Dennis Ward Advantage Mortage Team

Simplified Home Buyers Guide

A Comprehensive Guide to the Steps and Guidelines To

Purchasing your First Home.

WWW.BUYYOURFIRSTHOME.CA

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Simplified Home Buyer's Guide

This Simplified Home Buyer's Guide is a Comprehensive First Time Home Buyer's Guide. We have created this guide as a quick reference for Home Buyers. If you are looking for additional information or guidance, please book a One on One free Consultation by emailinmg Lori Ward at: lori@legacymortgagegroup.ca

Why use a Mortgage Professional?

You wouldn't buy a Home without using a Real Estate Professional to Protect you, why would you get Financing for your Home without using a Mortgage Associate to protect your Best Interests?

1. Get independent advice on your financial options – We are not tied to one lender
2. No Cost to you! – We are paid a finder's fee by the lenders after your deal is funded
3. Save Time with one-stop shopping – We can quickly find a Lender that suits your needs and situation
4. We can show you New to Canada Programs and other programs that are available to you
5. We provide assistance in showing you sources to access for your Down Payment
6. We negotiate on your behalf – We talk to Lenders every day and we can secure competitive Rates and Terms for you
7. More choice means more competitive rates – We have access to major Lenders, as well as, Credit Unions, Trust companies and Other Sources
8. Ensure you're getting the best rates and terms – Already approved? Let us give you a second opinion
9. Get access to special deals and add-ons – We make sure you get the perks you deserve

10. Things move quickly – We are with you from start to finish, looking out for your best interests every step of the way
11. Get expert advice – We speak to you in plain language so that you can make your choices with confidence
12. Ongoing support and consultation – Even after you move in, we are always here for your future mortgage needs

<u>Part 1 - Qualification Guidelines</u>

1. <u>Income</u> – What counts as Income to the Lenders? Employment Income, Self-employment, Seasonal income, Overtime, AISH and Pension Income, Child Tax Credit, etc.
2. <u>Down Payment</u> – This is the amount you can immediately contribute toward the cost of your home purchase. The minimum down payment to buy a home in Canada is 5%. Don't have your Down Payment yet? We can show you sources to get your Down Payment now!
3. <u>Equity</u> – Down Payment can come from a number of sources: Sale of another property, Personal Savings, RRSP's, Gifted money, GIC, Mutual fund, Term deposit or possibly a Line of Credit.

<u>Gross Debt Service and Total Debt Service Ratio</u>

The amount of the mortgage you qualify for depends on 2 things: Your Income and the amount of debt you are carrying. Lenders use GDS and TDS to measure your borrowing ability.

1. <u>Gross Debt Service (GDS)</u> – The Percentage for your Gross income required to cover home related costs (Includes Mortgage payment, property taxes, heating and 50% of Condo fees if applicable)
2. <u>Total Debt Service (TDS)</u> – The percentage of your Gross income required to cover home related costs (Mortgage payment, property taxes, heating, 50% condo fees, <u>PLUS all your other debts</u>)

We will calculate your GDS and TDS Ratios from the income and debt information you provide to us and show you how the Lenders determine the amount of mortgage you qualify for.

If your debt ratios are too high, we can show you other options, such as a lower house price range, saving a larger down payment or reducing certain debts in order to be able to purchase your home sooner.

Part 2 - Credit

How can you know if you are financially ready to become a homeowner?

1. Credit Report – A history of how consistently you meet your financial obligations. It helps Lenders determine what kind of lending risk you are and if you are likely to repay on time.
2. Credit Score – Will help determine the amount of mortgage the Lenders will allow you to qualify for.

Lenders review Credit Score, Length of Credit History, Utilization of Credit and Payment History.
We will review you Credit history and experience and will mediate, on your behalf with the Lender, if any derogatory credit history exists.
If your Credit is not yet where it needs to be to purchase a home, we can show you ways to improve your credit to get you ready to buy sooner.

Home Buyers' Plan: The Home Buyers' Plan allows you to withdraw money from your RRSP, tax-free, to use for a down payment.

If you are a First Time Homebuyer, you may be eligible to use up to $25,000 of your RRSP savings toward the purchase of your home.
If you buy the house with your spouse or common-law partner, each of you may be eligible to withdraw up to $25,000.

You have to repay all withdrawals to your RRSP's within a period of 15 years. Generally you will repay an amount due each year until the entire amount is repaid. If the amount due for each year is not paid, it is added to your income for that year.
Let us help you assess your RRSP Eligibility for your home purchase.

Part 3 - The Approval Process

The Word "Pre-Approval" can be a bit deceiving when it comes to getting ready to buy a home. When you go to a lender for a "quick pre-approval" to find out what you qualify for to put an offer on a home, the lender may only be looking at the Income you are stating, liabilities, credit score and whether you fit into **their** guidelines for **their** mortgages. It is a very BASIC look at where you fit in their guidelines. They do not verify Any of the information provided until there is an offer on a property.
Not every Lender has the same Guidelines!

We have many clients come to us that say they had a "Pre-Approval" at their bank and now that they are ready to close the deal, they are no longer approved for that Mortgage for one reason or another.

We ask you to submit your documents so we can review them and tell us your full story up front, so that when your deal is ready to submit to the Lender, we will be able to give you your best chance of success in your mortgage approval. We will prepare you ahead of time so that you can shop with confidence for the home of your dreams.

Approval Process Steps:

1. Collect your Personal Information
2. Review your Credit Bureau Report
3. Collect Supporting Documents – Income, down payment verification

4. Once we have reviewed your information, we can decide on a Lender that fits your situation and needs
5. Find a property to attach to your deal and we submit all document to the Lender
6. Approval by the Lender and Insurer
7. **Do not take on any NEW DEBT at this time and until after you move into your new home**
8. Sign the Lender Commitment and Life insurance Forms
9. Obtain Homeowner's Insurance
10. Sign your Legal Mortgage documents in the presence of a Lawyer before the possession date

Your Mortgage Agreement:

Things to consider – We will go through your Mortgage agreement with you step by step to make sure you understand each part.

We will take you through:

- The Amortization Period
- The Schedule of your Payments
- The Annual Interest Rate
- Your Pre-payment Privileges
- The Mortgage Term and
- Other Related Fees

The Mortgage Negotiation:

Once a Lender decides to move forward with your Loan, we will finalize the details of your Mortgage Loan, including:

- The amount of your Mortgage

- The Amortization period (how many years it will take to pay the mortgage off in full)
- The Term of your Mortgage (the length of time your agreement with the Lender is in effect)
- How often you will make payments, and
- If it is a Fixed Rate Mortgage, the interest rate you will pay to the end of the Term

Part 4 - Mortgages and Insurance

A Mortgage Loan is probably the single largest amount you will ever borrow. Before you shop around for a mortgage loan, it is important to know how a mortgage loan works, what fits comfortably within your household budget and what features in a mortgage you should consider.

Mortgage Types:

- Open Mortgages – Allow you to pay off the mortgage in part or in full at any time without penalties. Provides flexibility but comes with a higher interest rate.
- Closed Mortgages – Usually carries a lower interest rate but is not as flexible as an open mortgage. However, most lenders allow you to make additional payments of a determined amount without penalty. (Most people select a closed mortgage)

Mortgage Terms:

The term of the mortgage is the length of time for which options are chosen and agreed upon, such as interest rate. Can be 6 months to 5 years or more. When the term is up, you have the ability to negotiate your mortgage and interest rate at that time.

- Short Term – Can be a good choice if: you plan to change the mortgage or move in a couple of years
  - if rates are expected to go down
  - can help avoid pre-payment charges (you can negotiate with the lender sooner)

- Long Term – Can be good if: you want to "lock in" a current interest rate for a longer period
  - you do not plan to make any changes to your mortgage for several years
  - help with budgeting as you will know your housing cost for a longer period

Mortgage Interest Rates:

When you apply for a mortgage, lenders may offer you either Fixed or Variable interest rates.

- Fixed Interest Rate – A locked in interest rate that will not increase for the term of the mortgage. You will know how much interest you will have to pay. The amount of your mortgage payments will also be fixed.
- Variable Interest Rate - Variable rate fluctuates based on market conditions. Mortgage payment remains unchanged. You may be required to increase your mortgage payment during the term so that the mortgage will be paid off during the agreed amortization period.

Payment Frequency:

Refers to how often you make your mortgage payment

- Monthly - 12 Annual payments (1 per month)
- Semi-monthly – 24 Annual payments (2 per month)

- Biweekly – 26 payments per year (Total yearly payment is the same as monthly)
- Accelerated Biweekly – 26 (this option has one extra monthly payment per year, paying it off faster and save interest charges)
- Weekly – 52 payments per year (Total yearly payment is the same as monthly)
- Accelerated Weekly – 52 (this option has one extra monthly payment per year, paying it off faster and save interest charges)

<u>Mortgage Default Insurance:</u>

Mortgage Default Insurance protects the Mortgage Lender in case you are not able to make your mortgage payments.

You must pay for Mortgage Default Insurance if your Down Payment is less than 20% of the purchase price of your home. (This is called a *High-Ratio Mortgage*)

If you can put down at least 20% of the purchase price of your home as a Down Payment, Mortgage Default Insurance is <u>generally</u> not required (This is called a *Conventional Mortgage*)

Mortgage Default Insurance is provided by Insurers such as:

- Canada Mortgage and Housing Corporation (CMHC)
- Sagen
- Canada Guaranty Mortgage Insurance Company

The Lender will make arrangements for Mortgage Default Insurance if it is required.
*__Important Note:__ If, during the course of your mortgage term, you are unable to make your mortgage payment for some reason, Contact your Lender as soon as possible to make payment arrangements.

Other Costs to Consider:

Mortgage Life Insurance – Covers the mortgage payments in case of illness or disability

Closing Costs – Up front Costs that you must pay when you purchase your home before you move in. In *addition to your down payment*, you must have extra funds (Usually 1.5% of the purchase price of the home) available to cover these extra costs. These costs include, but are not limited to:

- Legal Fees
- Land Registration/Transfer Tax
- Township/Municipal Levies
- Mortgage Default Insurance (if paying up front instead of adding to the mortgage loan)
- Appraisal Fee
- Home Inspection Fee
- Title Insurance
- Property Tax and utility adjustments
- Interest adjustments (period between your purchase date and first mortgage payment)
- Survey Cost
- Estoppel Certificate (for Condominium units)

Other Up-front Possible Moving in Costs:

- Moving and Storage costs
- Real Estate Costs (if you are selling a home)
- Re-directing Mail
- Utility Hook-up fees
- Basic Furniture and Appliances
- Painting and Cleaning

On-going Costs Related to the Home:

- Mortgage Payments

- Condo Fees (if applicable)
- Property Taxes
- Utilities
- Property Insurance
- Renovation Costs
- Landscaping, and
- Maintenance and Repairs

Home Insurance:

All Lenders will require you to arrange for Home Insurance at the time of your Mortgage Transaction. Proof of Insurance is usually required when you go to the Lawyer to Sign your Mortgage Documents, prior to closing.

Home Insurance is a MUST for any Homeowner.
Home insurance will protect you in the event of a loss due to fire, theft or damage for certain natural elements. It will also cover the contents of your home.
Talk to us if you need assistance to find Homeowners Insurance.

Part 5 - Now That You're a Homeowner!

Congratulations! You've purchased your first home! Here, we will tell you about the responsibilities that a homeowner has.

Financial Responsibility:

- Make your mortgage payments on time (Late payments can lead to late charges and negatively affects your credit rating. Failing to make payments can lead to Foreclosure)
- Plan for Costs of operating your home (maintenance and repair, security systems, snow removal, gardening should all be part of your monthly budgeting)

- Live within your Budget (Prepare a Monthly budget and stick to it. Don’t spend more that you earn)
- Save for Emergencies (as your home ages, it may need repairs or replacements. Some, like a new roof, can be costly. Set aside money for an emergency fund)

Home Insurance:

Keep your home insurance up to date and review it with your Insurance Company yearly. They will make sure you are properly covered as your family needs grow and change.

Home Maintenance:

Maintenance, repair and renovations are a normal part of homeownership. Learn to know the basic components of your home and know actions you will need to take to adjust or turn off systems in case of emergency. Inspect your home regularly, replace and repair parts and materials that wear out. Canadian seasons are extreme and you may need to perform maintenance on a seasonal basis.

If you are *Renovating* or making improvements, it may increase your home’s value. Be careful not to go overboard unless you plan to stay in the home for many years. If you are planning to sell your house, make sure your changes won’t make your house worth a lot more than homes around you. The value of your home is closely related to the other homes in your area.

Is your Home Safe?:

- Fire Evacuation Plan (Make a plan so your family knows where to go and how to get there in case of fire)
- Fire Extinguishers (There should be one on each floor. Check them yearly and replace when 10 years old)

- Smoke Alarms (Check batteries at lease once a year)
- Carbon Monoxide Detectors (Invisible odourless poisonous gas. Make sure you have them and Check them at least once a year)
- Fire Hazards (Clutter can be a fire hazard. Dispose of paint and other chemicals at a toxic waste center. Never put them in the garbage)
- Valuables (Collect important Papers and store them in a safe place. ie, Fireproof box or safety deposit box)
- Emergency Numbers (Keep a list of emergency numbers. Make sure your children are aware of the list)

Part 6 – How to Save

The key to saving money is to pay off the Principal of your Mortgage as fast as possible. Here are 4 options to pay off your mortgage faster and save you money in the long term:

1. **Accelerate your Mortgage Payments** – Having that one extra payment per year can save you money and interest in the long run
2. **Monthly Pre-Payments** – Some lenders allow you to make extra monthly pre-payments which can help pay your mortgage off sooner
3. **Annual Lump Sum Payments** – Lenders will usually allow you to make annual lump sum payments of a specific amount
4. **Choosing an Amortization Period** – the *Amortization Period* on a Mortgage is the length of time it will take to pay off the entire mortgage (Usually 25 Years). A longer amortization period means Lower Payments. A shorter Amortization period means you will have higher payments, but you will pay off the mortgage much faster and save money in interest. Choose the shortest amortization and therefore the largest mortgage payment that you can comfortably afford.

5. **<u>Renewing with a Mortgage Professional</u>** – Our role is to help you successfully manage your Mortgage and help you pay it off faster. Your financial goals and Mortgage plan should be reviewed at every renewal. Throughout the life of your mortgage, we will act in your best interests and ensure that you always get the best interest rate available at each renewal.

In Summary

10 Steps to Buying a Home

1. Save Money – Review your budget and start saving your down payment
2. Speak to a Mortgage Associate – Find out if you can qualify for a mortgage and how much you can afford
3. Get Pre-qualified – Produce the documents the Mortgage Associate requires
4. Start House Hunting – Meet with a Real Estate Agent to shop for houses
5. Make an Offer – Make a Financial offer on your home with the assistance of your Real Estate Agent
6. Final Approval – Make sure you have satisfied all of the Lender's Conditions on the Approval (Mortgage Associate will assist you)
7. Get a Home Inspection – Have an inspector walk through the home to review any issues
8. Protect your Family – Talk to us about Mortgage Life Insurance and Home and Fire Insurance
9. Visit the Lawyer to sign your Mortgage Documents
10. Close the Deal – Complete the transaction and get your Keys on Possession Day!

We hope this Simplified Buyer's Guide is helpful in guiding you through the numerous steps and points to consider as you begin your Home buying journey.

If you are looking for additional information or guidance, please book a One on One free Consultation by emailing Lori Ward at:
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Thank you,

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