

Selecting Your Advisory Team

When starting out in real estate investment, whether you are purchasing a principal residence or an investment property, it is important to have a team of experts and professionals to assist you in achieving your goals. The team should consist of a realtor, lawyer, accountant, lender, financial planner, mortgage broker, building inspector, and insurance broker. Common selection criteria for each will be covered first, followed by specific selection criteria. At the end of this chapter is a list of various Web sites of interest.

Common Selection Criteria

You should be very selective in your screening process. The right selection will enhance your prospects for profit and growth; the wrong selection will be costly in terms of time, money, and stress.

There are many factors you should consider when selecting advisers. For example, the person's professional qualifications, experience in real estate investment, and the fee for services are factors you will want to consider. It is helpful to prepare a list of such questions, plus others relating to your specific needs, and pose these to each of the prospective advisers. Some people may feel awkward discussing fees and qualifications with a lawyer, for instance, but it is important to establish these matters at the outset before you make a decision to use that person's services. The most common selection criteria include qualifications, experience, compatible personality, confidence and competence in the area concerned, and fees. Having a comparison of at least three interviews or conversations is the ideal approach before you select the one suitable for your needs.

Qualifications

Before you entrust an adviser with your work, you will want to know that he or she has the appropriate qualifications. These may include a professional degree in the case of a lawyer or accountant, or some other professional training or qualifications relative to the area of work.

Experience

It is very important to assess the adviser's experience in the area where you need assistance. Such factors as the degree of expertise, the number of years of experience, and the percentage of time spent offering a service in that area are critically important. The amount of reliance you will place on a lawyer's advice and insights, for example, is obviously related to the degree of experience the lawyer has in the area. For example, the fact that a lawyer might have been practising law for 10 years does not necessarily mean that the lawyer has a high degree of expertise in the area of real estate. Perhaps only 10% of the practice has been spent in that specific area. An accountant who has had 15 years of experience in small-business accounting and tax advice will certainly provide you with a depth of expertise about small business in general. If that accountant has experience in the real estate investment area, this is an important factor. Inquire about the adviser's degree of expertise and length of experience in real estate deals. If you don't ask the question, you won't be given the answer, which may make the difference between mediocre and in-depth advice.

Compatible Personality

When selecting an adviser, make certain that you feel comfortable with the individual's personality. If you are going to have an ongoing relationship with the adviser, it is important that you feel comfortable with the person's degree of communication, attitude, approach, candour, and commitment to your real estate investment. A healthy respect and rapport will put you more at ease when discussing business matters and thereby enhance your further understanding.

Confidence

You must have confidence in your adviser if you are going to rely on his or her advice to enhance the quality of your decision making and minimize your risk. After considering the person's qualifications, experience, and personality style, you may have considerable confidence in the individual. If you do not, don't use the person as an adviser because there is a very good chance that you will not use him or her as extensively as you should or when you need to. This in itself could have a serious negative impact on your decision making.

Good Communication Skills

You want an adviser who is a good listener, who elicits your responses, and provides feedback in understandable layperson's terms. Any issues and options should be fully disclosed, with pros, cons, and recommendations.

Your adviser should return your phone calls promptly and keep you regularly informed in writing. Some people and situations require more frequent communication than others do.

Accessibility

If your adviser becomes too busy for you, reconsider the relationship. Your needs should be a priority. If you are shunted to a junior adviser against your wishes, your original adviser may be culling clientele to concentrate on more lucrative clients.

Objectivity

If advice is tainted in any way by bias or personal financial benefit, obviously it is unreliable and self-serving. Get a minimum of three opinions on your particular situation before carefully deciding which professionals to select.

Trust

Whether the person is a lawyer, accountant, financial planner, or other adviser, if you don't intuitively trust the advice as being solely in your best interests, never use that person again. You have far too much to lose, in terms of your financial security and peace of mind, to have any doubts whatsoever. You cannot risk the chance that advice is governed primarily by the adviser's financial self-interest, with your interests as a secondary consideration.

Integrity

Your adviser should have a high standard of personal and professional integrity. The adviser's reputation with other professional colleagues is one reference point. Maintaining the confidentiality of information is another.

Depending on the nature of the advisory relationship, you may disclose your personal needs, wants, hopes, and dreams, as well as concerns. This puts you in a potentially vulnerable position.

References

References and word-of-mouth referrals are particularly important when selecting any adviser who will be taking an overall holistic approach to your financial affairs. Ask for professional references and then contact those professionals and ask about the adviser's strong attributes and any professional weak points. Also, ask how long they have been dealing with each other. Don't feel embarrassed to ask the tough questions—candid feedback can provide you with a revealing reality check.

Don't ask for or expect an adviser to provide you with a list of clients as this would normally breach confidentiality.

Fees

It is important to feel comfortable with the fee being charged and the payment terms. Are they fair, competitive, and affordable? Do they match the person's qualifications and experience? For instance, if you need a good tax accountant to advise you on minimizing taxes, you may have to pay a higher hourly rate for the quality of advice that will save you several thousands of dollars. On the other hand, if what you require is the preparation of annual financial statements, perhaps a junior accountant can do the job competently at a more affordable rate. You may want to hire a bookkeeper to do your books, or do them yourself. There are some excellent accounting software programs to manage your real estate investments. (This is covered in Chapter 10: Managing Your Property.) Be certain the rate is within your budget, or you may not fully use the adviser effectively because of the expense. Not using available professional advice when you need it is poor management. Ask about the estimated fee at the outset.

Comparison

It is a good rule of thumb to see at least three advisers before deciding which one is right for you. The more exacting you are in your selection criteria, the more likely it will be that you will find a good match and the more beneficial that adviser will be to your real estate investment goals. It is a competitive market in the advisory business, and you can afford to be extremely selective when choosing advisers to complement your real estate team.

Selecting a Realtor

There are distinct advantages to having a realtor act on your behalf when buying or selling a property. As in any profession, there is a range of competence among the many real estate salespeople throughout Canada, but with careful due diligence you can minimize the risk and benefit greatly from the skills of a knowledgeable and sincere realtor.

When buying or selling real estate relating to your business, the right realtor will make all the difference in ensuring a positive purchase or sale experience.

Over the past several years, a new relationship structure, sometimes referred to as agency disclosure, has replaced the old system. Many people assumed that if they found a realtor and the house was listed on the Multiple Listing Service (MLS), for example, the realtor would represent their interests exclusively when an offer was presented and through negotiation.

The new system spells out the respective roles and responsibilities of each realtor involved. The seller still pays the real estate commission, which is shared with any other realtor involved. All disclosure of who is acting for whom is spelled out in the agreement of purchase and sale. Some agents working with the buyer may also enter into a buyer agency contract. In other words, each realtor is acting exclusively for the benefit of the buyer or seller. However, if the listing realtor is also the selling realtor (double-end deal), the agent has to enter into a limited dual agency agreement. This is agreed upon and signed by both the buyer and seller. The agent modifies his or her exclusive obligations to both the buyer and the seller by limiting it primarily to confidentiality as to each party's motivation and personal information.

You can get more information from any real estate agent, real estate company, or your local real estate board.

Qualifications

Real estate agents are regulated by provincial government real estate legislation. Agents have to successfully complete an approved real estate agent licensing course and renew their licence annually.

How to Select a Realtor

There are a number of approaches to finding a good real estate agent:

- ✓ Ask friends, neighbours, and relatives for the names of agents they have dealt with, and why they would recommend them.

- ✓ Go to open houses for an opportunity to meet realtors.
- ✓ Check newspaper ads that list the names and phone numbers of agents who are active in your area.
- ✓ Check “For Sale” signs for agents’ names and phone numbers.
- ✓ Check the Internet.
- ✓ Contact real estate firms in your area; speak to an agent who specializes or deals with the type of property you want and is an experienced salesperson.

After you have met several agents who could potentially meet your needs, there are a number of guidelines to assist you with your selection:

- ✓ Favour an agent who is familiar with the neighbourhood you are interested in. Such an agent will be on top of the available listings, will know comparable market prices, and can target the types of property that meet your needs as you have explained them.
- ✓ Favour an agent who is particularly familiar with the buying and selling of residential and revenue properties.
- ✓ Favour an agent who is experienced and knowledgeable in the real estate industry.
- ✓ Look for an agent who is prepared to prescreen properties so that you are informed only of those that conform to your guidelines for viewing purposes.
- ✓ Look for an agent who is familiar with the various conventional and creative methods of financing, including the effective use of mortgage brokers.
- ✓ Look for an agent to be thorough on properties you are interested in, in terms of background information such as length of time on the market, reason for sale, and price comparisons among similar properties. An agent who is familiar with the MLS can find out a great amount of information in a short time, assuming the property is listed on the MLS.
- ✓ Look for an agent who will be candid with you in suggesting a real estate offer price and explain the reasons for the recommendation.
- ✓ Look for an agent who has effective negotiating skills to ensure that your wishes are presented as clearly and persuasively as possible.

- ✓ Favour an agent who is working on a full-time basis, not dabbling part-time.
- ✓ Look for an agent who attempts to upgrade professional skills and expertise.
- ✓ Look for an agent who is good with numbers; in other words, one who is familiar with the use of financial calculations and can therefore assist in clarifying the revenue property analysis aspects.
- ✓ Look for an agent who uses the Internet highly effectively when acting for a vendor or purchaser.

You should give the agent your exclusive business if you have confidence in him or her because the agent will devote considerable time and energy to your needs. Keep the agent informed of any open houses in which you are interested. Advise any other agents that you have one working for you. Review the section called “the listing agreement” in Chapter 6: Understanding the Legal Aspects. Focus clearly on your needs and provide the agent with a written outline of your specific criteria to assist in shortlisting potential prospects. If for any reason you are dissatisfied with the agent who is assisting you, find another agent as quickly as possible.

Benefits of a Realtor to the Purchaser

There are obvious benefits to the buyer of using a realtor as outlined in the previous points. One of the key benefits is that the realtor can act as an intermediary between you and the listing broker. That way, the listing broker may never have an opportunity to meet you and therefore cannot exert any influence on you with aggressive salesmanship, or otherwise make an assessment of you that could compromise your negotiating position. The agent who has the listing agreement with the vendor would know you only through discussions with the realtor you are dealing with and through any offer that you might present. This arm’s-length negotiating position is an important strategic tactic that will benefit you. This is discussed further in Chapter 9: Negotiating Strategies.

Another advantage to a buyer is the opportunity for the realtor to access a multiple listing service, which can provide instant, thorough, and accurate information on properties that might interest you. Without an agent searching for you, you seriously minimize your range of selection and the prospect of concluding the deal at a price that is attractive to you.

Benefits of a Realtor to the Vendor

There are extensive benefits to listing your property with a realtor rather than attempting to sell it on your own. Some of the key benefits include the following:

- ✓ Realtors can list your property on the multiple listing service as well as the Internet, which provides extensive exposure throughout and beyond your market area.
- ✓ Realtors can prequalify and prescreen potential homebuyers so that only serious buyers who have the interest and financial resources present an offer.
- ✓ Realtors can provide information to the purchaser on matters such as financing and other assistance programs that could facilitate the sale of your property.
- ✓ Realtors can suggest methods of improving the appearance of your property in order to maximize the positive impression and therefore the potential buyer's interest and sale price.
- ✓ Realtors can explain the real estate market in your area, and can provide you with MLS computer printouts of comparable listings or sales patterns in your area; they can also supply other facts and figures to assist you in realistically establishing a market price.
- ✓ Realtors free up your own time, using all their contacts and marketing techniques in order to effect the sale of your property.
- ✓ As is the case for purchasers, realtors negotiate an agreement on your behalf and according to your instructions, and you remain at arm's length from the one-on-one negotiating. This improves your negotiating position.

How Realtors Are Compensated

Traditionally the vendor pays the realtor a commission, which is negotiable. Some are fixed percentages and some are variable, depending on the price involved. Some commissions are a negotiated flat rate, regardless of the sale price. There are different commission structures for residential and commercial properties.

If there is more than one realtor involved, for example, a listing broker and a selling broker, then the commission is normally split based on an agreed formula, e.g., 55% to the listing broker because he or she incurs more expenses to sell the property, and 45% to the selling broker.

Resolving Disputes

If you have a dispute with a realtor, keep a record of all your correspondence outlining the complaint. Speak to the realtor first, followed by his or her manager, then the regional, provincial, and national managers. If the complaint is more serious, complain to the local real estate board or provincial agency that licenses realtors.

Selecting a Lawyer

Whether you are the buyer or the seller of real estate, it is essential that you obtain a lawyer to represent your interests—a standard precaution with any real estate transaction. As you will realize by the time you have finished reading this book, there are many potential legal pitfalls for the unwary when buying real estate. The agreement for purchase and sale and related documents are complex. For most people, the purchase of a home or other investment property is the largest investment of their life, and the agreement for purchase and sale is the most important legal contract they will ever sign.

The Selection Process

There are a number of ways to select the right lawyer for your needs:

- ✓ Ask friends who have purchased real estate which lawyer they used, whether they were satisfied with the lawyer, and why.
- ✓ Contact the lawyer referral service in your community. Under this service, sponsored by the provincial law society or a provincial division of the Canadian Bar Association, you can have a half-hour consultation with a lawyer for a nominal fee (usually \$10), which lawyers generally waive to facilitate bookkeeping and PR. To obtain contact information for the lawyer referral service in your province, look in your phone book or check the Internet. Go to www.google.ca and then type in the key words “lawyer referral service” and then the name of your province. Make sure you specify that you want a lawyer who specializes in real estate. Contact the law society in your province for further information.
- ✓ Look in the Yellow Pages under “Lawyers” and check the box ads, which outline the areas of expertise.
- ✓ Check the Internet for specialty lawyers in your area. For example, do a google.ca search.

- ✓ If you are obtaining a mortgage, speak to the lawyer who is preparing the mortgage documents on behalf of the lender. If the lawyer you choose is also preparing the mortgage documents, you could save on some duplicated disbursement costs and negotiate a package price. Be cautious, though, to avoid conflict; ensure that the lawyer provides you with a full explanation of the mortgage terms and conditions that might affect your interests. Keep in mind that the mortgage is being prepared on behalf of the bank, but at your expense. If you have any concerns in this area, retain a separate lawyer to do the non-mortgage legal work and explain the contents of the mortgage to you. Alternatively, ask the lender to let you see a lawyer of your choice from the lender's list of approved lawyers.

You may have heard the term “notary public” and assumed that it means the same as “lawyers.” This is not necessarily so. In most provinces a lawyer is also automatically a notary public, but a notary public is not necessarily a lawyer. Make sure you know the difference. A notary public is not formally trained, qualified, or permitted by law to provide a legal opinion on any subject. He or she can only prepare the required transfer of title documentation, necessary affidavit material, and other related documentary material, and file the documents in the land registry office. In other words, the services provided are primarily technical and procedural. Thus, the buyer or seller of a property is advised to consult a lawyer. In matters relating to properties, you need a lawyer to avoid the potential risk and pitfalls involved, and to deal with the matter for you if a legal problem occurs.

In the province of Quebec, lawyers are referred to as “notaries” (non-courtroom lawyers) or “advocates” (courtroom lawyers). Therefore, in Quebec you would use a “notary” for your property purchase or sale transaction.

Once you have contacted the lawyer over the phone, ask about the areas of his or her real estate interest and expertise. Tell the lawyer that you are looking for a person with expert knowledge in property law. If the lawyer cannot offer this, ask for a recommendation.

If you did not obtain the referral through the lawyer referral service, ask the lawyer over the phone what a half-hour initial consultation would cost. (In many cases it is free.)

Have all your questions and concerns prepared in writing so that you won't forget any. If you wish to make an offer to purchase, bring your offer-to-purchase document with you, and the details about the new, resale, or revenue

project you are considering. Ask about anticipated fee and disbursement costs. If you are not pleased with the outcome of the interview for any reason, move on to another lawyer.

Legal Fee Arrangements

Here are the most common fee arrangements and the types of costs you might encounter.

Hourly Fee

A lawyer bills a fixed rate per hour for all work done. The fee could range between \$100 and \$300 or more per hour, depending on specialty expertise, experience, and so on.

Fixed Fee

If you hire a lawyer to provide a routine service such as a conveyance (transfer of property to your name) or a will, the lawyer may be able to quote a flat fee, regardless of how much work might be involved. For example, a simple will may cost from \$200 to \$300. A straightforward conveyance could start at \$500. Fees can vary based on geographic location, size of community, and so on.

Percentage Fee

Sometimes fees are calculated as a percentage of the value of the subject matter. This approach is often used when probating an estate. Most provinces have legislation that limits the maximum percentage that can be charged, regardless of the time spent.

Contingency Fee

Many provinces allow lawyers to charge on a contingency fee basis, that is, for a percentage of the total amount awarded if the case is won. This is negotiable, but can vary from 25% to 50% depending on the nature of what is being done. For example, let's say that you have a strong case, but do not have the funds to pay your lawyer at the outset. Your lawyer may agree to act for you and charge a percentage of the amount that you eventually receive, either at trial or settlement. If you lose or the matter is not settled, the lawyer gets nothing for the time spent. You would be responsible for paying the lawyer's disbursements, however.

Factors that Affect Legal Fees

Some of the factors that a lawyer considers when setting fees are as follows:

- ✓ the lawyer's degree of specialization in the specific area
- ✓ the number of years that the lawyer has been practising law
- ✓ the amount of time the lawyer spends on your behalf
- ✓ the legal complexity of the matter dealt with
- ✓ the monetary value of the matter at issue
- ✓ the lawyer's degree of responsibility
- ✓ the importance of the matter to the client
- ✓ the degree of difficulty in dealing with the issue
- ✓ the lawyer's degree of skill and competence
- ✓ the results the lawyer obtains on the client's behalf
- ✓ the client's ability to pay.

In many cases the legal fee structure is based on what other lawyers are charging. Although competition in the legal profession is obviously a factor in keeping fees competitive, there are many circumstances when two lawyers will charge a different fee for performing the same routine or specialized service. Always clarify the fee arrangement in writing in advance.

As in any other business relationship, in order to maintain an effective rapport with your legal adviser, good communication is essential. Be certain that you and your lawyer keep each other informed of matters of importance, so neither is operating without complete information. If you are in doubt about the particular advice you are being given, you may prefer to get a second opinion. This is reassurance that you are following the best advice for your business.

Resolving Disputes

Misunderstandings on fees or other matters should be immediately clarified to prevent them from becoming serious problems. You may decide at any time to have the working file transferred to a new lawyer. If you have serious doubts about a lawyer's invoice, you can have it "taxed" or reviewed by a court registrar. This is an informal procedure and results in the fee being upheld or reduced. Your local court office will be able to provide further information.

If you feel that the lawyer acted improperly or incompetently, you have other forms of recourse. All provincial law societies require that their members have a certain minimum coverage for professional liability insurance to cover negligence suits. Individual law firms could have additional coverage. If trust funds go missing, the Law Society allocates funds to cover that situation. Suing your lawyer is an option, but certainly the last resort.

If you have complaints such as possible conflict of interest, poor advice, or other forms of professional misconduct or incompetence, you can file a formal complaint with the provincial law society. The complaints committee has many forms of discipline.

In summary, make sure that you select a lawyer, and consult with that lawyer before you commit yourself to any final agreement for purchase and sale.

Selecting an Accountant

An accountant's chief role is to monitor the financial health of your investment and reduce the subsequent risks and tax payable. Along with your lawyer, your accountant will complement your real estate team to ensure that your real estate investment decisions are based on sound advice and good planning. Some accountants have also obtained their CFP (certified financial planner) certification, in order to offer their clients a more comprehensive consulting advice. Refer to the section on "Selecting a Financial Planner."

An accountant can help you right from the pre-real estate investment phase. The services that can be provided are wide ranging and include the following:

- ✓ setting up a manual or computerized bookkeeping system that both the investor and accountant can work with efficiently
- ✓ setting up a customized software program for real estate investment and management of the properties
- ✓ setting up systems for the control of cash and the handling of funds
- ✓ preparing or evaluating budgets, forecasts, and investment plans
- ✓ assessing your break-even point and improving your profitability
- ✓ preparing and interpreting financial statements
- ✓ providing tax- and financial-planning advice
- ✓ preparing corporate and individual tax returns.

Qualifications

In Canada, anyone can call himself or herself an accountant. One can also adopt the title “public accountant” without any qualifications, experience, regulations, or accountability to a professional association. That is why you have to be very careful when selecting the appropriate accountant for your needs. There are three main designations of qualified professional accountants in Canada: chartered accountant (CA), certified general accountant (CGA), and certified management accountant (CMA). Accountants with the above designations are governed by provincial statutes. The conduct, professional standards, training, qualifications, professional development, and discipline of these professionals are regulated by their respective institutes or associations. Rely on the advice of an accountant, therefore, only after you have satisfied yourself that the accountant meets the professional qualifications that you require for your real estate investment needs.

There are differences in the educational requirements, training, experience, and nature of practice of the accounting designations mentioned above. Some accountants, such as CAs and CGAs, pursue careers in public practice, e.g., serving the needs of the real estate investor. Other accountants work in industry, education, or government, or specialize in the areas of management, cost, financial, or tax accounting. For further information, contact the professional institution or association for the specific accounting designation and request an explanatory brochure. You can obtain the contact phone number from the Yellow Pages under “Accountants,” from the Internet, or from your local library. The professional governing bodies are the Institute of Chartered Accountants, the Certified General Accountants’ Association, and the Society of Management Accountants.

How to Find an Accountant

- ✓ *Referrals:* Often a banker, lawyer, or other business associate will be pleased to recommend an accountant who has expertise in real estate investment. Such referrals are valuable since these individuals are probably aware of your area of interest and would recommend an accountant only if they felt he or she was well qualified and had a good track record in assisting real estate investors.
- ✓ *Professional Associations:* The professional institute that governs CAs, CGAs, and CMAs may be a source of leads. You can telephone or write the institute or association with a request for the names of three accountants who provide public accounting services to real estate

investors within your geographic area. Also, check out the provincial association Web sites. Often an initial consultation is free of charge. Always find out before you confirm the appointment.

- ✓ *The Yellow Pages:* In the Yellow Pages, under the heading “Accountants,” you will find listings under the categories “Chartered,” “Registered,” “Certified General,” and “Management.”
- ✓ *Searching the Internet:* Do a google.ca search, for example.

Preparing for the Meeting

Prior to a meeting with your accountant, make a written list of your questions and concerns in order of priority. As noted earlier, you will want to know the person’s qualifications, areas of expertise, and method of record keeping, e.g., what type of computerized system is used. Ask the accountant what his or her range of experience is in your type of investment: tax, business management advice, accessing financing, and so on. Ask about fees, how they are determined, how accounts are rendered, and what retainer may be required. Ask who will be working on your file—the accountant, a junior accountant, or a bookkeeper. It is common for accountants to delegate routine work to junior staff and keep more complex matters for their own review.

Understanding Fees and Costs

Accountants’ fees vary according to experience, specialty, type of service provided, size of firm, and other considerations. They can range from \$40 to \$150 or more per hour. A highly skilled tax accountant could charge considerably more. It is common for an accountant to have different charge-out rates for the various activities performed: bookkeeping, preparation of financial statements, tax consultation, and advice. For example, if an accountant is doing bookkeeping, it will be at a lower rate scale; complex tax advice is charged at the high end of the range. Accountants generally charge for their time plus additional costs for a bookkeeper, secretary, etc. The bill-out rates for these staff members vary and you should ask in advance exactly what you will be charged.

As with your lawyer, a good level of rapport and communication with your accountant will enhance the quality of advice and the effectiveness of your use of that advice. Openly discuss your concerns and questions with your accountant. You may from time to time wish to seek a second opinion on advice you have been given. If you are not satisfied with your accountant for any reason, you should promptly find another accountant who could better meet your needs.

Resolving Disputes

If you have complaints about fees, service, or conduct, attempt to resolve the dispute directly with the accountant concerned. If that doesn't work, complain to the manager of the firm. Depending on the issues, you can also complain to the provincial professional accounting association. The association can investigate and discipline members. In addition, these provincial professional associations will have a basic insurance package to cover professional liability for negligence or incompetence, as well as missing trust funds. Individual accounting firms may have supplemental professional liability insurance coverage.

Selecting a Lender

When deciding which bank, credit union, or trust company to deal with for your real estate investment affairs, it is advisable to shop around, especially if you need bank financing. Services and rates vary among branches of the same bank. It is helpful to have a lender who has had experience in the area of real estate investment. As a lender's loan-approval limit will vary from branch to branch, you will ideally want a lender who has a loan-approval level greater than the amount of money that you need to borrow. (More information on dealing with lenders is given in Chapter 5: Understanding the Financing Aspects.)

Selecting a Financial Planner

Everyone's financial planning needs are different. The process should take into account all the psychological and financial factors that affect your financial goals and objectives and provide a short-term and long-term strategy. Some financial planners liaise with other professionals—for example, with lawyers, accountants, and insurance brokers—to make sure that the overall plan is integrated. (Refer to Chapter 12: Understanding Financial and Estate Planning.)

Qualifications

Anyone can call himself or herself a financial planner; there are no federal, provincial (except in Quebec), or local laws that require certain qualifications, such as those imposed upon lawyers. However, several associations grant credentials that signify a planner's level of education, although criteria can change from time to time, so check with the association. These are some of the most commonly recognized designations:

Certified Financial Planner (CFP)

CFP is an internationally recognized designation first introduced into Canada by the Financial Planners Standards Council of Canada (FPSCC). Their Web site is www.cfp-ca.org.

Chartered Life Underwriter (CLU)

A Chartered Life Underwriter is a financial advisor with advanced knowledge in life and health insurance and estate planning. An advisor with a CLU specializes in advice on insurance and related tax and estate planning integration. The CLU designation is awarded by the Financial Advisors Association of Canada. For more information, refer to their website: www.advoicis.ca.

How to Find a Financial Planner

Referral by Friend, Accountant, or Lawyer

If using word-of-mouth referral, ask why your contact recommends a particular person. Does the person making the referral currently use the planner's services? How long has he or she known the person professionally? What are the planner's strengths and weaknesses?

Financial Planning Standards Council of Canada

The Financial Planners Standards Council of Canada's (FPSCC) Web site at www.cfp-ca.org has the names of those having a CFP designation in your area.

Advocis

This is the name of the Financial Advisors Association of Canada. This association is a merger of the Canadian Association of Financial Planners and the Canadian Association of Insurance and Financial Advisors. Their Web site is www.advocis.ca from which you can obtain names of Advocis members in your area.

How to Select a Financial Planner

Once you've made the decision to seek the services of a financial planner, you may have many more questions: Which professional is right for me? How do I identify a competent financial planner who can coordinate all aspects of my financial life?

Just as when you select a lawyer or accountant, base your decision on a number of factors—education, qualifications, experience, and reputation.

When selecting your financial planner, choose one you can work with confidently. It is your responsibility and right to fully inquire about the practitioner's background, number of years in practice, credentials, client references, and other relevant information. Meet with the practitioner to determine compatibility and financial-planning style. Meet with at least three planners before you make your final selection. To work together effectively, it's important to find someone with whom you feel completely comfortable.

How a Financial Planner Is Compensated

It is important to understand, and be comfortable with, the way your financial planner gets paid. Financial advisers are compensated in one of four ways: solely by fees, a combination of fees and commissions, solely by commissions, or through a salary paid by an organization that receives fees. In some cases, financial advisers may offer more than one payment option. Here's how these different methods work.

Fee Only

Many lawyers, accountants, and fee-only financial planners charge an hourly rate, including time spent in research, reviewing the plan with you, and discussing implementation options. Others charge a flat amount, but usually offer a no-cost, no-obligation initial consultation. Some will do a computerized profile and assessment of your situation for a fee that can range from \$200 to \$500 or more.

Fee-only financial advisers typically advise you on investments, insurance, and other financial vehicles, but do not benefit from commissions. The planner has no vested interest in having you buy one financial services product over another. Some fee-only financial planners will help you follow through on their recommendations using mutual funds and other investments. Otherwise, you will have to take your own initiative.

Commission Only

Some financial advisers are compensated solely through commissions earned by selling investments and insurance, including life insurance, annuities, or mutual funds. A commission-only adviser will develop recommendations for your situation and goals, review the recommendations with you, and discuss implementation.

In some cases, commissions are clearly disclosed, for example, a percentage front-end load commission on a mutual fund. In other cases, the fees are lumped into the general expenses of the product, as with life insurance, so you won't know how much your planner makes unless you ask. When you interview potential candidates, ask about the relative percentages of commission revenues from annuities, insurance products, mutual funds, stocks and bonds, and other products. The candidate's answers will give you a sense of the kind of advice the firm usually gives.

You could also pay ongoing charges that apply as long as you hold an investment. Some insurance companies pay planners trailer fees for each year a client pays premiums. In other situations, you must pay a fee if you sell a product before a set period of time has elapsed. These surrender charges, a percentage of your investment, reimburse the insurer for the commissions it has paid your planner. Some mutual funds require a back-end load fee on early sale. These are usually applied on a sliding scale. After the set time period, you will not be charged. Some companies entice commission-motivated planners with free travel, merchandise, or investment research if their sales of a particular product reach a target level. Your planner might not like your questioning of his or her cash payment and perks. However, it is your right to know whether the products you buy generate direct fees and indirect benefits for the planner in order to decide whether the advice is self-serving or objective.

Fee Plus Commission

Some planners charge a fee for assessing your financial situation and making recommendations, and also earn a commission on the sale of some of those products.

Some planners are "captives" of one company, so they recommend only its product line. Others are independent and can recommend the mutual funds or insurance policies of any company with which they affiliate.

Another form of compensation, called fee offset, involves a reduction in fees for every product purchased. If you buy so many products that your entire fee is covered, request a refund of the fee you paid for your basic plan.

Salary

In most instances, the staff financial advisers at many banks, trust companies, and credit unions are paid by salary, and earn neither fees nor commissions. Of course, there could be other monetary incentives based on the volume and value of the business done or quotas. Career advancement could also be tied to sales performance.

If an adviser helps you select and monitor the purchase of investments or insurance, there will be some cost to you and/or payment to the adviser. This could be in the form of a commission, redemption fees, trailer fees, or asset management fees.

Also, many investments charge annual management and transaction fees. For example, if you open an RRSP, the company that serves as trustee may charge an annual custodial fee for the service. Weekly comparisons of the management-expense ratios of various funds are available in newspapers. These costs will be in addition to the fee for advice.

What to Know about a Financial Planner

Compensation is just one important element that you should consider when hiring a financial adviser. Be sure that the planner you choose has a defined financial-planning process, that addresses your current situation, sets goals, identifies alternatives, selects and implements a course of action, and calls for periodical reviews. It should be a client-centred process. Education, credentials, references, trust, and rapport are also important.

Choose the compensation method that best meets your needs. As a smart consumer, you want to know what you're buying and how much you're paying for it and you're entitled to that information. Do not consider hiring a financial planner who is reluctant to disclose how he or she is compensated.

Research shows that consumers rate "trust" and "ethics" as the most important elements in their relationship with financial advisers. In fact, survey respondents gave this response twice as often as they mentioned good advice and expertise.

Resolving Disputes

If you have any complaints about fees, service, or conduct, first attempt to deal directly with the person concerned. If that does not resolve the matter, you can complain to management, the professional association that the adviser may belong to, the national industry association, the provincial regulatory association, and the provincial securities commission with which the adviser may be registered. Avoid potential advisory problems by pre-empting them through careful selection.

Selecting a Mortgage Broker

Mortgage lending has become very complex, with constantly changing rates, terms, and conditions. Each lending institution has its own criteria that apply

to potential borrowers. Some insist on a particular type of property as security, while others require a certain type of applicant. In this latter case, factors such as type of employment, job stability, income, and credit background are weighed. Lending institutions have a broad range of philosophies and policies on the issue of security and applicant qualifications in order for a lender to advance mortgage funds. (For further information, refer to Chapter 5: Understanding the Financing Aspects.)

Other factors also affect mortgage approval. Availability or shortage of funds, past experience in a specific area, perceived resale market for a particular property, and the attitude of the lending committee (e.g., if it is a credit union) are all factors that could affect approval of a mortgage.

Mortgage brokers make it their business to know all the various plans and lending policies, as well as the lender's attitude on various aspects of mortgage security and covenants. A mortgage broker is in effect a matchmaker, attempting to introduce the appropriate lender to the purchaser.

Mortgage brokers have access to numerous sources of funds, including the following:

- ✓ conventional lenders such as banks and trust companies
- ✓ credit unions
- ✓ Canada Mortgage and Housing Corporation (CMHC)
- ✓ GE Mortgage Insurance
- ✓ private pension funds
- ✓ union pension funds
- ✓ real estate syndication funds
- ✓ foreign bank subsidiaries
- ✓ insurance companies
- ✓ private lenders.

The broker knows all the lenders' objectives; the broker is therefore capable of matching the applicant and his or her property with the appropriate plan and lender. Alternatively, the broker can provide a series of mortgage plans from which the borrower may select the one that best suits his or her needs.

Mortgage brokers basically offer two types of services:

- ✓ They arrange a simple mortgage that will get automatic approval in your particular circumstance, which saves you a lot of time searching. The broker generally receives a commission directly from the lender

as a “finder” or “referral” fee. You don’t pay any extra money or higher interest. Lenders do this because the mortgage market is so competitive.

- ✓ They arrange a more complex mortgage that would not be automatically approved. This takes more time, skill, and persuasion on the part of the broker to source out a lender or number of lenders who will provide the funds you need. For example, if you did not have the normal amount of down payment required, had a negative credit rating, were highly leveraged already, or did not have the normal income required, you would probably be turned down by a conventional lender such as a bank, credit union, or trust company.

If a mortgage broker succeeds in arranging your complex mortgage financing, given the above types of factors, you would pay a commission. The commission could be from 1% to 5% or more of the amount of the mortgage arranged, depending on the degree of difficulty, the urgency of the need for funds, etc.

To find a mortgage broker, look in the Yellow Pages of your telephone directory, check the Internet, or ask your real estate lawyer or your realtor. You can also obtain names of mortgage brokers from their provincial association, the Canadian Institute of Mortgage Brokers and Lenders (www.cimbl.ca).

Selecting a Building or Home Inspector

Qualifications

One of the most important aspects of purchasing your principal residence or investment property is to know the condition of the property in advance. It is a small expense for peace of mind. You don’t want to have problems after you buy that will cost you money to repair. You could lose all your potential profit and put your investment at risk otherwise.

Make sure when you obtain an inspection that the person doing it is qualified and independent. Ask what association he or she belongs to, if any, and, if not, why not. One of the main associations in Canada is the Canadian Association of Home and Property Inspectors (CAHPI), with various provincial chapters. To become a member of CAHPI, an inspector must meet various professional and educational requirements, successfully complete a training course and write exams, and practise professionally for a trial period before being considered by the association. In addition, there are annual continuing education requirements to ensure that their industry knowledge

is kept current. You can check out the CAHPI Web site (www.cahpi.ca) to get names of members in your area.

The terms “home inspector” and “building inspector” are frequently used interchangeably in terms of independent fee-for-service inspections. These services are different from municipal building inspectors, who approve various stages of a new home construction or renovation as staff of the local government.

Services Provided by a Building Inspector

A home inspector is an objective expert who examines the home and gives you a written opinion of its condition and, ideally, the approximate range of costs to repair the problems. Home inspectors look at all the key parts of the building, such as condition of the roof, siding, foundation, basement, flooring, walls, windows, doors, garage, drainage, electrical, heating, cooling, ventilation, plumbing, insulation, and so on. They should also look for signs of wood rot, mould, and insects.

The older the building, the more potential problems, but new buildings can have serious problems as well. If the new building is covered by a New Home Warranty Program, then you have some protection. However, that program does have some exclusions, and you don’t need the hassle of rectifying a problem. If a new home is not covered by the New Home Warranty Program, or is not a new property, you definitely want a home inspection; otherwise, you might have to pay to repair the problem if the builder refuses to do so or goes out of business. You can have an inspection done of a house, townhouse, or apartment condominium, or any type of residential type of building.

Older homes present a more challenging inspection process, for example, to check for aluminum wiring, asbestos, urea formaldehyde foam insulation (UFFI), lead paint, and termites or carpenter ants.

Quite apart from avoiding expensive surprises, using a home inspector has another potential benefit. If the report shows problems with a quantifiable cost to rectify it, you could use that information to negotiate a reduction in the property’s price to reflect the estimated cost of repair. You may not want to buy the home, even if problems can be rectified. At least the report gives some objective professional’s opinion on the condition of the home to discuss with the vendor.

Make sure that you put a condition in your offer that says “subject to purchaser obtaining a home inspection satisfactory to the purchaser within X

days of acceptance of the offer.” This way it will be your discretion as to whether you want to complete the deal or not. In addition to the need for a home inspection, you might also be able to obtain a “vendor’s disclosure statement.” Real estate boards in some provinces have prepared such a form for vendors to sign, disclosing any known problems with the home. As this is a voluntary program in many cases, ask for the reasons if a vendor refuses to complete the form. Have a professional home inspection done anyway, for obvious reasons. The owner may honestly not be aware of serious problems with the home if they are not visible or obvious.

How to Select a Building or Home Inspector

It is important to obtain a qualified and independent inspector. (See section on “Qualifications.”) Avoid someone who has a contractor business on the side and may hope to get the repair business from you. Their advice could be self-serving and biased. Apply the same selection criteria discussed earlier in this chapter. Look in the Yellow pages of your telephone directory under “Building Inspection Services.” You can also ask friends, relatives, neighbours, or your real estate agent for names of inspection companies they know and recommend. Call several inspectors in your area and interview them. Check with your local Better Business Bureau to see if there have been any complaints against the company that you are considering. Ask for references and check out the references.

Home inspection fees range from approximately \$200 to \$400 or more depending on the expertise required and the nature of the inspection, the size of the home, its age and condition, your geographic area, the nature of inspection services requested, and other variables. It normally takes a minimum of three hours to do a thorough inspection.

Here are the questions that you should ask when deciding which inspection company to select:

- ✓ What does the inspection include? Inspections should include the areas previously discussed under “Services Provided by a Building Inspector.” Always make sure that you get a written report and ask for a sample of a report and what will be covered.
- ✓ How much will it cost? Determine the fees up front.
- ✓ How long will the inspection take?

- ✓ Does the inspector encourage the client to attend the inspection? This is a valuable educational opportunity. You will have a chance to see the problems first-hand. You will also learn various helpful maintenance tips. If an inspector refuses to have you attend the inspection, this should raise a red flag.
- ✓ How long has the inspector been in the business as a home-inspection firm and what type of work was the inspector doing before inspecting homes?
- ✓ Is the inspector specifically experienced in residential construction?
- ✓ What and where was the inspector's training? Does the inspector participate in continuing education programs to keep his or her expertise up to date?
- ✓ Does the company offer to do any repairs or improvements based on its inspection? This might cause a conflict of interest.
- ✓ Does the inspector carry errors and omission insurance? This means that if the inspector makes a mistake in the inspection and you have to pay to rectify the problem, the insurance will cover it. How much insurance does the inspector have and are there any restrictions or exceptions? Will the inspector confirm all that in writing before you make a decision to have the inspection done?
- ✓ Does the inspector belong to an association that will investigate any consumer complaint? This is an important point and was covered earlier under "Qualifications."

Selecting an Insurance Broker

A insurance broker is not committed to any particular company and therefore can compare and contrast the different policies, coverage, and premiums from a wide range of companies that relate to the type of insurance coverage that you are looking for. Also, insurance brokers can obtain a premium quotation for you and coverage availability from insurance company underwriters if the particular investment you have is unique or difficult to cover by other existing policies. Insurance brokers generally have a wide range of types of insurance available. Ensure that the broker is affiliated with a reputable firm.

When selecting an insurance broker, you should ask about the person's professional credentials, expertise, and experience. It is important to have confidence in the broker's background and skills.

Every real estate investment building needs insurance. Creditors such as banks often require insurance. Ask the insurance broker for brochures describing the main type of insurance and an explanation of each. (The main categories and types of insurance that you should consider and discuss with your insurance broker are discussed in Chapter 8: Understanding the Insurance Aspects.)

Qualifications

Insurance agents are licensed and regulated by the provincial governments. Some agents are tied to a particular insurance company, and will sell only the insurance products offered by that company. However, it has become far more common for property or life insurance agents to operate as brokers and to deal with any number of insurance companies, although officially licensed by one company. If you want a broker for property insurance, make sure they are a member of the Insurance Brokers Association of Canada. If you want life or health insurance, make sure they are members of the Financial Advisors Association of Canada.

How to Find an Insurance Broker

There are several ways to find an insurance broker:

- ✓ Look in the Yellow Pages under “insurance brokers.”
- ✓ Ask your accountant, lawyer, business associates, and friends for a recommendation.
- ✓ Ask your business, trade, or professional association whom they would recommend.
- ✓ Search the Internet.
- ✓ Check with the Insurance Brokers Association of Canada (www.ibac.ca) for names of members in your area.
- ✓ Check with the Financial Advisors Association of Canada (www.advocis.ca) for names of members in your area.

How to Select an Insurance Broker

Choose an agent you can trust, one who will take the time to listen to you and understand your needs. Ask the agent how long he or she has been in the business, and consider asking for references or a recommendation from one of the agent's other clients.

Your insurance agent should be willing to work with your accountant, lawyer, investment adviser, and tax adviser to develop the optimum estate-planning strategy. Check with your business association, local Chamber of Commerce, and provincial retail merchants association for special rates.

How Insurance Brokers Are Compensated

Insurance agents earn their income in commissions on the insurance policies they sell. Commission rates vary from company to company, and from one life insurance product to another, and recommendations should be evaluated as objectively as possible.

However, despite this apparent built-in lack of objectivity, most life insurance agents are people of integrity who will not recommend the purchase of life insurance unless it is clearly warranted under particular circumstances. They know that their recommendations must be able to withstand scrutiny by the client's accountant or financial adviser, and their reputations are at stake.

Resolving Disputes

If you have a problem with an insurance broker, deal with it directly, assertively, and candidly. Put your concerns in writing so that there is a record. If this approach does not work, talk to the manager, the regional or provincial manager, and even the national head office if necessary. Always keep copies of your correspondence.

Web Sites of Interest

Here are some Web sites of professional and other organizations that will provide helpful information. Also, most the professional associations provide names of accredited professionals in your area. The names of the associations are self-explanatory, unless otherwise described.

Appraisal Institute of Canada:	www.aicanada.ca
Canadian Association of Home and Property Inspectors:	www.cahpi.ca
Canadian Bar Association:	www.cba.org
Canadian Institute of Chartered Accountants:	www.cica.ca
Canadian Institute of Mortgage Brokers and Lenders:	www.cimbl.ca

Canadian Real Estate Association: The Association represents all real estate agents in Canada.	www.crea.ca
Certified General Accountants Association of Canada:	www.cga-canada.org
Certified Management Accountants of Canada:	www.cma-canada.org
Financial Advisors Association of Canada: The membership of this organization is the result of a merger of the Canadian Association of Financial Planners and the Canadian Association of Insurance and Financial Advisors.	www.advocis.ca
Financial Planners Standards Council of Canada: This organization licenses financial planners with the certified financial planner (CFP) designation.	www.cfp-ca.org
Insurance Brokers Association of Canada:	www.ibac.ca

Summary

You need to have a minimum benchmark comparison of three advisers in each area of your interest before you can make a reasonable decision in selecting one (if any) of them. As expert advice is critical to your personal, investment, and financial well-being, the selection process has to be thorough. This process will also greatly accelerate your learning curve, and raise your confidence level, and quality of decision making.

Now that you know how to select your team, it's time to learn about the ins and outs of financing a purchase.