The D. H. A. Will Help You to a Home of Your Own by Payment Plan

How to Finance Building of a Home of Your Own

Dominion Housing Act Now Applies to Timmins and District. Director of Housing Explains Provisions of the Act and How the Man Desiring a Home of His Own May Benefit.

(By F. W. Nicolls, M.R.A.I.C., Director of Housing)

The average citizen not engaged in the construction industry builds possibly one house during his lifetime, therefore, it is an undertaking which might be termed as an experiment and should not be done without competent advice and knowledge of what to do and particularly what not to do.

The problem of design and construction may safely be left in the hands of competent architects and builders who specialize in house design and construction but the question of financing is another problem.

Houses are financed by cash or credit. The prospective house owner who has cash available in a sufficient amount to finance his entire house has no problem whatever, but as this occurs in so few cases we can disregard this possibility and consider the methods of financing when it becomes necessary to use credit.

There are several forms of credit available for house builders of which the mortgage is by far the most popular in Canada. Land contract, purchase agreement, building societies, building and loan associations, are used extensively in other countries but are not common in Canada.

There are two forms of mortgage financing, first, the ordinary mortgage in which the borrower borrows a definite sum repayable in full on a fixed date, usually five years or less; second, the amortized mortgage usually for a period of ten years in which the monthly, semi-monthly or annual payments include a blended payment of interest and principal.

Up to a short time ago mortgages in which payments are not systematically amortized were the favourite method of house financing. The program usually consisted of a first mortgage and very often a second mortgage. The first mortgage was limited to 60 per cent. of the value of the house, as a mortgage in excess of 60 per cent. was not a legal investment for trust funds, and trust funds formed the bulk of the available funds for investment in mortgages in Canada.

The mortgage was usually made to fall due in five years, at which time the borrower might or might not be called upon to make a payment on principal, depending upon conditions at the time when the mortgage came due. If money was plentiful the borrower usually had no difficulty in renewing the mortgage for the full amount. On the other hand, if money was scarce the borrower would be required to make a substantial payment, and this period of tight money frequently occurred at a time when he was least able to make a payment. A large part of the losses which have occurred during the recent depression can be traced to the falling due of mortgages and the inability to meet the conditions required for their renewal.

The amortized mortgage came into vogue in Canada with the passing of the Dominion Housing Act in 1935. Since then it has been growing in popularity. It represents sound financing and requires that the mortgage be amortized or reduced at a rate in excess of the physical depreciation of the house. It permits of loans being made to a larger proportion of the cost or value of the house than could safely be made by an ordinary mortgage. With this in mind, Parliament, when it passed the Dominion Housing Act, decided that an 80 per cent. amortized mortgage secured by a house of good design and sound construction could be under prevailing conditions as sound an investment as an ordinary 60 per cent. mortgage. Consequently, approved lending institutions under the Dominion Housing Act have authority to invest in joint 80 per cent. amortized mortgages. The necessity of a second mortgage is thus eliminated at a saving to the borrower of large discounts and high interest charges.

It is conceivable that had a plan of mortgage financing such as that offered by the Dominion Housing Act been in effect during the boom period of 1920-30, houses built during that period would have had their mortgages amortized to such an extent that refinancing during the depression would have been possible without loss to the borrower.

The wise borrower under an amortized mortgage figures that only a part of his monthly payment goes towards increasing his original investment and that the balance of this payment is, in large part at least, in lieu of depreciation.

A house is a physical property and as such is subject to depreciation. House owners should recognize this and set up a sinking fund to offset this depreciation. The average house owner neglects to do this and it is at this point that the amortized mortgage shows its merit by compelling the house owner to do what he should do of his own accord.

There are two prime factors which tend to destroy an investment in a house, namely, depreciation, which is caused by time, weather and wear, and which to a certain extent can be guarded against by the proper use of sound materials; and obsolescence, which to a large extent can be guarded against by having the house properly located and designed and the material and equipment to be used specified by a competent up-to-date architect.

Many houses are built today from plans in vogue in 1920, yet the owner would be insulted if you tried to sell him a 1920 automobile. It is true that there has been more progress and advance in automobile design than there has in house design and yet progress has been made. Design, in competent hands has improved; houses are now designed for living. Limited appropriations have forced designers to study the actual needs of the occupants and design accordingly. Owners are paying more attention to annual maintenance cost, the superfluous ornament and the unnecessary space have been omitted but these results can only be secured by painstaking architects and competent designers.

Many prospective house owners are prone to think that cost and value are one and the same thing. This is far from being correct. Cost is the amount spent to produce the house. Value is what it is worth when completed. Cost is a matter of dollars and can be accurately determined; value is usually a matter of opinion as to what is the market value of the property.

Appraisal of value may be made on the basis of "reproduction cost," which is the amount required to reproduce the house; "value for use," which is what the particular house is worth to the owner who does not have to sell to a buyer who does not have to buy, or "value for sale," which is the amount the house will bring at a forced sale. In the case of foreclosure, where property is sold, it becomes a forced sale. In other words the owner must sell but the buyer will only buy at his own price. This tends to reduce the selling price to a minimum and appraisers when considering thev alue of a house must keep in mind the possibility of having to foreclose and sell. The result is that unless the house is of a type that will attract the average prospective buyer, the appraised value must be conservative.

The builder who constructs a house costing $10,000 among houses worth $5,000 has overdeveloped the property and need not expect to have his house valued or appraised at anything like cost. The house must fit the surrounding neighborhood.

Likewise, if a builder constructs a house of antiquated design or material, or embodying features of no possible value to an average prospective purchaser he should not expect an appraisal equal to cost.

It is essential that a prospective house builder have an equity in his house. Under a Dominion Housing Act mortgage this must be at least 20 per cent. and may be required to be 25 per cent. or 30 per cent. This is the owner's investment in the house and sound lending practice requires that the prospective owner be ready, able and willing to invest this equiy before the lending institution is called upon to advance to the owner or builder the proceeds of the mortgage.

One of the greatest advantages of a Dominion Housing Act mortgage is because it requires monthly payment of interest, principal and taxes. This is a convenience to the owner and a safeguard to the lending institution. Monthly payments are usually paid with less inconvenience than semi-annual payments and fit in more readily with the owner's income, thus assisting in maintaining a monthly budget. What is probably more important is that the owner is actually building up a savings account, paying him five per cent. interest on his monthly payment of interest and principal, which is considerably more than that paid by any savings institution.

How much can a prospective house owner afford to spend on his home? His total investment should not exceed two or at the most two and one-half times his annual income. Twice if he proposes to finance his home with a large mortgage, or possibly two and one-half times if he is in a position to make a substantial down payment. It is also a reasonably safe assumption that it will cost about one per cent. per month to occupy the house when completed.

The selection of the site is all-important, and before it is purchased it would be wise to have a responsible lending institution official or realtor who is familiar with the growth of the district check up for past and future development. Find out all about restrictions and taxes, check for distance to schools and transportation, public services, etc. Then when you have narrowed the choice down, call in your architect, tell him the style house you prefer, and he will help you to choose the site best suited to the house of your choice.

Lending institutions have very decided prejudices based on policy and experience. Nor have their experiences been all alike. Therefore, some lending institutions will make loans in districts in which others will not consider because their experience in that particular district has been favorable. Some lending institutions as a matter of policy will not make loans in the country. They feel that, if it ever becomes necessary to foreclose and sell a house in the country, the possible number of purchasers is so limited that it may not be possible to dispose of the property except at a loss.

If the experience of the lending institution in the past has been that when properties were sold there was a ready market, or if vacant houses are soon picked up at good prices, they will not hesitate to recommend and make loans in that particular district. On the other hand, no lending institution wants to risk their money in a district where they already have a house or houses for sale and cannot find buyers.

A lending institution keeps careful and accurate records of the trend in real estate development. Some of the lending institutions prepare maps showing the expected trend in population in certain districts, and are able to advise prospective purchasers of residential property where to invest in a home site and what is possibly more importnat, where and when not to invest. This is a service that prospective borrowers might well take advan-tage of. This information is the result of group judgment by trained appraisers and naturally is superior to individual judgment by the prospective home owner.

There are certain expenses in connection with financing of a house.

An appraiser must make an appraisal of your building site and the house that you propose to erect. An inspector must make a number of visits to the house during construction to see that the house is being built as the owner and builder promised to build it.

An attorney has to search the title to the property and prepare the mortgage. A surveyor may have to make a survey. There is also the interest on borrowed capital until the house is completed and the taxes on the land during the period of construction. It is impossible to determine definitely what these expenses will amount to but an allowance of two per cent. of the amount of the mortgage will not be far out.

The prospective house owner who requires assistance to finance his house should, therefore, look first for a site which meets his requirements and then see that his house is properly designed to meet his needs and of modern and appropriate materials.

It should be interesting to the prospective builder to learn something about how lending institutions arrive at a lending value in order to determine how much they will lend on mortgages.

Different lending institutions use different systems and methods to arrive at the same result, namely, fair and reasonable lending values. The system described is that in use by the Dominion Housing Act Administration and, in brief, is as follows:

On receipt of a loan application from a lending institution the plans and specifications are checked for compliance with the Minimum Standards of Construction and Memorandum Specifications. If the house complies with these requirements an estimate of cost is prepared. If this estimate compares favorably with the owner's cost and the lending institution's appraisal, the reproduction cost can be readily determined, but — and here is where some houses fail—the house must now pass a test for rating to determine the appraised value. The subjects covered by this rating affecting the site are: Neighborhood, future development, transportation, distance from business and educational centres, restrictions, detrimental influences, etc.

The house also must have a satisfactory rating when checked for efficiency of plan, architecture, materials, equipment, freedom from excessive maintenance, depreciation, and obsolescence, adaptability and suitability to neighborhood, layout and surroundings and future sales value.

If the house will pass these requirements the borrower need not worry as to the financing of his future home but there yet remains a rather important feature. A mortgage is a covenant to pay a certain amount of money at a certain time. The actual property is merely the security to guarantee performance of the covenant, therefore, the promise of the borrower, his reputation for fulfilling his promises, together with his ability to repay the loan is of prime importance to a lending institution.

Lending institutions do not want property, they want their loans repaid when due, and unless the borrower's reputation is such as will convince the lending institution that he will repay and his earning ability is such as will convince the lending institution that he can repay, the best security available will not enable a prospective borrower to secure a loan.

The cost of living in a house is as important as the cost of construction, the two costs are closely related, a successful house strikes a balance between first cost and annual cost.

If we assume 20 years as the economic life of the house, it is safe to figure that the house will be a diminishing security for a loan over that period of time. We should, therefore, figure that the loan must be amortized completely in 20 years.

The average borrower gives little thought to the amount of money spent for the use of borrowed capital over the economic life of his house. Over a period of 20 years this will amount to 57 per cent. in the case of a Dominion Housing Act amortized mortgage. In the case of a straight five per cent. mortgage, renewed in full for a total period of 20 years, it would amount to 100 per cent. plus the renewal fee, and while it is not reasonable to expect a lending institution to make straight loans for a period of 20 years without requiring reduction of principal, these figures indicate that the amortized mortgage is the cheapest method of financing your home.

Under Canadian laws lending institutions are not permitted to make mortgage loans in excess of 60 per cent. of the appraised value of a house unless the lending institution has entered into an agreement with the minister of finance and become a napproved lending institution under the Dominion Housing Act, then they are permitted to make joint mortgages with the Dominion of Canada in amounts equalling 70%, 75% and 80% of the cost of construction of a house or its appraised value, whichever is the lesser.

Briefly summarized the procedure to be followed in financing a new home after you have determined how much you can afford to invest and how much you can pay annually, is as follows:

1st—choose a suitable site in a district protected from detrimental influences and satisfactory to the lending institution;

2nd—choose your architect with care and have your plans and specifications prepared;

3rd—consult your architect in the selection of the builders whom you will employ to construct your new home;

4th—tabulate the cost of the entire project including—(a) land, (b) house, (c) equipment, (d) architect's fees, (e) financing cost;

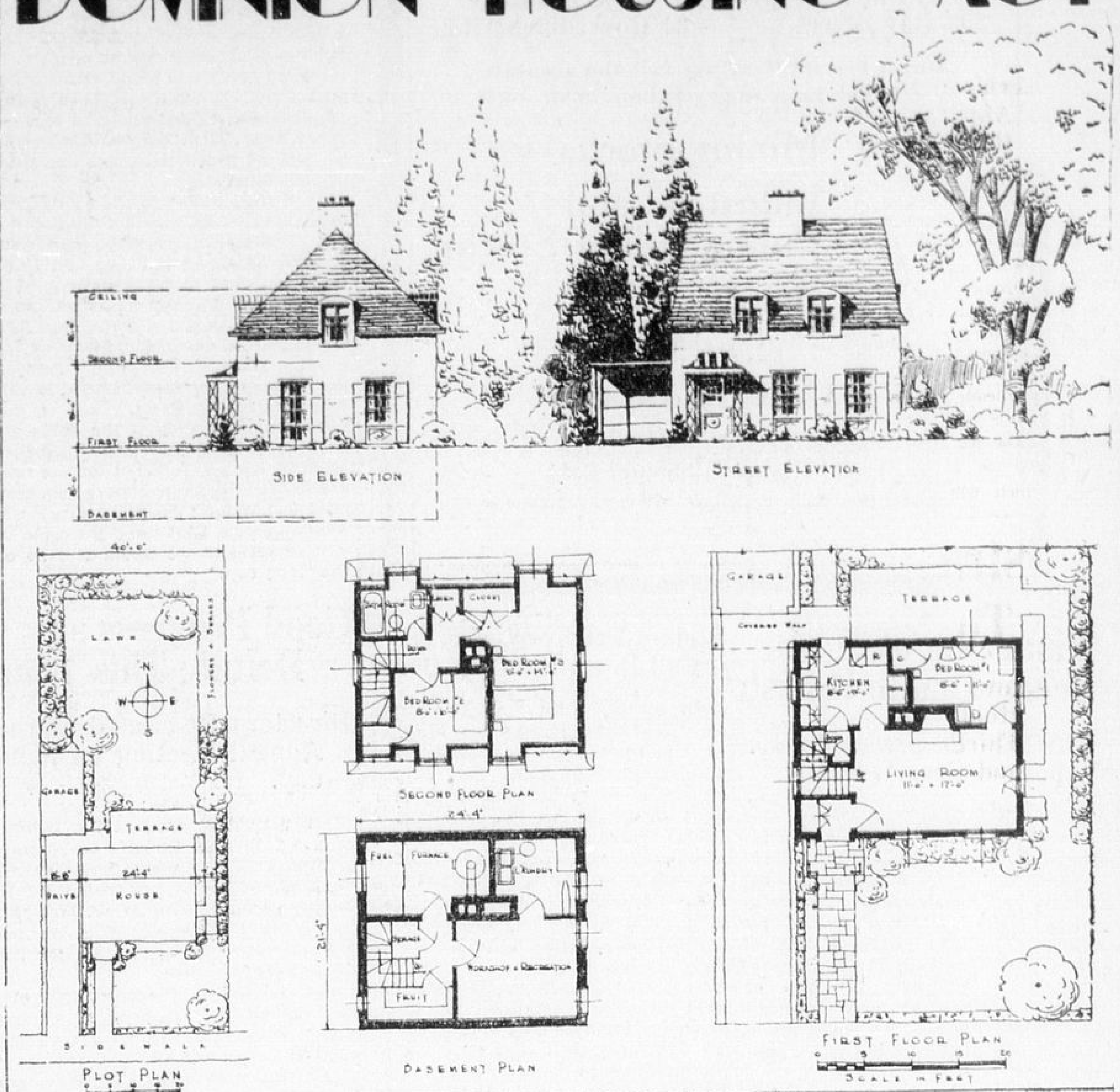
5th—present these figures to the lending institution and make formal application for a loan. Be prepared to furnish the lending institution with all bids, costs etc., and also complete information as to your ability to repay the loan;

6th—be prepared to grant the lending institution sufficient time to check everything carefully and arrive at a decision. This will ordinarily take from a week to a month;

7th—if, and when, your loan is approved you are ready for construction and you may be assured that if you have followed the above advice you have done everything humanly possible to assure yourself of a satisfactory home.

ANOTHER IN THE ADVANCE'S SERIES OF D. H. A. APPROVED PLANS

DOMINION HOUSING ACT



DOMINION HOUSING ACT MODEL HOUSE DESIGN № 147

EDWARD CEC. COX M.R.A.I.C.
1001 UNIVERSITY TOWER BLDG MONTREAL P.Q.

WORKING DRAWINGS OF THIS HOUSE HAVE BEEN PURCHASED BY THE GOVERNMENT FROM THE ARCHITECT, AND A COMPLETE SET CONSISTING OF 4 SETS OF BLUE PRINTS AND 4 DOMINION HOUSING MEMORANDUM SPECIFICATIONS (TO BE FILLED IN BY THE OWNER & BUILDER) MAY BE PURCHASED FOR THE SUM OF $10.00

ORDER BY NUMBER FROM:- HOUSING ADMINISTRATION DEPARTMENT OF FINANCE OTTAWA ONTARIO

With $900 in cash you could build this $4.500 home (house $4,000; lot $500) in Timmins. The balance could be paid off in ten years, under the Dominion Housing Act at $37.98 a month. This design is government-approved and is the second of a series of D. H. A. homes being published by The Advance.

Fox Terrier Orders His Own Ice Cream in Drug Store

(The New Yorker)

One of the patrons of a Cape Cod drugstore is a wire-haired fox terrior who comes in almost every afternoon, hops up on a stool, puts his paws on the counter, and barks twice. That's a signal for the soda clerk to dish up a double portion of vanilla ice cream, which he gives the dog after removing fifteen cents from a purse attached to his collar. The terrier laps up his ice cream as neatly as any summer colonist, utters one grateful bark, and patters contentedly out of the store.

Temiskaming Crops Now in Fine Shape, Due to Rain

New Liskeard, June 30.—(Special to The Advance)—The rain which was general over the Temiskaming district at the week-end was the making of the hay crop this year, M. F. Cook, district representative of the Ontario department of agriculture, told The Advance on Tuesday. Until the rain came, he said, the crop had shown a tendency to go back, after both timothy and clover had come through the winter in good shape, with very little plowed up. Cutting is under way already by some farmers desirous of obtaining a second crop for seed, and this beginning of the harvest is much earlier than last year, when adverse conditions during the preceding winter had made hay a poor crop in this district and it was close to the beginning of August before cutting was under way generally. Other crops are making very nice progress, Mr. Cook said. Farmers of the district hailed the rain with satisfaction after the heat spell and in some sections wells were beginning to get low, The Advance was told, with pasture lands being affected also by the heat.

Kirkland Lads Block up Culvert for Swim Pool

The Northern News of Kirkland Lake last week had the following:—"The need of a swimming hole or pool in town was stressed before council Tuesday night when it came out that high water existed at a point in Murdoch Creek, where it is little better than an open sewer because the youngsters of that area block up a culvert in order to have a swimming hole in the southern part of the town. A property owner told council that the water smelled very bad, and that he was losing tenants on that account. He added that one youngster had fallen in and had nearly drowned. The doctor had worked on him for some time before bringing him around."

What Miners Drink and Eat in Durham County

(Tea Times)

At a meeting of the Pithead Baths Committee of the Silksworth Colliery in Durham County, it was stated that during 1937 the miners bought at the baths canteen, in addition to other commodities:

51,584 pints of milk.
46,349 bottles of mineral water
140,000 pots of tea.
35,812 bars of chocolate.
35,618 pies.
4,324 lbs. of sweets.
£1,761 worth of tobacco and cigarettes.