



# **MORTGAGE CENTRE CANADA HOMEBUYERS' GUIDE**

*– Your Complete Manual to Home Financing*



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## My Service Pledge to You...

Purchasing a home is one of the most stressful financial undertakings that you'll likely participate in throughout your lifetime. For most people, it's the single largest investment that they'll make, period! This is why it's important to surround yourself with professionals who'll not only offer you a tremendous amount of knowledge and support, but will also make the process as seamless as possible – keeping you informed every step of the way.

As your mortgage expert, I'll show you that I care about your needs first and foremost. In fact, understanding your needs is a very important part of the mortgage process. By understanding your needs, I can save you possibly thousands of dollars in potential payout penalties, extra legal fees, etc.

I'll communicate with you during the entire home-buying and mortgage-financing processes – and even after your mortgage has funded. I'll send my newsletter to you on a monthly basis so that you're informed on what's happening in the mortgage market. Many people simply forget about their mortgage until the renewal date, but there are many reasons that it pays to be informed at all times.

My goal is to give impartial advice on where the market's going (are rates going up or down or are there new products and features available?) so that you are equipped with information that'll help you make informed financial decisions.

Honesty and integrity is the number one principle on which true mortgage experts build their businesses. I believe in earning business by cultivating many referrals, as it's an indication to new clients that their friends, family, realtors, financial planners, lawyers, accountants and so on have all had extremely positive experiences working with me. This package has been compiled to provide a complete guide encompassing the mortgage financing process, and it's my hope that you find it to be a very useful and informative tool.





## Your Professional Team

### Mortgage Professionals

The trend to move towards using mortgage brokers/agents to arrange mortgage financing is continually increasing. 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 doesn't 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 advisor, it's my intention to create a lifelong relationship.

Today, many banks are buying out smaller trust companies to expand their portfolios. Most major banks lend out money through these trust arms at reduced rates. If you just stick with your bank, you lose access to hundreds of other financing arms – including offerings from multiple banks, credit unions and trust companies – that may have better rates, products and packages to offer you.

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 doesn't get a client's business. Instead, the mortgage broker bears the entire cost of day-to-day business activity.



## **Realtors**

Your realtor is an integral part of your team. Your realtor can give you access to properties that never make it to the MLS website. Many properties are sold in a matter of days, and it can often take longer to make it through the MLS process. Realtors gain access to information about homes that may come on the market before any listing is signed. More important, your realtor can tell you how to be successful in your bid for a desired property.

In today's competitive real estate market, it's very difficult to acquire any property without the help of a real estate professional. I have developed relationships with numerous realtors and can recommend a qualified realtor to help you through the home-buying process.

## **Lawyers and Notaries**

Arrangements will need to be made for a notary or lawyer to draw up the mortgage documents and register them on file for you. Since the visit to your lawyer is the last step in the entire process, it's extremely important that this is handled with care.

I can recommend a qualified and professional lawyer or notary who specializes in real estate transactions that can help streamline this process.

## **Home Inspectors**

This is probably the best \$300-\$400 you'll ever spend. While a competitive situation may not enable you to have an inspection done, it's highly recommended. Whenever possible, have an inspection done so that you're completely informed about what you can't see behind the walls. There may be mould, old wiring or leaks that'll cost you a lot to fix down the road. I can recommend a professional inspector to help set your mind at ease.



## 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's 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 don't 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 preapproved:** Avoid any hiccups or obstacles before you begin the home shopping process. Being preapproved helps in the following ways:
  - Determines price range – it’ll help you understand what your monthly costs will be and determine your price range.
  - Guarantees the rate – from 90-120 days. And we’ll 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’ll put in an offer that’ll 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’re ready to proceed with the purchase of the property.
  
- e) **Lawyer’s Office:** You’ll be asked to provide any money that’s to be used as your down payment, which is not already on deposit with your realtor. Typically, you’ll 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'll 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're 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'll 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 either 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.

<b>Loan to Value (LTV)</b>	<b>Insurance Premiums</b>
Up to and including 65%	0.60% of the loan amount
Up to and including 75%	0.75% of the loan amount
Up to and including 80%	1.25% of the loan amount
Up to and including 85%	1.80% of the loan amount
Up to and including 90%	2.40% of the loan amount
Up to and including 95%	3.60% of the loan amount
90.01% to 95% – Non-Traditional Down Payment	3.85% of the loan amount

You may borrow up to 95% of any price for an owner-occupied purchase, in most urban areas. If you're 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.

Many lenders will allow for a gifted or borrowed down payment.

You can also take advantage of the RRSP Home Buyers' Plan. This program enables first-time homebuyers to 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 \$250,000 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'll 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're purchasing a single-family home, you'll 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.





## Special Financing Programs

### **Business-for-Self (BFS) Financing:**

Several programs are available to assist people who are self-employed. Lenders recognize the fact that what is shown on a BFS tax return may not truly reflect the actual income earned for that party. We have several programs where qualification is based on stated income instead of taxable income. You'll be required to have clean credit and supply us with the last three years' tax assessments from Revenue Canada confirming that you have filed as self-employed and that you're up-to-date with your taxes.

There are essentially two types of self-employed or BFS borrowers – those who can prove their income and those who cannot, and must instead use a stated-income mortgage product. But, if you have been self-employed for more than three years, you can't use a stated-income product.

By providing the required documentation, you're much more likely to be approved for a mortgage if you qualify based on your income. The trouble is that if you cannot prove your income, you pose a higher risk in the eyes of lenders.

If you have been self-employed less than three years, you can use a stated-income mortgage product up to 90% loan to value (LTV) – meaning the down payment can be as low as 10% of the purchase price. And if a BFS individual wishes to refinance an existing mortgage, the maximum loan amount is 85% of your home's value.

### **Private Mortgages:**

If you don't qualify for traditional financing all is not lost, since you may be eligible for alternative – or private – funding.

I have access to private investors who are willing to lend money to BFS individuals looking to obtain mortgages. Although you'll pay a higher interest rate – on average about 12% – this route may enable you to acquire funds to purchase a home.

It's also important to note that there are added fees involved with private funding because the deals involve a higher degree of risk and take longer to get approved. The combined lender/brokerage fee will depend on the specific deal and the risk it poses, but the figure will be disclosed upfront so you know exactly what you'll be expected to pay for these services.

Another key point to consider is that private financing is equity based, meaning that the lender's decision will be based on a specific piece of real estate (as opposed to conventional deals that focus on the personal credit of the borrower). Private lenders want to know that the property is marketable and that they'll be able to easily sell it should the mortgage go into foreclosure.

**New to Canada:**

Many of the available New to Canada mortgage products apply to new immigrants who have been in the country for up to 36 months. I can help set the home financing process in motion by securing a mortgage rate guarantee and preapproval, and figuring out what supporting paperwork you need to provide to purchase a home in Canada – even before you move.

In most cases, Canadian mortgage lenders and insurers want to see employment letters that prove your offer of employment and salary in Canada. You must also have at least a 5% down payment for the home from your own resources – which means it has to be your own money, not borrowed or gifted. So, if for instance, you're selling your home in another country and using some of the proceeds as a down payment on a home in Canada, you must be able to prove this.

Lenders and insurers also want to see that you have a solid credit history. Although requirements for this proof varies based on which insurer and lender your mortgage is funded through, I'll be able to tell you exactly what documents you'll need to provide. Often, an international credit bureau is sufficient to prove your credit history. If this isn't available, you can also provide 12 months' worth of bank statements, mortgage or rental payment receipts, utility or telephone bills, and so on. Again, there are several options from which to choose and I'll be able to specifically tell you what a particular lender and insurer want to see.

You must also apply for landed immigrant status to get the ball rolling on securing your social insurance number (SIN), which is required before you begin working in Canada.

I can also put you in touch with a trusted real estate agent to help this process run even more smoothly.

**Purchase Plus Improvements:**

This program allows you to add into your mortgage the costs for renovating your new property. It's offered for mortgages where the down payment is less than 20%. For situations where your down payment exceeds 20%, you would simply set aside a portion of money that was meant for the down payment to be used for the renovations.

The lender will require that you supply a list of work to be done and a quotation from a contractor. Once the work is complete, the lender will send the appraiser back into the property to verify that the work has been completed, and then your lawyer or notary will release these funds to you. This is important to note, as you'll essentially have to pay for the renovations in advance and then be reimbursed.



## APPENDIX A

### Closing Cost Worksheet:

Purchase Price:	\$ _____
<b><u>Subtract</u></b> Deposit with realtor:	\$ _____
<b><u>Subtract</u></b> Net Mortgage Amount:	\$ _____
Legal Fees:	\$ _____
Property Transfer Tax:	\$ _____
GST/HST:	\$ _____
Appraisal Fee:	\$ _____
Survey Certificate:	\$ _____
Tax Adjustment:	\$ _____
Interest Adjustment:	\$ _____
<b>Total Closing Cost:</b>	\$ _____