Financial Independence Hub

North America's Gateway to Financial Independence

Sharing mortgages with unequal incomes

Posted By Financial Independence Hub | August 18, 2017

By Alyssa Furtado, RateHub.ca

Special to the Financial Independence Hub

When you decide to buy a home with another person, there's a good chance there will be a difference in your incomes. Whether the difference is big or small, it raises questions about how expenses will be split up. Two people with unequal incomes getting a mortgage together is a very common occurrence: couples make up a vast majority of homebuyers. But you can also buy a home with a friend or family member.

If you're planning on sharing a mortgage with someone else, here's what you need to know to make it work.

How will the home be owned?

If you're purchasing a home together, you need to discuss how the ownership will be structured. If you're a married or common-law couple, you'll probably opt for what lawyers call joint tenancy. Both parties share a 100% stake in the property and both are fully responsible for everything related to the home, including the mortgage, taxes, and maintenance. If one partner dies, the other becomes the sole owner of the home.

If you're buying with a friend or family member, you might opt for what lawyers call tenancy in common. With this structure, each person owns a separate share in the property and is responsible for their share. If you're planning on being tenants in common, and one of you earns a higher income, you'll need to discuss how that affects each partner's ownership stake in the home and who will be responsible for what payments.

Who pays for what, and why?

When making decisions about how to share expenses, couples in joint tenancy usually take on equal responsibility. Since both partners are 100% owners of the home, finances are joined and mortgage payments are made using a joint account. Household income is the only thing that matters in this situation. Couples have to work together to make decisions about their budget to ensure the mortgage, property tax, and maintenance costs are all paid.

For tenants in common, you can choose to split up ownership and expenses a few different ways:

1.) Base on ownership stake

If you agree you'll each own 50% of the property, you'll each be responsible for 50% of the expenses, regardless of income. Each partner pays half the mortgage, half of property taxes, and so on. If either partner's income changes later on, it doesn't affect their obligation to the property. You can choose any split you want, but if one person owns more than 50% of the home, you need to agree in advance on what decision-making power the majority owner will have.

2.) Base on income level

This might be a good option for a couple that's planning to be together for the long term, but want to keep their finances separate. In this scenario, each partner will be responsible for their percentage of the household income. For example, if partner A earns $60,000 per year, and partner B earns $40,000 per year, the household income is $100,000 per year. Partner A will be responsible for 60% of the mortgage, taxes, and maintenance, while partner B will be responsible for 40%.

You'll need to decide in advance how to treat this if your incomes change. For example, if partner B's salary increases, their percentage of household income will rise. Conversely, if partner B loses their job, their percentage of household income will drop.

3.) Factor in the down payment

If one partner in a home purchase earns more money than the other, there's a good chance that partner will also have more money for a down payment. In that case, the other partner might be responsible for a higher portion of the carrying cost. You can do the math on this using a mortgage payment calculator.

For example, the mortgage payment on a $500,000 mortgage with a 5% down payment will be $2,248 (based on a 25-year amortization with a five-year fixed rate of 2.64%). But if one partner makes a down payment of $100,000, the monthly payment will be only $1,820. In this case, the partners may agree that the person who didn't contribute to the down payment will pay half of what the mortgage payment would have been—in this case half of $2,275, which is $1,137.50. That leaves only $682.50 for the other partner to contribute. Maintenance and property taxes can be shared 50/50 or using a split agreed on by the partners.

In this scenario, the partner who made the down payment will always have more equity in the home, and therefore will have more to lose if either partner falls behind on their payments.

4.) Base on a flat rate

If one partner makes significantly more than the other, you may agree that the lower-earning partner is only responsible for a set portion of the mortgage, regardless of other factors. For example, you could agree that one partner pays the other $1,500 per month to be used toward home expenses: essentially, that partner will be paying rent to the other. You will need to decide on how ownership of the home will be divided. You will also need to discuss what to do if an expense came up that's over and above general maintenance. For example, a new furnace can easily cost several thousand dollars. Agreeing up front on who's responsible for these kinds of expenses can stop fights from happening later on.

What about getting a mortgage?

If you're asking the question "how much can I afford to spend on a home?," the answer depends on how you decide to structure your mortgage.

No matter what, both owners will be 100% responsible for the entirety of the mortgage. That's because mortgage lenders need to be able to recoup their loss in the event of a default, and they can't use power of sale (or foreclose) on half of a home.

Your mortgage affordability will be calculated as if you've combined your finances. That means the lender will qualify you based on your household income, combined debts, and total cost of homeownership (including the mortgage, property taxes, and heating costs). You can use a mortgage affordability calculator to see how your finances add up.

Some lenders offer to divide a single mortgage into different payment terms (fixed or variable and amortization periods) so that might be a good compromise if you disagree on the details of the mortgage. Your mortgage broker can help you find a lender that will meet your needs.

Make it official

Even if you're very confident in your relationship with your co-buyer, it's a good idea to write up an agreement outlining how everything will be divided. For a fee, a real estate lawyer can help you write a legal contract covering multiple scenarios, such as what happens if one partner can't make their mortgage payments, wants to sell their share in the home, or passes away.

Find your dream home

Buying a home with a partner can help you gain access to properties you aren't normally be able to afford on your own. Especially in hot markets like Vancouver, fractional ownership is becoming more common, and there are even entire groups of people living together in these kinds of arrangements.

If you've found someone you can live with (literally), and you can agree on how you want to structure your purchase, getting a mortgage with unequal incomes can be fairly straight forward. Just do your homework and make sure you've thought through every possible scenario.

Alyssa Furtado is a passionate entrepreneur, financial expert, digital marketer and educator, and founder of RateHub.ca, a website that compares mortgage rates, credit cards, high-interest savings accounts, chequing accounts, and insurance with the goal to empower Canadians to search smarter and save money.