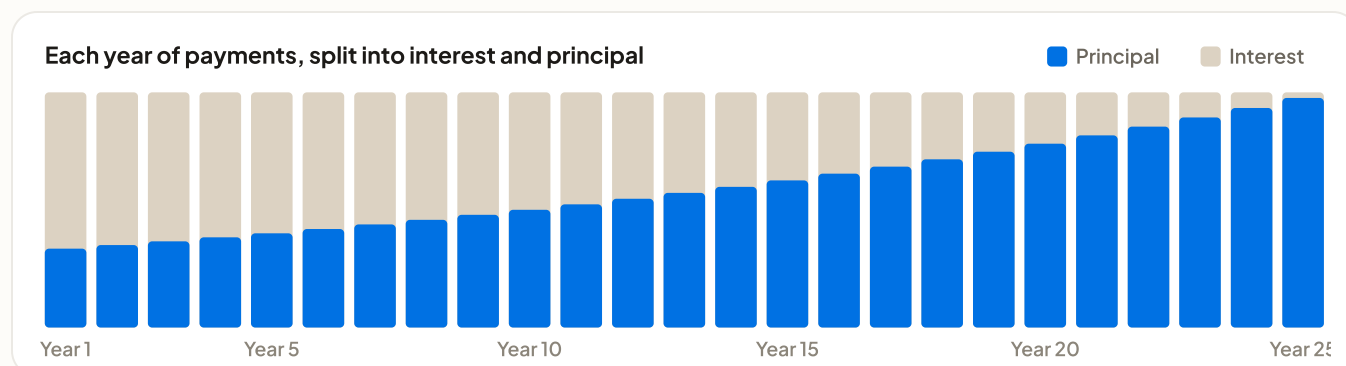
Word	What it means
Principal	The amount you borrow: the price minus your down payment, plus any mortgage insurance premium.
Interest rate	What the lender charges each year. Fixed rates in Canada are compounded twice a year, not monthly.
Term	How long your contract and rate last, usually 1 to 5 years. Then you renew.
Amortization	How long until the loan is fully paid off, usually 25 years (30 for some buyers).

Worked example

Item	Amount
Purchase price	\$550,000
Down payment (10%)	\$55,000
CMHC premium (3.10%, added to the loan)	\$15,345
Total mortgage	\$510,345
Example rate and amortization	4.5% fixed, 25 years
Monthly payment	\$2,824.62

Ontario's 8% sales tax on the premium (\$1,227.60 here) can't be added to the mortgage. It's paid in cash at closing.

Where your payment goes



In year 1, \$22,523 of your payments goes to interest and \$11,373 to principal. By year 10 the split is about even. After the first 5-year term you still owe \$448,064. Total interest over 25 years at 4.5%: about \$337,041.

25 or 30 years?

	25 years	30 years
Insurance premium	\$15,345	\$16,335
Monthly payment	\$2,824.62	\$2,578.23
Total interest (same rate throughout)	\$337,041	\$416,828

The 30-year option lowers the payment by \$246 a month, but costs about \$79,800 more in interest if you never pay extra.

Three ways to pay less interest

- **Prepayments:** most lenders let you pay an extra 10% to 20% of the original amount each year without a penalty.
- **Accelerated bi-weekly payments:** half the monthly payment every two weeks. Here that's \$1,412.31 every two weeks, which pays the mortgage off in about 21.7 years and saves around \$51,000.
- **Shop your renewal:** compare lenders at the end of every term, not just your current one.

Down payment and mortgage insurance

Minimum down payment

5% of the first \$500,000, plus 10% of the part between \$500,000 and \$1,499,999. At \$1.5 million or more you need 20%.

Price	Minimum down payment	Share of price
\$400,000	\$20,000	5%
\$550,000	\$30,000	5.45%
\$750,000	\$50,000	6.67%
\$1,000,000	\$75,000	7.5%
\$1,500,000	\$300,000	20%

Mortgage insurance

With less than 20% down, the mortgage must be insured by CMHC, Sagen or Canada Guaranty. The premium is added to the mortgage. Ontario charges 8% sales tax on the premium, paid in cash at closing.

Down payment	Premium	On a \$550,000 home
5% to 9.99%	4.00%	\$20,800 (with \$30,000 down)
10% to 14.99%	3.10%	\$15,345 (with \$55,000 down)
15% to 19.99%	2.80%	\$13,090 (with \$82,500 down)
20% or more	None	\$0

A 30-year amortization (first-time buyers and new builds) adds 0.20% to the premium.

Where the money can come from

- Savings and investments (lenders ask for 90 days of account history)
- The FHSA and the RRSP Home Buyers' Plan (see page 9)
- A gift from immediate family, with a signed gift letter
- Money from selling a home you already own

Lenders also want to see money for closing costs, often about 1.5% of the price, on top of the down payment.

How much can you borrow?

Lenders look at two ratios of your gross (before tax) monthly income. The smaller one sets your limit.

GDS: up to 39%

Mortgage payment + property tax + heating + half of any condo fees.

TDS: up to 44%

Everything in GDS + car loans, credit cards, lines of credit, student loans and support payments.

The mortgage payment in both ratios is tested at the stress test rate (page 7), not the rate you actually pay.

Example: household income of \$120,000

Item	Monthly
Gross income	\$10,000
GDS limit (39%) and TDS limit (44%)	\$3,900 and \$4,400
Property tax and heating	\$550
Car loan	\$600
Room for a mortgage payment under GDS	\$3,350
Room under TDS (lower, so it sets the limit)	\$3,250
Largest mortgage, tested at 6.5% over 25 years	about \$485,200
Actual payment at 4.5%	about \$2,685

Paying off the \$600 car loan first would raise the maximum to about \$500,100.

Ways to improve your numbers

- Pay down small debts before you apply
- Don't take on new credit before closing
- Add a co-borrower
- Save a larger down payment
- Choose a 30-year amortization if you qualify
- Check your credit report early (CMHC needs a score of at least 600 for one borrower)

Fixed or variable, and the stress test

	Fixed rate	Variable rate
Rate	Locked for the term	Moves with the lender's prime rate
Payment	Stays the same	May change, or the interest share changes
Penalty to break early	Greater of 3 months' interest or the IRD, which can be large	Usually 3 months' interest
Suits	A predictable budget	Room in the budget and flexibility

What a 1% change does

On a \$500,000 mortgage over 25 years, the payment is \$2,767.36 a month at 4.5% and \$3,051.96 at 5.5%. That's about \$285 more every month.

The stress test

You must qualify at the **higher of your contract rate plus 2%, or 5.25%**. You pay your real rate; the higher rate is only used to check your GDS and TDS.

\$500,000 over 25 years	Example A	Example B
Contract rate	4.5%	3.0%
Qualifying rate	6.5%	5.25%
Payment you make	\$2,767.36	\$2,366.23
Payment you must qualify for	\$3,349.12	\$2,979.59

Since November 2024, switching lenders at renewal generally doesn't require passing the stress test again, as long as you don't borrow more. Always compare offers before you renew.

Closing costs in Ontario

Plan for **1.5% to 4% of the price** in cash, on top of your down payment.

Land transfer tax

Part of the price	Rate
Up to \$55,000	0.5%
\$55,000 to \$250,000	1.0%
\$250,000 to \$400,000	1.5%
\$400,000 to \$2,000,000	2.0%
Over \$2,000,000 (homes with one or two units)	2.5%

On \$550,000 the tax is \$7,475. First-time buyers get a refund of up to \$4,000, so they pay \$3,475. Woodstock and Oxford County have no municipal land transfer tax.

Sample budget: \$550,000 home, 10% down

Item	Example
Land transfer tax	\$7,475
Legal fees, disbursements and title insurance	\$2,400
Sales tax on the mortgage insurance premium	\$1,228
Moving	\$1,500
Property tax and utility adjustments	\$600
Home inspection	\$550
Total	\$13,753 (about 2.5%)
First-time buyer, after the refund	\$9,753 (about 1.8%)

Also budget for home insurance, an appraisal if your lender charges for one, a status certificate review for condos, and well and septic checks for rural homes.

First-time buyer programs

Program	What it gives you
First Home Savings Account (FHSA)	Save up to \$8,000 a year, \$40,000 in total. Tax-deductible going in, tax-free coming out for a first home.
RRSP Home Buyers' Plan	Withdraw up to \$60,000 from your RRSP tax-free. Repay it over 15 years.
Ontario land transfer tax refund	Up to \$4,000 off the land transfer tax.
First-time Home Buyers' Tax Credit	A \$10,000 federal credit, worth up to \$1,500 on your tax return.
30-year insured amortization	Lower payments; adds 0.20% to the insurance premium.

The FHSA and the Home Buyers' Plan can be used together, up to \$100,000 per person.

The steps to buying a home

- 1 Check your credit and your budget, and know your GDS and TDS.
- 2 Get pre-approved. It sets your budget and usually holds a rate for 90 to 120 days.
- 3 Choose a realtor who knows the area, and list your must-haves.
- 4 View homes, and research neighbourhoods, schools and commute times.
- 5 Make an offer, usually with conditions for financing and a home inspection.
- 6 Remove the conditions: final mortgage approval, inspection, insurance.
- 7 Your lawyer checks the title, prepares the documents and collects the closing funds.
- 8 Closing day: the deed is registered and you get the keys.

Glossary

Amortization

The total time to pay off the mortgage.

Closing costs

Costs paid on closing day, besides the down payment.

Down payment

The part of the price you pay yourself.

IRD

Interest rate differential: one way the penalty to break a fixed mortgage is calculated.

Mortgage insurance

Required with less than 20% down. It protects the lender.

Prime rate

The benchmark rate that variable rates move with.

Stress test

Qualifying at a higher rate to show you could handle rate increases.

Appraisal

The lender's estimate of what the home is worth.

Conditions

Terms in an offer that must be met before the sale is firm.

GDS and TDS

The ratios lenders use to decide how much you can borrow.

Land transfer tax

Ontario tax paid by the buyer at closing.

Pre-approval

A lender's estimate of how much you can borrow, with a rate hold.

Renewal

Signing a new term when your current term ends.

Term

How long your mortgage contract and rate last.

Questions? Let's talk.

I'm happy to go through your own numbers and connect you with trusted local mortgage brokers, lenders and lawyers.

Gurvinder Nokwal

Sales Representative
Bridge Realty Inc., Brokerage
208 Huron St #3, Woodstock, ON N4S 7A1
(519) 532-6005 · info@homesbynokwal.ca
homesbynokwal.ca

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