

Home Buyers Information Package

Buying Your First Home Can Be:

- Exciting;
- Intimidating; and
- The Best Decision You Ever Made!

Get Comfortable With the Process!



MyMortgagePlace.ca

Buying your first home? It will probably be the biggest purchase you have made so far in your life, which can be a little intimidating. It can be a confusing experience – in fact, it can be downright overwhelming – but it doesn't have to be.

There are lots of Home Ownership Guides and Reports available on the internet from Banks and Government agencies that are supposed to help you understand the process. Most range from at least 20 pages long to over 80 pages long – and they get into way too much detail when you are just starting out!

Personally, I get bored and confused trying to read through them. I have found that a little bit of information and then being able to talk with someone that is experienced in the process and unbiased in their advice makes everything a lot easier.

This simple report has been prepared to give you some introductory information – in plain English. On the last page is an introduction to me, Jim Cook, a mortgage professional working with Mortgage Intelligence, and a way to get more information. Let's get started.

The House Buying Process

Buying a house is relatively straight forward. This is the home buying process in 9 steps.

- Get a mortgage pre-approval so you know what the costs and rules are going forward;
- Meet with your realtor to identify the types of homes you are interested in seeing;
- Visit properties listed for sale to identify one that you like;
- Complete a Purchase Agreement with your realtor – conditional on things like financing or a satisfactory home inspection;
- Obtain a mortgage commitment for this actual purchase;
- Satisfy your mortgage conditions;
- Satisfy your Purchase Agreement conditions;
- Visit your lawyer to sign documents; and
- Return to your lawyer on the Closing Date to pick up your keys.

For most people, this list and some information about mortgages including down payments, closing costs, mortgage payments, etc - is almost everything they need to know.

Let's look a little closer at each step. After that, a number of mortgage concepts are introduced to prepare you for step one – getting the mortgage pre-approval.

The House Buying Process in More Detail

Step One – Get a Mortgage Pre-Approval

A mortgage pre-approval is a written commitment by a lender that tells you what they are prepared to lend you, at what rate and terms, subject to their acceptance of the house you intend to purchase. Lenders will typically guarantee interest rates for 90-120 days.

This is not a firm commitment – because every commitment is still conditional on the house you intend to purchase being acceptable to the lender. There may be other conditions based on the amount of down payment you intend to make, if any.

Note that this is also not a pre-qualification. A pre-qualification is when someone takes some information from you and says - “based on this information and my experience, you will qualify for this amount of mortgage”.

A Pre-Approval is a written commitment issued to you after a review of your application and credit bureau report.

By getting pre-approved, you not only get some interest rate guarantees and information needed to do your own budgeting, you also ensure you don't waste your own time looking at houses that are either outside your budget or outside the lending limits that will be offered by mortgage lenders.

This is a critical first step before you start the house buying process with your Realtor.

Step Two – Meet With Your Realtor

Step Three – Visit Properties for Sale

A licensed Realtor will:

- help you get focused on what type of properties and features are important;
- know what is available in the market, including properties that may not yet be listed;
- know what the going house prices are and provide you guidance when considering a purchase price;
- will negotiate on your behalf with the Seller and Seller's agent;
- will prepare all the legal documents required to make a Purchase Offer;
- will be an incredible information resource for you throughout the whole process.

Step Four – Complete a Purchase Agreement

At some point you will find a house you want to purchase and together with your Realtor you will make an Offer to Purchase. The Offer will specify what is included, such as light fixtures, water heater, shed in the yard as well as the Closing Date and numerous other details

This is not like purchasing a car, for example, where you negotiate a price, shake hands and do up the contract.

Any Offer you make will be a conditional purchase agreement, conditional on things such as obtaining appropriate financing within seven days or on completion of an satisfactory home inspection.

When the Seller accepts the Offer, you are now positioned to do what is necessary to complete those conditions.

Step 5 – Obtain a Mortgage Commitment

Recall that the first step was to get pre-approved. Now, with a real Purchase Agreement in hand, we return to the lender to get a real Commitment.

Just like your Purchase Agreement, the lender's Commitment will also be conditional – conditional on us proving what we stated in the application. For example, the lender will ask for a letter from your employer, a recent paystub and proof of your down payment among other things that are unique to individual lenders, your specific mortgage request and your unique situation. Your mortgage broker should be able to advise you on most of these items before the commitment is even received.

Step 6, 7, 8 & 9 – Satisfying Conditions and Picking Up Your Keys

You will now work to provide the documents necessary to satisfy your mortgage lender's requests – allowing you to waive your Purchase Agreement conditions. Simultaneously, the lender will be instructing your lawyer to prepare mortgage documents and to ensure you get clear title to the property. And, on closing date, you will pick up your keys.

Have we glossed over many details – yes. Now, however, you have a frame of reference – a basic understanding of the process you will follow to obtain your home - without creating unnecessary confusion in the process.

Now, let's look at how we finance the purchase – the world of down payments, interest rates, payment frequencies, Canada Mortgage & Housing Corp (CMHC) and mortgage terms and other related concepts.

Again, let's stay out of the details – let's focus on understanding the process.

The World of Mortgages

This section introduces the following concepts and information:

- Using a Qualified & Experienced Mortgage Broker;
- How a Mortgage Lender Makes Their Decision;
- CMHC – Mortgage Insurance Program;
- Down Payment Options;
- RRSP New Home Buyers Program;
- Interest Rate Options;
- Payment Frequency Options;
- Prepayment Programs;
- Purchase Plus Improvements; and
- Closing Costs.

Using a Qualified & Experienced Mortgage Broker

When it's time to get pre-approved or to obtain, renew or refinance a mortgage, you have two options.

Option one is to visit a local Bank branch where a lender will take an application and sell you one of their mortgage products. Mortgage rates are posted on the wall in most branches – and lenders in the branch have some ability to reduce that rate to keep you as a customer. Bottom line is that they are only negotiating against themselves – and their job is to make a profit for their employer.

Option two is to get an experienced broker working on your team. These are professionals - specialists who only deal in mortgage lending. The right broker will be working with dozens of lenders, including many Banks you know. The critical difference is that they are independent – they work for you. By negotiating for you at the Head Offices of these lenders, they create competition for your business. The net result is that Brokers often can provide a better solution for your unique situation, both in rates and terms. And because they get paid by the lender that earns your business – only after you get your mortgage - they are truly on your team.

How a Mortgage Lender Makes Their Decision

Mortgage lenders start by looking at your credit history and credit score. How you have managed your credit will define what types of mortgage rules apply to you.

When that review is complete, they then compare your gross income to the total of your monthly financial debt payments together with the mortgage payment and property taxes for the property you intend to buy. Your total debt payments can not exceed a

certain percentage of your gross income. This is how they decide how much they will lend you.

Your mortgage broker will be up to date on the current ratios – which can change based on your credit score and the percentage amount of your down payment.

CMHC – Mortgage Insurance Program

In Canada, when you borrow more than 80% of the value of a property, this becomes an Insured Mortgage by federal legislation.

This simply means that you will have to pay an insurance premium to the Canada Mortgage and Housing Corporation (CMHC). It is not an out of pocket expense – it is typically added into the total mortgage amount.

This premium is based on the dollar value of the mortgage and the percentage of the down payment. For example, assuming a 25 year mortgage, the premium is 1.75% of the purchase price if you are putting 15% down, increasing to 3.1% for no money down.

The Government of Canada established this company so that in the event that a lender has to sell a property to get its money back, where they lent more than 80% of the purchase price, and they can't sell it for enough to pay off the mortgage, CMHC covers the difference to ensure the Bank doesn't lose money on the mortgage. This keeps the Bank solvent and the Canadian economy protected.

Down Payment Options

In Canada today, if you have a good credit score and credit history, you can qualify for 100% financing. In some situations, you may require a minimum 5% down payment. Note that interest rates are not affected by the amount of your down payment.

Some lenders also have a program where, with either 25% or 35% down, they will waive the ratio comparison of your income to debts, and simply focus on the property condition and your credit history.

Note that in all cases, you must be able to provide a 90 day history of the funds you intend to use for the down payment. This is most often done by providing 3 months worth of bank or investment statements.

If a close family member has provided you a gifted down payment, your mortgage broker can provide you with what is required in a gift letter. This is completed and provided together with a bank statement showing the gift amount deposited into your account.

RRSP New Home Buyers Program

First time homebuyers are eligible to withdraw up to \$20,000 from an RRSP, without withholding taxes, under this program. The money must have been in the RRSP for 90 days before it is withdrawn and you must agree to repay it into the RRSP over the next 15 years, minimum 1/15th per year.

There are some creative ways to use this program that allow you to use borrowed funds to create a tax credit to be used as a down payment. This is dependent on your tax bracket and the timing of your purchase. Ask your mortgage broker for more details.

Interest Rate Options

When looking at rates, you can choose between a fixed rate and a variable rate. A fixed rate will not change during the term of your mortgage. A variable rate will go up and down as the Bank's Prime Interest changes. What type of rate you choose is a personal decision – one that is made easier by discussing the options with your mortgage broker.

Payment Frequency Options

The frequency that you choose to make mortgage payments – whether it is monthly, biweekly or weekly has a huge impact on how much interest you pay for the privilege of borrowing to buy your home.

Simply by paying every two weeks, you can drop years off your mortgage and tens of thousands off the interest you will pay through that mortgage. In simple terms, when you make a half monthly payment every two weeks, you end up making 26 half monthly payments a year. This is the same as 13 full monthly payments a year. So, by lining up your mortgage payments with your bi-weekly pay cheque – you actually make an extra month's payment toward your mortgage principle balance every year – and this pays you – not the banks.

At MyMortgagePlace.ca, we have an excellent one page summary that highlights the differences created by the choice of payment frequencies as well as amortizations.

Prepayment Programs

Every lender is different in the types of mortgages they have, their qualifying policies, their interest rates and their prepayment policies. What is a prepayment policy?

Most mortgages are closed mortgages – which means you pay a penalty if you want to pay out your mortgage in full during the term period. However, every lender now also offers certain prepayment options that allow you to make increased payments or extra payments without penalty.

For example, a 20/20 program means you can prepay up to 20% of the original mortgage every year in lump sum payments AND you can increase your regular payments by up to 20%, all without prepayment penalties.

There are banks with 15/15, 15/100, 25/25 and many other programs – the bottom line is that if you have enough income – if you can eat enough Kraft Dinner – you could pay out your mortgage within a five year term and never pay a prepayment penalty.

Purchase Plus Improvements

Sometimes you will see a house that would be perfect, except it needs new windows, a new roof, new flooring or a new kitchen. Specifically, it needs improvements. There is a mortgage program that will allow you to purchase the home and include the improvements in the purchase and therefore in your mortgage.

We can take the Purchase Price and add to it the value of contractor quotes for specific repairs in obtaining a mortgage commitment. At Closing, only that portion of the mortgage to complete the Purchase is advanced – the rest is held back until the repairs are complete. Once they are complete, and an inspection has verified it, the balance of the mortgage is advanced so the contractor(s) can be paid.

This is a win – win program because you get the improvements done and included in the mortgage while the lender gets to lend more money against an improved asset. Ask your mortgage broker for more details on how this works.

Closing Costs

Just be aware, that when you are budgeting to purchase a house, that you will have more costs than just the down payment. Your broker or lawyer can help you define these.

Directly related to your purchase, you may have the cost of:

- an appraisal;
- your lawyer;
- title insurance;
- land transfer tax, unless you are a first time buyer in which case it is refunded; or
- property tax or utility account adjustments.

Including Land Transfer Tax, these can be approximated at 1.5% of your Purchase Price. They will be significantly less if you are a first time purchaser.

There will also be your own costs relating to moving which can include new insurance policies, utility deposits, immediate repairs, appliances and decorating costs.

Just try and enjoy the overall process. Once the boxes are put away – and the Closing Date is a distant memory – you will know that it was all worth it – so have fun with it!

Finally, Just Who Exactly are Jim Cook, Tony Antaya & MyMortgagePlace.ca?

Jim Cook, MBA, CMA, AMP, is a licensed Mortgage Agent and an Accredited Mortgage Professional working through Mortgage Intelligence, a national mortgage brokerage firm brokering over \$8 billion in mortgages in 2007.

Jim spent many years in a lending role with one of Canada's big banks, before traveling southern Ontario and the Eastern Provinces training and auditing mortgage and personal lending practices.

Following a short period working with one of the Regulators of Canada's banking industry, he left banking to build a career managing a variety of alternative energy and development companies at both management and Board levels. A decade later, Jim returned to mortgage lending with Mortgage Intelligence and a long time friend and associate, Tony Antaya.

Tony Antaya, AMP, is a licensed Mortgage Agent who spent over 25 years in banking, lending and branch management roles with one of Canada's largest banks, in addition to traveling southern Ontario and the Eastern Provinces training and auditing mortgage and personal lending practices.

Upon retiring from that Bank, Tony began using his varied financial skills in the mortgage lending industry with the predecessor to Mortgage Intelligence.

Together, Tony and Jim established an online resource at www.MyMortgagePlace.ca and continue to raise the bar of professionalism and service to their clients. They have differentiated their practice in many ways, including by partnering to offer deep discounts from The Brick – up to 40% off furniture - and by introducing Annual Mortgage Check-Ups for all clients among many other programs.

The www.MyMortgagePlace.ca website has many free reports available, a history of interest rates since 1951, a secure on-line application process if you want to start that way and many other resources.

As Accredited Mortgage Professionals, both Jim and Tony have demonstrated to the National Association that they have the years of experience, the commitment to an ethical standard and the commitment to a continuing education standard necessary to proudly hold that designation.

Contact them through www.MyMortgagePlace.ca or directly:

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