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Easy Step-By-Step Reference Guide to Home Ownership and Mortgage Strategies

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The Wilson Team

"low mortgages rates are just the beginning..."

Welcome … To An Easy Step-By-Step Reference Guide to Home Ownership and Mortgage Strategies

Finding the right home and the right mortgage to suit your personal needs is complex enough. This easy step-by-step guide provides a simple outline of the process and what you can expect. Remember,we, Laurie and Kelly, will take care of all the details and answer your questions, so you can have peace of mind throughout the process.

Most Canadians have a general understanding of what a mortgage is and some of the basic terms, but when looking to make one of the most important financial and lifestyle decisions, it makes sense to speak to Canada's mortgage experts at Invis Inc. Mortgage financing does not have to be difficult and I can guide you through the entire process, answer all of your questions, and ensure that you get the best product and rate to suit your own personal needs. You deserve a customized mortgage solution, and the traditional financial institution branch channel will not give you what you deserve. With over 50 lenders and hundreds of products at our fingertips, I keep track of the continually changing landscape of rates, terms and conditions - you can relax knowing your interests are being well taken care of.

It doesn't matter what circumstance you're in – purchasing a first or second home, refinancing to renovate, consolidating debt or renewing your mortgage – you can qualify for the best rate and mortgage option available based on your credit standing. If this is the case, then why would you spend your time talking to your bank who will most likely quote you a rate that is higher than what you are qualified to receive with a product that does not suit your requirements?

Contrary to common belief, a mortgage professional's services come at no cost to you (OAC), as we receive payment from the financial institutions for sourcing the mortgage and doing the administrative work to complete the mortgage transaction. Only in certain circumstances will a fee ever be charged, and this will always be disclosed up front so that you can make an informed decision about proceeding. Invis Mortgage Consultants deal with all major financial institutions, including chartered banks, trust and insurance companies.

Before you make what is likely to be the biggest financial decision of your life, talk to me first, your Invis Mortgage Consultant.

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Invis – We're Canada's Mortgage Experts

Overview

Summing it up, when getting pre-approved and then obtaining an unconditional mortgage financing commitment, lenders require proof of:

1. **Down payment** – how much do you have to put down on the purchase of your new home?
2. **Income** – how much income can you prove (stringency of proof depends on lender, product and loan-to-value)?
3. **Credit** – is the financial institution confident that you will pay them back?

This guide examines all of these areas. To begin, and to provide you with a solid understanding of a lender's rationale for why they lend or do not lend to a particular individual, here is a summary of the 5 C's of credit (the first three are the most critical):

1. **Capacity** – Is your income sufficient to support the repayment of the requested loan amount? At this point, lenders examine the Gross and Total Debt Service Ratios:
    a. **Maximum GDSR** < 32% (Principal + Interest + Property Taxes + Heating Costs + ½ of Condo Fee must not exceed 32% of Gross Income).
    b. **Maximum TDSR** < 40% (Principal + Interest + Property Taxes + Heating Costs + ½ of Condo Fee + Monthly Obligations including Credit Cards & Loans must not exceed 40% of Gross Income).
2. **Capital** - Capital is the money you have personally invested in the purchase, otherwise known as your down payment.
3. **Collateral** - Collateral is additional security you can provide the lender should you for some reason not be able to provide repayment. In real estate transactions, collateral is generally the property, and the lender will want to ensure that the property for which they are providing mortgage financing is marketable real estate.
4. **Character** - Character is your reputation and reliability – the general impression you make on the potential lender. The lender will look at educational background, business experience, length of time at your current employment and residence.
5. **Credit** - Credit is the evaluation of your habits in meeting credit obligations.

1. Getting a Pre-Approval: A Smart Move

1a. Why A Mortgage Pre-Approval?

Getting a pre-approval for mortgage financing before you start to look for a home is a smart move. A pre-approval …

1. … gives you the edge and confidence when putting offers on homes in areas where buyers are actively competing for properties on the market.
2. … provides you with a clear sense of how much you are eligible to borrow.
3. … assures you of a particular mortgage rate for a period of 90-120 days.
    - A locked-in rate means there is no risk of any interest rate increases while you are house hunting. The good news for those who turn to a mortgage broker is that a broker may be able to obtain a longer pre-approval rate hold. Plus, if the rates drop, your rate changes to the new rate.

Keep in mind the following:

1. A pre-approval is not a guarantee of financing, as the property you intend to purchase – along with your supporting information (such as income, down payment and employment history) – has to meet the financial institution’s criteria to be approved for lending.
2. A pre-approval does not eliminate the need to make a conditional offer.
3. A pre-approval does not take into account closing costs such as inspection and appraisal fees, legal fees, land survey or title insurance, land transfer tax and moving costs.

1b. Information Required For A Pre-Approval:

For a pre-approval, the following information (at a bare minimum) is required of the applicant (and co-applicant); however, no proof at this time is necessary!

1. Full Legal Name(s)
2. Income(s)
3. Social Insurance Number(s)
4. Date(s) of Birth
5. History of residence and employment – 3 years
6. Summary of banking information (accounts etc.)

7. Summary information on assets & liabilities
8. Condo/maintenance fees, if applicable
9. Purchase price of property and down payment.

This information is submitted to the lender so they can make a preliminary decision of qualification, as well to enable the Invis Mortgage Consultant to obtain the pertinent credit file(s).

- Credit file information reveals to the Invis Mortgage Consultant where most likely your deal can be placed, or more specifically, narrows down the lenders and products that best suit your needs and qualifications.

It is important at this point in the process to be completely open regarding any past credit issues.

2. Things to Consider After Your Pre-Approval

2a. Gathering Information for the Lender

Now that you have your pre-approval, and have found the home that you want to purchase, it is time gather all of the information required to meet the guidelines of the selected financial institution so the mortgage can close. Obviously, you will need to provide proof of the information that you supplied in order to get you pre-approved:

- Income verification – i.e. pay stubs, copy of previous year's T4, letter from employer, spousal support etc.
    - Commission sales - 3 years personal tax returns plus Notice of Assessments from Revenue Canada.
    - Self employed – same as commission sales, plus 3 years business financial statements, and 3 years business tax returns (if applicable).
    - **Lenders requirements do vary and depending on the product and LTV (loan to value), the verification will differ. In some cases, a self-directed letter is sufficient proof to the lender or income.**
- Banking information (location, accounts and balances …)
- Assets (cash, investments …) and Liabilities (loans, credit cards, any other payments, including alimony and child support …).
- If condo/maintenance fees, proof of fees, planned increases and special assessments to be levied.
- Down payment: please see section 3A.

2b. Understanding the Applicable (Closing) Costs of Purchasing a Home

Many Canadians, whether being called by the lawyer days before, or while sitting in the lawyer's office on the day of closing, are surprised by the final costs of purchasing a home. Especially those who are buying a new home, where small print in the contract adds up to thousands of dollars for such services provided by the builder as grading.

Here is a summary of some of the costs you may incur on or before the closing date for your property purchase. It is important to understand these costs for a couple of reasons:

1. Moving into a new home should be a celebration and not a stressful experience because of mounting financial concerns.
2. You may want to consider decreasing your down payment (if possible) to have extra capital on hand to cover guaranteed and potential cash outlays.

Here is a list of costs to consider for pre-closing, at closing and post-closing, along with an area to fill in the estimated amounts:

Closing Cost Checklist

Pre-Closing Costs	
Appraisal Fee	$
Home Inspection Fee	$
Closing Costs	
Down Payment	
CMHC / Genworth Application Fee (for high-ratio mortgages)	$
Legal Fees, Disbursements	$
Land Transfer Tax	$
Survey Certificate	$
Title Insurance / Land Survey	$
Maintenance Fee Adjustment	$
Tax and Interest Adjustments	$
Post-Closing Costs	
Moving Expenses	$
Slight renovations and repairs	
Decorations (i.e. window coverings)	
Appliances	
New Furniture	
Yard Tools	
Utility Hook Up	
Property Insurance	$
Property Taxes (holdback)	
Sundry	$
Estimated Total Costs	**$**

- Don't forget, in order to close you will have to provide proof to the lender that you have home (fire) insurance, and if a newly built home, the "new home warranty".

2c. The Main Players in Your Home Purchase

When buying a home or other property, you will have to rely on a range of professionals to guide you through the process.

Mortgage Broker – A mortgage expert introduces buyers to a full range of mortgage products, interest rate options, and strategies to pay off a mortgage more quickly. This professional works only on his or her client's behalf.

Lender – Financial institutions, such as banks, credit unions, trust companies, pension funds, and life insurance companies which lend money to home buyers.

Realtor – A real estate representative finds properties in your price range and who arranges the purchase transaction on your behalf.

Appraiser – The appraiser determines a property's mortgageable value, based on its condition and the selling price of comparable properties recently sold in the area. The market value enables the lender to determine the loan to value ratio of the mortgage (the amount of the mortgage versus the value of the home).

Property Inspector – Property inspectors examine the home you intend to buy to evaluate its roof and structural stability, electrical work, plumbing, appliances, fireplaces and furnace. This inspection is usually arranged by the buyer, and allows him or her to address any issues with the seller prior to closing, as well as anticipate any repairs that may be required.

Lawyer / Notary Public – Your lawyer or notary will review the Agreement of Purchase and Sale, ensure that all closing documents have been completed correctly (including the title search and title insurance), as well as file documents with the provincial land title office. Your lawyer or notary will also ensure your property is clear of all existing mortgages, judgments and builder's liens.

Default Mortgage Insurer – Mortgage insurers (CMHC and Genworth) protect lenders from a borrower defaulting on a mortgage at any time during the amortization period. Home buyers with down payments of less than 25% must purchase mortgage insurance.

3. Looking at your different options

3a. Exploring Your Mortgage and Down Payment Options

In reality, there really are only two mortgages, of which, as you will see, there are many characteristics and features (see section four, Understanding Mortgage Features):

1. **Conventional Mortgage:** A mortgage loan less than or equal to 75% (Loan to Value ratio) of the value of the property. I.e. a mortgage for $150,000 on a $200,000 home.

2. **High Ratio Mortgage:** A mortgage loan greater than 75% (Loan To Value ratio) of the value of the property, and therefore subject to mortgage loan insurance (aka default insurance – see above for insurance premiums) through either Canada Mortgage and Housing Corporation (CMHC) and Genworth Financial Canada. With mortgages insured through CMHC or Genworth, the insurance premium (one-time) is added to the mortgage amount.

Down Payment	% Financing (as % of mortgage amount)	Insurance Premium (calc. from mortgage amount)
0%	100 %	3.10 %
0% (5% Cash-back)	100 %	2.90 %
5 – 9.9 %	90.1 - 95 %	2.75 %
10 -14.9 %	85.1 - 90 %	2.00 %
15 – 19.9 %	80.1 - 85 %	1.75 %
20 – 24.9 %	75.1 - 80 %	1.00 %
25 -34.9 %	65 – 75 %	0.65 % (special circumstances)
35 % Plus	Up to 65 %	0.50 % (special circumstances)

Amortization - 30 Years – add an additional 0.20 % to above premiums
Amortization - 35 Years – add an additional 0.40 % to above premiums
Amortization - 40 Years – add an additional 0.60 % to above premiums

3b. Interest Only Mortgages – 5/20 and 10/15

Interest only mortgages involve payment of just interest on the debt over the first five years of the mortgage, followed by a 20 year amortization period when both interest and mortgage principal will be paid back, or an interest-only period of 10 years followed by an amortization period of 15 years.

Interest-only mortgages allow buyers to access more expensive properties, and will improve their cash flow during the first five or 10 years of the mortgage; **however, once the regular amortization period kicks in, monthly payments will jump – and borrowers need to be prepared**.

Anyone considering an interest-only mortgage should be aware of strategies to lessen the amount of interest they pay:

- During the first 10 years of the mortgage, if there is room in your monthly budget, consider making lump sum payments to reduce the amount of the mortgage principal. This will minimize the increase in your monthly payments when the interest only period comes to an end.

- If you receive a raise, consider increasing the size of your monthly mortgage payments to help pay down the mortgage principal faster.

- If your financial circumstances allow, consider converting an interest-only mortgage to a regularly amortized mortgage – as quickly as your budget allows

- Make sure you understand the long-term implications of an interest-only mortgage — speak to a mortgage professional who can not only explain the details of this approach, but also put in place a multi-year mortgage strategy and offer ongoing advice.

3c. Mortgages with Extended Amortizations - Up To 40 Years

Canadians planning to buy a home can now choose to have their mortgage amortized over a period longer than the conventional 25-year amortization. Common extended amortizations are 30, 35, and 40 years.

These new options give homebuyers a financing alternative and open the door to homes they may not have been able to afford under a traditional 25-year mortgage. The new extended amortizations may appeal to homebuyers in larger urban centres where rising home prices have impacted housing affordability.

While a longer mortgage amortization offers the flexibility to reduce monthly mortgage payments, borrowers should plan to increase their monthly payments as soon as their finances permit, and consider making lump sum prepayments to lessen the amount of interest they pay over the life of the mortgage.

3d. Key Down Payment Information

Whatever amount that you have for a down payment will need to be verified by the selected financial institution prior to an unconditional commitment. Here are some important tips that will allow you to be fully prepared regardless which one of three resources your down payment comes from:

1. **Own Resources:** If the down payment has come from your own resources, whether it is savings, investments that will be cashed out, RRSPs, the financial institution will want documentation to show that 90 days prior to the close of the mortgage transaction these funds were available.
2. **Gift:** If the down payment has come from a gift, a gift letter will need to be provided to the financial institution stating that the funds are an outright gift. The funds also have to be in your possession.
3. **Sale of existing property:** If the down payment comes from the sale of an existing property, the financial institution will need to see the sale agreement (with no conditions) and mortgage statement.

CMHC, Genworth, and the lenders have come up with a number of programs to make purchasing a home easier and more readily available to Canadians. Such programs as extended amortizations up to 40 years and interest only mortgages are two examples. Other such examples are:

1. “0” Down Payment or Borrowed Down Payment:
2. 5% Down Payment:
3. RRSP Home Buyers’ Plan – Use your RRSP for a Down Payment
    - Qualifying purchasers can withdraw up to $20,000 each from their registered retirement savings plans (RRSPs) to buy or build a qualifying home without incurring tax penalties.
        i. Withdrawn funds are not taxed, however this is contingent on the RRSP being repaid within 15 years with minimum annual payments of 1/15th of the withdrawn amount.

No RRSPs? Your Invis Mortgage Consultant can show you how to establish an RRSP with borrowed funds, and use the resultant tax refund for a down payment.

3e. Purchase Plus Improvements Mortgage

If you intend to buy a home that needs some immediate upgrades, a "purchase plus improvements" mortgage covers the purchase price of the home, plus any renovations that would increase the value of the property. Finishing the basement, adding a deck, redoing the kitchen or bathrooms are all examples of improvements that can be financed with no need for a second mortgage. For current homeowners, a "refinance with improvements" option may also be available.

4. Understanding Mortgage Features

4a. Mortgage Types

Today, more than ever, there are numerous mortgage options available.

- Fixed-rate: 6 month, 1, 2 and 3 year (open, closed and closed-convertible) 4, 5, 7 and 10 year closed
- Variable-rate: 3, 4 and 5 year (open, closed, closed-convertible and capped)
- Split-term: Combination of all possible terms (6 month through 10 years)
- Self-directed RRSP: A specialty mortgage – term optional – within CMHC guidelines. Invest your own RRSP funds into all or part of your home mortgage.

4b. Repayment Options

Prepayment Options: Many lenders allow you to make a lump sum payment – usually 10% to 20% of the original principal balance, per annum. In addition, many mortgage products now include a double-up and skip-a-payment feature. This lets you bank extra mortgage payments for a rainy day, at which time you can skip them if you need to.

Payment Changes: Most mortgages now allow the amortization to be adjusted by increasing the payment on closed terms by 10% – 20% per year, once annually.

Payment Frequency: Most mortgages now come with the option to pay your mortgage at a frequency that matches your cash flow – weekly, bi-weekly or semi-monthly. The added benefit of the accelerated weekly and bi-weekly payments is that by dividing a regular monthly payment into two or four respectively, and deducting it at the new interval, an extra payment a year is made directly against principal. The surprising effect of this one extra payment a year is to reduce the amortization of the average mortgage by approximately 5 years, with savings at the end of the mortgage term.

5. Closing Day

You will need to provide your lawyer on closing a certified cheque to them in trust to cover the down payment, as well as the other closing costs. The exact closing costs depend on where you live, how much you are borrowing, etc., and your lawyer will advise you of the exact amount required a day or two in advance.

Don’t forget, in order to close you will have to provide proof to the lender that you have home (fire) insurance, and if a newly built home, the “new home warranty”.