

Don't hit your debt ceiling because of your mortgage

In cities where housing prices are high, like Toronto, Vancouver and surrounding areas, buying a home is extremely expensive. Fueled in part by the “Fear of Missing Out,” home buyers are routinely maxing out their mortgage debt, just so they can get into the market.



“The problem is that substantial mortgages are pushing many people right up to their debt ceiling. The downside of taking out a large mortgage used to be about being house poor. Now maxing out your mortgage is causing people to live dangerously close to their debt breaking point in a paycheque- to paycheque environment with little or no cash savings,” says Jeff Schwartz, executive director,

Consolidated Credit Counseling Services of Canada.

Here are some ways to keep clear from your debt ceiling by maintaining mortgage and other debt low.

Set your housing budget and stick to it

In a hot market that is characterized with bidding wars, it is normal for house hunters to suffer from buyer’s fatigue as they deal with the emotions of trying to buy a home and lose out multiple times.

“For the sake of your budget and your financial health, you need to let your head rule your heart when it comes to buying a home. It can be tempting, especially if you’ve been looking for a home for a while, to push your budget up, just so you can secure a house,” says Schwartz.

According to a study from [HSBC](#), 42 per cent of buyers ignored their budget and spent more than they intended on their home purchase. Doing so may seem like a good idea at the time because you secure a home, but the more mortgage debt you assume, the more vulnerable you are.

You need to establish a budget that will keep your mortgage payments manageable and take into account the possibility of rising interest rates. You also need to have the cash flow to be able to put money into savings. That means staying well below your debt ceiling.

Get rid of high interest debt

It is preferable to be debt free when you buy a home, but that isn’t always possible. What you should do though is get rid of your high interest debt as a minimum before you purchase a home. Your credit cards and lines of credit are also vulnerable if interest rates go up, which will push your debt ceiling higher.

Pay debts off, consolidate on a lower interest card, or get a consolidation installment loan.

Don't rely on credit to cover costs

You need to consistently spend within your means. That means not using credit as a way to extend your budget. Don't rely on credit as your emergency fund or as a means to tend to your housing repairs and maintenance.

Find ways to cut your housing costs

Your mortgage isn't the only cost that you'll need to manage as a homeowner. In addition to repair and maintenance, you'll need to spend money every month on energy and water bills. Get in the habit of conserving water and energy wherever you can, which will greatly reduce your bills.

Discover your individual score to help assess your current financial fitness level by taking a quick [Financial Fitness Test](#)

For more information on this and other financial literacy and credit issues, visit the [Money and Finances - Canada.ca](#) and [iiCanada Financial Literacy](#) resources page OR the [Jamati Budget Lounge](#), a web-based financial education centre that has been set up exclusively for our Jamat through Consolidated Credit Counselling Services of Canada, a national non-profit organization. The Jamati Budget Lounge offers unbiased debt-counselling service and offers alternatives to help people get their debts under control. In addition to offering solutions to alleviate and eliminate debt, the site also focuses on financial education and understanding. Strategies include teaching basic, but vital concepts such as how to: budget; understand credit; and manage money. The toll-free number **1-844-329-3834** has also been set up for our Jamat to speak to a trained credit counsellor from Consolidated Credit in English, French or Farsi on a confidential basis.

Although all communications will be confidential, any connections via the [Jamati Budget Lounge](#) or via the toll-free number to Consolidated Credit will be tracked for statistical purposes.