



# CLOSING COSTS ON HOMES PURCHASED IN ONTARIO

When entering a residential real estate transaction, whether purchaser or seller, it is important to familiarize yourself in advance what associated costs you can expect to incur in addition to the down payment. This is an important but often overlooked step. Being aware of all costs as far in advance of closing as possible will go a long way in ensuring a smooth closing and avoiding any unwanted surprises along the way. Generally, it is wise to put aside for closing costs a minimum of approximately 1.5% of the purchase price. 2% is highly recommended, given the often unpredictable and sometimes turbulent nature of real estate transactions.

To help you get started, we have provided a list of the potential closing costs you may incur during your real estate transaction. It is important to keep in mind that the following list provides general estimates only and is meant to be used solely as a general guideline. Ultimately the exact cost of a closing will depend on the specific purchase.

## POTENTIAL CLOSING COSTS

### LEGAL FEES & DISBURSEMENTS

Legal fees are what you pay for your lawyers time (either a flat fee or per-hour rate). A lawyer will charge a fee for their professional services, which include drafting the title deed, preparing the mortgage, and conducting the various searches. Disbursements are out of pocket expenses incurred by the lawyer, such as registration, searches, supplies, carrier fees, faxing, photocopying etc, plus GST. Lawyer's fees vary from lawyer to lawyer, and largely depend on the degree and quantity of work required for the specific real estate transaction and nature of the agreement between you and your lawyer. Most of the time, there will be a base fee that depends on the type of home (detached, semi, condominium, townhouse etc), and then you pay for disbursements (faxes, photocopying etc). The cost will also depend on whether you are buying, selling or refinancing. In general, depending on particular circumstances in any given case, legal fees + disbursements can range from anywhere between \$900 on the low end to \$2000 on the high end. It is important when researching your closing costs that you ask your lawyer upfront what their legal fees will be in the worst possible situation.

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## LAND TRANSFER TAX

Land Transfer Tax is usually charged on closing when the property is transferred to your name. It can vary depending on the price of the home and whether or not you are a first time home buyer. It can also vary depending upon which city you live in Ontario.

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## MORTGAGE INSURANCE

Insurance costs can include homeowners insurance, mortgage life insurance, title insurance and default mortgage insurance.

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## MORTGAGE PAPERS/ DOCUMENTS

Mortgage documents create a lien against the property and also personally obligate the borrower to repay the loan. The papers are prepared by either the buyer's lawyer or the lender. If they are prepared by the lender, you should have the documents carefully reviewed by a lawyer. By law, your real estate agent, or lender, cannot advise you of the legal consequences of the documents. This is only permissible by your lawyer. Thus, it is paramount you have a lawyer carefully review these documents to ensure they are correct, and that you understand its meaning and the potential repercussions of breach and/or default.

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## PROPERTY TAX & PREPAID UTILITIES ADJUSTMENTS

The buyer's lawyer, at the time of sale, confirms that local taxes have been paid up to date. A tax certificate is issued and adjustments are made accordingly. This requires the buyer to compensate the seller for any prepaid taxes. If the taxes have not been paid, the municipality requires the seller to pay the taxes off from the proceeds of the sale. It is important to keep in mind that where the previous owner has prepaid property taxes or other utilities for the year, they will be credited to the prepaid portion on closing.

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## PROPERTY APPRAISAL

This arises where your lender requires an appraisal report to be completed prior to releasing the mortgage funds. This occurs where the lender requires security that the property is worth what is being paid for it. The cost for such an appraisal is between \$175 on the low end to \$285 on the high end.

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## HOME INSPECTION

This is a report verifying the condition of a property prior to proceeding with a real estate transaction. The scope and detail of such a report varies, but most reports state the specific problem

and the cost to repair it. Depending on the size and location of the property, a home inspection is around \$300.

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#### INTEREST ADJUSTER (IA)

In the event your real estate transaction closes after the first day of the month, where you arranged to make your mortgage payment on the first day of each month, the lender may charge interest on the closing, up to the adjustment date (the first theoretical payment date. This is calculated by your mortgage agent. Please note that mortgages are paid in arrears. This means that if you are to gain possession September 1st, and you choose to pay monthly, then your first payment will be October 1st. No adjustment would be due. However, if you moved in on August 29, with your first payment on the first of the month, your first payment would still be October 1st. However, there would be a 3 day interest adjustment (from August 29 to the official possession date of September 1<sup>st</sup>).

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#### PURCHASING A PROPERTY IN THE CITY OF TORONTO

If you are buying a property in the City of Toronto, you will also pay the Toronto Land Transfer Tax.

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#### FIRST TIME HOME BUYER

First time home buyers get a land transfer tax refund of up to a maximum of \$2,000.00.



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