



Types of Mortgages

Mortgages can be a confusing subject. Buying or selling a home is an emotional decision and can be very stressful. As a mortgage expert, I will take the confusion out of mortgages and make the process as smooth as possible.

In Canada, there are two major categories that mortgages fall into, either closed or open. Most mortgages are closed, meaning that you can't pay out the mortgage in full without paying a penalty to the lender. You can, however, often make lump sum or extra payments each year.

An open mortgage allows you to pay out the mortgage anytime without penalty. But you typically pay a higher rate than when opting for the same closed version. Open mortgages may have an administration fee that is higher than a closed mortgage if you do, in fact, decide to fully pay off the mortgage. This is partly why it is so important to read the fine print and ask about these charges. In most cases, it's better to take the closed product if you do not intend to fully pay out the mortgage in a short period of time.

Closed mortgages are offered in terms starting at six months. The interest rate is fixed during that term. (The term should not be confused with the amortization. Amortization is the time period it would take to fully pay off the mortgage by making regular payments.) Variable-rate mortgages, on the other hand, have a rate that floats with the prime rate and are often closed mortgages.

Let me help you make one of the biggest decisions in your life by providing options and advising you on the best scenario for your specific needs.





The Mortgage Financing Process

The number one question a homebuyer often has is “What does the mortgage process entail?” In very simple terms, following is an outline of the process upon which you are about to embark:

- a) **Get pre-approved:** Avoid any hiccups or obstacles before you begin the home shopping process. Being pre-approved helps in the following ways:
 - Determines price range – it will help you understand what your monthly costs will be and determine your price range.
 - Guarantees the rate – from 90-120 days. And we will automatically adjust your rate down with any market reductions.
 - Allows you to put in a competitive offer – become a successful bidder with a short subject to financing requirement.

- b) **Put in an offer:** Once you have found the property that meets your needs, you will put in an offer that will be accepted or countered. This may go back and forth until you reach an acceptable price with the vendor.

- c) **Offer is accepted:**
 - Fax us a copy
 - An appraisal is ordered (if necessary)
 - Send in any remaining documents required for financing (income confirmation, down payment confirmation, etc)
 - Send an inspector in (if applicable) – I can help you arrange this
 - Receive the lender’s approval on property and final approval letter

- d) **Remove Subjects:** At this point, your financing is in place and you are ready to proceed with the purchase of the property.

- e) **Lawyers’ Office:** You will be asked to provide any money that is to be used as your down payment, which is not already on deposit with your realtor. Typically, you will go in 1-2 days prior to the completion date.



What Does a Lender Consider When Looking at Your Mortgage Application?

- **Income and Job Stability** – Your income determines how much you may borrow. In most cases, 32% of your gross income for salaried, non-self-employed or commissioned people is used to determine how much you can borrow to cover the cost of the mortgage payments, taxes and any applicable maintenance. All other debts (eg, car loans, credit cards and lines of credit, etc) must not exceed an additional 8% of your gross income.
- **Credit History** – Your credit score must show that you pay your bills on time. If not, you may still be approved, but the interest rate may be higher than expected.

What you need to supply to the lender:

- a) **Income Confirmation** – For salaried individuals: letter of employment and your most recent pay stub.
- b) **Down Payment Confirmation** – The lender will require that you prove the source of your down payment. You will have to send in bank statements, statements showing RRSPs, stocks etc. You must show a three-month history of your accounts. If there are any large lump-sum deposits, you are likely to be asked to show where the deposit originated. For mortgages where your down payment is less than 20% of the purchase price, you will also be asked to demonstrate that you have access to 1.5% of the purchase price in your bank account. You must be able to show this through a credit card, line of credit, gift from family or savings in case closing costs run higher than expected.
- c) **Contract of Purchase and Sale** – This is a copy of the accepted offer of the home you intend to purchase and a copy of the MLS listing sheet.



Conventional Versus High-Ratio Mortgage

Whenever possible, it's advisable to try to put a 20% down payment into the new home. Most individuals are unable to do this, so their mortgage needs to be insured by Canada Mortgage and Housing Corporation (CMHC), Genworth Financial or Canada Guaranty. This is the case because the Bank Act will only allow financial institutions to lend up to 80% of the price without mortgage default insurance.

The mortgage is insured so that if you default on your payments, the lender is paid out in full and the insurer is left to deal with the borrower. The insuring companies charge an insurance premium. The premiums are based on the loan to value (LTV), which is the amount of the loan versus the value of your home.

| Loan to Value (LTV) | Insurance Premiums |
|-------------------------|--------------------------|
| Up to and including 65% | 0.50% of the loan amount |
| Up to and including 75% | 0.65% of the loan amount |
| Up to and including 80% | 1.00% of the loan amount |
| Up to and including 85% | 1.75% of the loan amount |
| Up to and including 90% | 2.00% of the loan amount |
| Up to and including 95% | 2.75% of the loan amount |

You may borrow up to 95% of any price for an owner-occupied purchase, in most urban areas. If you are buying a property for investment purposes, the maximum loan amount is 80% and the insurance premium is higher than shown above.



Down Payment Options

The main reason many renters feel they can't afford to purchase a home has to do with saving for a down payment. But there are many solutions available today that can help first-time buyers with their down payments.

Many lenders will allow for a gifted or borrowed down payment. And of those lenders that will not provide this alternative, many offer cash-back options that can be used as a down payment.

Better yet, there are programs available from some financial institutions where they will offer a "free down payment" or a "flex down". Of course, you will end up paying about 1% more in your interest rate, but the program will help you get in the homeownership door and start accumulating equity earlier. You must, however, stay with the original lender for the full initial five-year term or else you'll have to pay the down payment back.

In 2009, a \$5,000 increase was made to the RRSP Home Buyers' Plan, meaning first-time homebuyers can now withdraw up to \$25,000 from their RRSPs for a down payment – tax- and interest-free.

And if you're part of a couple making a home purchase together, you can each withdraw up to \$25,000 from your RRSPs.

If, for instance, a renter is currently paying \$800 per month, with that same payment (including taxes) they could afford to buy a \$120,000 home. And assuming real estate values increase 2% per year over the next five years, the new homeowner would have accumulated \$27,000 in equity in their home. If they continue renting, however, this \$27,000 has generated equity in someone else's home.



Closing Costs

The following is a list that will help to assist you in calculating your true costs in purchasing your new home:

- a) **Property Transfer Tax** – This is a tax that is charged whenever a property is purchased. The tax will vary from jurisdiction to jurisdiction, but I can help with the calculation.
- b) **GST/HST** – Tax is only charged on new homes, and does not affect homes priced at less than \$400,000. Even homes that exceed the price threshold are only taxed on the portion that exceeds \$400,000. Certain conditions may apply. Please contact your lawyer/notary for more detailed information.
- c) **Legal Fees** – Your lawyer or notary will charge you a fee for drawing up the mortgage and conveyance of title. The amount of the fee will depend on the individual that you use. The typical cost is \$800-\$1,000.
- d) **Survey** – If you are purchasing a single-family home, you will need to give your lender a survey certificate showing where the property sits within the property lines. Some exceptions are made, however, on low loan-to-value deals and acreage properties. A survey will cost approximately \$300-\$350, but the lender will often accept a copy of an existing survey. See Appendix A for a closing cost worksheet.



Choosing Your Professional Team

Why Most Canadians Use Mortgage Professionals

The trend to move towards using mortgage brokers to arrange mortgage financing is increasing in staggering numbers. Each year, a 5-10% increase in market share is taking place. Why has this shift occurred? Well, very simply put, TOP-NOTCH SERVICE and UNBIASED ADVICE!

The banks are cutting back on staff and are centralizing operations to save money. This does not bode well for the consumer. Unlike individual banking representatives, who often move from one branch to another hoping to make advancement in the corporations, as your mortgage broker, it is my intention to create a lifelong relationship.

Mortgage brokers get paid from the lenders so their service is offered to you without charge. What else can you ask for? Better rates, personalized service, flexibility and products at no cost to you.

Some will say that the fee is built into the rate, but this is not so. It costs the banks approximately 40% less to generate a mortgage through a broker than a branch, as there is no overhead to pay if the bank does not get a clients' business. Instead, the mortgage broker bears the entire cost of day-to-day business activity.

What is the Next Step?

Now that you have evaluated your down payment options and understand what lenders are looking for, you need to start the pre-approval process.

With a simple phone call The House Team can help you get the lowest possible rate, and a firm price range for your home purchase.

The House Team of Dominion Lending Centres

Phone: 866-559-5016

www.thehouseteam.ca

