

Straight --- ***Talk*** ---

On --- ***Mortgages*** ---

The purchase of a home is one more step along life's winding road. Regardless of the size or type of home, it's an opportunity to put a roof over your head that you can actually call your own. But to many, a home purchase requires borrowing a large amount of money, and therefore acquiring a large debt that most have never experienced. It is this debt that the following pages will help to explain.

I believe that the more you know and understand about mortgages, the less worry there will be.

Dan Faubert

Straight Talk On Mortgages, Fifth Edition
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Documents Required For Financing

When applying for a mortgage, it is important to have all the necessary documents prepared in advance. When a lender has many applications to process, it is easy to understand that those that are the most complete will get attention first. To ensure your application is looked at promptly, try to obtain as many of the following as possible.

Income Confirmation

Though T4's and pay stubs are often suitable to begin financing, a salary letter from all employers will be required. It should confirm annual income, position, length of time on the job and be on company letter head. For self-employed individuals, the last two years' Income Tax Return, Notice of Assessments and/or financial statements are often required.

Down Payment Confirmation

Whether it is money in your bank account (usually a 90 day history of the account is required), RRSP's, term deposits, or a gift from family, your down payment must be confirmed. Take along a copy of all certificates, statements or bank books. If the money is a gift from a family member, a "gift letter" specifying that it is a non-repayable gift will be needed, as well as confirmation of the gift being deposited into your account. Eliminate any concerns a lender may have regarding the source of your down payment. Proper documentation now will prevent questions later.

Accepted Offer to Purchase

This is a written contract that shows the price, terms and conditions under which a buyer agrees to purchase a property from a vendor. It will be signed by both the purchaser and vendor, and witnessed by a third party. If it is a private purchase, the lender will require both vendor and purchaser to have separate lawyers. If it is a purchase listed through the MLS system, an offer to purchase written up by a licensed real estate agent is acceptable. If you have not yet purchased a home, an offer is not required to get your mortgage pre-approved.

Feature Sheet or Listing on Property

This provides a lender with a brief description of the property to be mortgaged. If you have not yet purchased a home, have an idea of purchase price, property taxes, and condo fees if applicable, on the type of home you would be interested in.

Assets & Liabilities

Put together a list of assets and existing debts that you may currently have. Regardless of how much or how little, a lender needs this information to determine how much mortgage you would qualify for. The more accurate this information, the quicker and more complete the application process will be.

Definitions

- * **AMORTIZATION** The actual number of years it will take to repay the mortgage in full. The longer the amortization, the smaller the monthly mortgage payment. A commonly used amortization period is 25 years or less.
- * **CANADA MORTGAGE AND HOUSING CORPORATION (CMHC) or GENWORTH or Canada Guaranty** These organizations provide insurance to financial institutions who lend up to 95% of a property's value. The insurance premium is paid by the borrower and can cost up to 3.15% of the actual mortgage amount. This premium is added to the mortgage being borrowed.
- * **CLOSING DATE** The date on which the purchaser takes legal possession of the property. At this time the lawyers will transfer funds from the purchaser to the vendor and title of the home to the buyer. Also known as the **Possession Date**.
- * **CONVENTIONAL MORTGAGE** A loan that is secured by a mortgage registered against the property. It never exceeds 80% of the appraised value of the property or the purchase price, whichever is less.
- * **HIGH RATIO MORTGAGE** A conventional mortgage that exceeds 80% of the property's value. This mortgage must be insured by CMHC or Genworth.
- * **SURVEY** A document that shows accurate measurements of land and improvements on a property. If a survey is not available, the lenders will insist on title insurance being arranged on your behalf.
- * **TERM** In a mortgage, "term" is the actual length of time for which the money is loaned at a set rate of interest. Terms are commonly from 6 months to 5 years, though longer terms may also be available. After the term expires, you can either repay the balance owing or re-negotiate the mortgage at current rates and conditions with the lender.
- * **VENDOR** The individual(s) selling a property.
- * **COLLATERAL MORTGAGE** A mortgage that has as its primary security a promissory note or loan agreement and as "backup," a collateral security, being a mortgage registered against your property. A collateral mortgage cannot be assigned, therefore at this time a collateral mortgage cannot be transferred to another lender on maturity without cost. Therefore on maturity, eliminating your ability to shop around for a better rate.

Do I Qualify?

Most institutions offer a pre-approved mortgage that tells you in advance the amount of mortgage you are approved to borrow. This calculation is based on your income, down payment, and any debts you currently have. It can also hold a current mortgage rate for up to 120 days while you look for a home. The Pre-approved rates are never “best discounted” rates available, but the normal rates at the time.

Best discounted rates are usually only available when an offer to purchase has been made and accepted.

The normal banking system allows home buyers to use **up to 39% (G.D.S.)** of their gross monthly income **towards housing costs**, which includes mortgage payment, property tax and heating. If the property purchased is a condominium, ½ of monthly condo fees must also be added.

As well, **up to 44% (T.D.S.)** of gross monthly income can be spent on these housing costs and **any other debts** (i.e.: car loans and credit card debt).

With current rules, purchasers with less than 20% down payment now have to use a “Stress Test” rate of 4.99% to qualify, regardless of the actual rate of the mortgage. This stress test rate is adjusted by the government, but usually is set at the average 5 yr posted rates of the 5 major banks.

If refinancing, or for borrowers with more than 20% down payment, they have to qualify at the face rate of their mortgage plus 2%. Therefore if the rate the client is getting is 3.50%, the lender has to qualify the client using a rate of 5.50%.

To clarify, in both scenarios you are not actually making payments at the higher rates, the lender is simply using the payment based on the higher rate in qualifying the borrower.

In summary, remember that more important than qualifying within the guidelines of an institution, is your sense of comfort with the monthly payments. Do a detailed family budget to ensure that what you want to pay is in line with what the system allows.

Example: Pre-Approved Mortgage

Qualifying Process - First Step

Assume you are purchasing a condominium for \$300,000.00. Your mortgage is \$240,000.00 at 3.50%, with a 25-year amortization. Your gross annual income is \$65,000.00 (or \$5,416 per

month). This is the scenario with a borrower who has more than 20% down payment qualifying at a rate of 5.50%.

Mortgage payment	\$1,465.00	(used a rate of 5.50% in calculating)
Monthly taxes	234.00	(\$2,800 per year/12)
Monthly heat	100.00	(estimated)
½ Condo fees	<u>150.00</u>	(estimated \$300 per month)
Total monthly housing costs	\$1,949.00	

Gross monthly income is \$5,416.00 (\$65,000.00 per year).

Therefore: $\frac{\$1,949.00 \text{ Total monthly housing}}{\$5,416.00 \text{ Gross monthly income}} \times 100 = 35.98\% \text{ G.D.S.*}$

***This ratio should not exceed 39%**

Qualifying Process - Last Step

The final step in qualifying is to look at what other debts you have. For example, any loan or credit card payments must be added to the above housing costs and the total **cannot** exceed **44%** of your gross monthly income. Assume your monthly car payment is \$300.00. See chart below.

Total monthly housing cost	\$1,949.00	(from previous page)
Car payment	<u>300.00</u>	
Grand Total monthly costs	\$2,249.00	

Gross income is \$5,416.00 (\$65,000.00 per year).

Therefore: $\frac{\$2,249.00 \text{ Total monthly housing}}{\$5,416.00 \text{ Gross monthly income}} \times 100 = 41.52\% \text{ T.D.S.*}$

***This ratio should not exceed 44%**

Is Rate Really Everything?

Rate is always foremost in people's minds when inquiring about a mortgage. It does warrant concern, because a difference in rate directly affects your monthly mortgage payment. But rate is not everything! Two institutions may have the same rate for a particular term, and yet the privileges offered may be quite different. Ensure that any mortgage you take has good prepayment, is portable and increasable, and offers bridge financing. Make sure it also isn't registered as collateral, unless it is necessary for your purposes (i.e. getting a secured L/C). Don't compromise privileges for rate, it could be a costly mistake.

Portable

A mortgage should be portable, meaning you can take the existing mortgage with you to a new property being purchased. The new home must be acceptable to your institution.

Assumable

An institution should allow the purchaser of your home to assume the existing mortgage. He must qualify though, as you did. The reason behind having an assumable and portable mortgage is that when selling your home, the mortgage won't have to be discharged. If you discharge an existing mortgage during the term, the penalty can be substantial.

Increasable

A mortgage should always be increasable, meaning that during the term of your mortgage you can increase the amount of the loan for a specific purpose. An example would be borrowing money to build an addition consolidate debt etc.

Prepayment Privileges

Most mortgages, unless specified otherwise, are closed. A closed term means that the mortgage cannot be paid off prior to maturity. So to make long term mortgages attractive, most institutions allow some form of prepayment option. A common example of this would be a 15+15% option. You can pay up to 15% of the original mortgage loan once each year and or you can increase your monthly payment by 15% once a year without penalty. These privileges can vary from one lender to the next.

Payment Frequency

All institutions should give the borrower an option of paying their mortgage monthly, weekly, or bi-weekly. How your salary is paid may dictate to you which is more convenient, however paying your mortgage on an accelerated weekly or bi-weekly (i.e. accelerated bi-weekly is your monthly payment divided by 2, and paid every 2 weeks) basis will pay your mortgage down faster than if paid monthly. Ask how this can benefit you.

Unexpected Costs You May Have

Mortgage Setup Costs

When arranging a mortgage there are legal and disbursement costs (i.e. courier, registration fees etc.) associated with that process. A lawyer is required on all home purchases to transfer clear title of the property from the seller to the buyer. Legal fees, which I will assume include their disbursement costs and taxes (do not confuse with land transfer tax) are the responsibility of the purchaser.

For the bank to approve a mortgage, they are normally required to have an appraisal and or insurer approval. If CMHC/Genworth/Canada Guaranty are involved there is tax (do not confuse with land transfer tax) that the government charges on the insurance premium. These costs could add up to 1.50% of the purchase price. When your offer to purchase is accepted, ask what specific costs are applicable to you.

Tax Hold Back

Many lenders require that property taxes be collected with your monthly mortgage payment. They then send these payments directly to your municipality.

The lender usually requires sufficient funds in your "tax account" to pay any incoming property tax bills. To ensure this, the lender could hold back a portion of your estimated annual property taxes from the mortgage advance. This money is not lost, but put aside in your "tax account" so that sufficient funds are always available to pay your property taxes.

What it means to you though is that your down payment required will increase by the amount of the hold back. Every lender can deal with property taxes differently, so as you can see, it is an important question to ask!

Land Transfer Tax

Unlike property taxes, land transfer tax is a one time cost paid by the purchaser on closing. It is similar to the tax you pay on a store bought item, but due to the size of a home purchase, it can be a significant expense. Use the table (below) to determine the estimated tax based on your particular purchase price. First time borrowers today, receive an immediate \$4,500 reduction on their property land transfer tax. Check with your lawyer to see if this applies to you.

See next page for table...

PURCHASE PRICE	TAX	PURCHASE PRICE	TAX
\$ 180,000.00	\$ 1,525.00	\$ 330,000.00	\$ 3,425.00
\$ 190,000.00	\$ 1,625.00	\$ 340,000.00	\$ 3,575.00
\$ 200,000.00	\$ 1,725.00	\$ 350,000.00	\$ 3,725.00
\$ 210,000.00	\$ 1,825.00	\$ 375,000.00	\$ 4,100.00
\$ 220,000.00	\$ 1,925.00	\$ 400,000.00	\$ 4,475.00
\$ 230,000.00	\$ 2,025.00	\$ 425,000.00	\$ 4,975.00
\$ 240,000.00	\$ 2,125.00	\$ 450,000.00	\$ 5,475.00
\$ 250,000.00	\$ 2,225.00	\$ 475,000.00	\$ 5,975.00
\$ 260,000.00	\$ 2,375.00	\$ 500,000.00	\$ 6,475.00
\$ 270,000.00	\$ 2,525.00	\$ 550,000.00	\$ 7,475.00
\$ 280,000.00	\$ 2,675.00	\$ 600,000.00	\$ 8,475.00
\$ 290,000.00	\$ 2,825.00	\$ 650,000.00	\$ 9,475.00
\$ 310,000.00	\$ 3,125.00	\$ 700,000.00	\$ 10,475.00
\$ 320,000.00	\$ 3,275.00	\$ 750,000.00	\$ 11,475.00

*calculations above are not warranted see Ontario Govt. web site below for details of calculation.
www.rev.gov.on.ca/en/tax/ltt/rates.html

Where to Borrow

Where to obtain a mortgage is a common concern among home buyers. The likely place to inquire would be where an individual does their personal banking, but is this source of funds always the best source of funds? The answer is often no.

All institutions have different rates, prepayment options and terms. It's up to you, the borrower, to ensure that the mortgage suits your needs. You should not have to conform to the needs of the bank. Does the institution have flexible hours of business, and after hour access to a knowledgeable individual? Is the institution offering competitive rates and privileges? Does the loans officer you will meet, have the authority to approve your mortgage?

To simplify the search for your mortgage, why not use the experience of a mortgage broker? A mortgage broker has access to funds from all institutional lenders, from banks to life and trust

companies that the general public may not be aware of.

By having access to such a broad range of lenders, the home buyer is guaranteed the best possible rates and privileges. A lender is found that suits your needs, not the banks.

Most mortgage brokers are accessible evenings and weekends, to answer questions and approve loans during office hours that are convenient to you. For most qualified home-buyers, there are no broker fees for arranging a mortgage. The fees of a mortgage broker are paid by the institution that funds your mortgage, usually a percentage of the mortgage amount. So with guaranteed lowest rates, flexible hours of business, and no broker fees, the service of a reputable mortgage broker can take the financial worries out of purchasing a home.

About the Author

Dan Faubert is a mortgage broker working through Ottawa-Carleton Mortgage Inc.

With a father in a military career, he lived across Canada for most of his early years, but when posted to Ottawa in 1982, planted roots, and called Ottawa home.

He graduated from the Algonquin College Business Administration program in 1984, and obtained his Mortgage Brokers Licence in 1989. Dan has worked in the mortgage industry since 1985, and has been with Ottawa-Carleton Mortgage since 1990.

The financing of residential real estate is his specialty, with a passion for educating and fulfilling the dreams of first time home buyers.

Ottawa-Carleton Mortgage Inc. is a registered Mortgage Brokerage #10419 with the Financial Services Commission of Ontario.

MORTGAGE PAYMENT CALCULATOR

MONTHLY PAYMENT PER \$1000 OF MORTGAGE

- Annual Rate - (%)	-Amortization Period -		
	15 Year	20 Year	25 Year
2.50	6.66	5.29	4.48
2.75	6.78	5.41	4.61
3.00	6.90	5.54	4.73
3.25	7.02	5.66	4.86
3.50	7.14	5.79	4.99
3.75	7.26	5.91	5.13
4.00	7.38	6.04	5.26
4.25	7.50	6.17	5.40
4.50	7.63	6.30	5.54
4.75	7.75	6.44	5.68
5.00	7.88	6.57	5.82
5.25	8.01	6.71	5.96
5.50	8.14	6.84	6.10
5.75	8.27	6.98	6.25
6.00	8.40	7.12	6.40
6.25	8.53	7.26	6.55
6.50	8.66	7.41	6.70
6.75	8.80	7.55	6.85

Note: * Interest compounded 1/2 yearly - not in advance
 ** E. & O.E.

EXAMPLE: USING MORTGAGE PAYMENT CALCULATOR
\$240,000 mortgage at 3.5%, with a 25 year amortization
240*4.99=\$1197.60 per month

Email or Fax Back, Or Online Pre-Approval Process

There is nothing worse than looking at houses that you can't afford. The \$300,000 townhouse never looks as good as the \$450,000 single family home that you just came back from seeing.

So why discourage yourself when you can know up front what you can afford?

Mortgage rates may also rise, so why not protect yourself by locking in a rate today, while you look for a home tomorrow?

The process is a simple one. Fill out and sign the form and scan and email, or fax it back to me. Or of course you can apply on line at www.mortgagemoney.ca under "apply now".

It obligates you to nothing, and at the same time lets you know what you qualify for. It can guaranty you a mortgage rate for up to 120 days upon approval.

Good luck in your search for a home.
Call now and book your rate today!

Dan Faubert

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APPLICANT

FULL NAME _____
 (Please Print)

MR MRS MISS MS DR

BIRTH DATE _____
 MO / DAY / YR

RESIDENCE TELEPHONE _____
 BUSINESS TELEPHONE _____

 SOCIAL INSURANCE NO.

CO-APPLICANT

FULL NAME _____
 (Please Print)

MR MRS MISS MS DR

BIRTH DATE _____
 MO / DAY / YR

RESIDENCE TELEPHONE _____
 BUSINESS TELEPHONE _____

 SOCIAL INSURANCE NO.

CURRENT ADDRESS: street _____

HOW MANY YEARS _____

CITY _____ PROV. _____ POSTAL CODE _____

NUMBER OF DEPENDENTS _____

PREVIOUS ADDRESS: street _____

HOW MANY YEARS _____

CITY _____ PROV. _____ POSTAL CODE _____

EMPLOYMENT

NAME OF EMPLOYER _____ WHAT IS JOB OR TITLE? _____

ANNUAL SALARY _____ YEARS WITH COMPANY _____

PREVIOUS EMPLOYER if less than 2 years at current employer _____ WHAT WAS JOB OR TITLE? _____
 YEARS WITH COMPANY _____

CO-APPLICANT (if applicable)

NAME OF CO-APPLICANT'S EMPLOYER _____ WHAT IS JOB OR TITLE? _____

ANNUAL SALARY _____ YEARS WITH COMPANY _____

PREVIOUS EMPLOYER if less than 2 years at current employer _____ WHAT IS JOB OR TITLE? _____
 YEARS WITH COMPANY _____

ASSETS	AMOUNT	LIABILITIES	INSTITUTION	AMOUNT	MONTHLY PAYMENT
CASH AND ACCOUNTS		BANK LOANS			
STOCKS AND BONDS					
REAL ESTATE - RESIDENCE		MORTGAGE - RESIDENCE			
REAL ESTATE - OTHER		MORTGAGE OTHER			
AUTOMOBILE					
RRSP		FINANCE COMPANY LOANS			
		CHARGE ACCOUNTS			
Referred By:					

I / We have the sum of \$ _____ available for a down payment towards the purchase of our home.

The purchase price of our new home is \$ _____

PRE-APPROVAL

I / We would like to have a mortgage pre-approved in the amount of \$ _____

FREE MORTGAGE TRANSFER

I / We would like to transfer my / our mortgage which is presently with (Lender's Name) _____

This Mortgage is due for renewal (date) _____

The approximate balance of this mortgage at renewal will be \$ _____

PRIVACY AND CONSENT

PERSONAL INFORMATION is information that identifies you as an individual. It includes your name, address, age, gender and personal financial records including identification numbers such as your Social Insurance Number (SIN), personal references and employment records. When you provide us with your Social Insurance Number, we use it to keep your personal information separate from that of other individuals with a similar name, including information obtained through the credit approval process. You may elect not to provide your Social Insurance Number, unless we are required to use your SIN for income tax reporting purposes.

WHY DOES OTTAWA-CARLETON MORTGAGE INC., MORTGAGE BROKERAGE LICENCE # 10419, ASK FOR YOUR PERSONAL INFORMATION? Personal information is required in order to determine your credit worthiness when you are applying for a loan or mortgage. If you have any questions about the process, just ask us. In addition to these purposes, which are self-evident, we ask for your personal information for the following reasons

- To understand your needs
- To determine the suitability of the products of various Lenders that we may recommend to provide the financing you are requesting
- To determine your eligibility for financing
- To provide you with information on other products and services that we feel that you may be interested in
- To comply with the law.

SHARING YOUR PERSONAL INFORMATION Your personal information is held strictly confidential by Ottawa-Carleton Mortgage Inc., Mortgage Brokerage Licence # 10419. Your personal information is shared, to the extent permitted by law, with third parties directly involved in obtaining the mortgage financing or other services that you have requested.

If you have any questions about our Privacy Policy or wish to have your name removed from our direct marketing lists, please contact us at 613-563-3447 or email our chief compliance officer at cco@mortgagesmadeeasy.com or write us at 381 Richmond Road, Ottawa, Ontario K2A 0E7

X _____
I agree (Applicant)

Date

X _____
I agree (Co-Applicant)

Date

I/We hereby certify that the information given in my/our mortgage application is complete and correct and is given for the purpose of obtaining the mortgage loan and/or financial services applied for now or in the future through Ottawa-Carleton Mortgage Inc., Mortgage Brokerage Licence # 10419.

I/We authorize the receipt and exchange of information about me/us with your affiliates and to the sharing or exchange of reports and information with the credit reporting agencies, credit bureaus, mortgage insurers, and/or any other person, corporation, firm or enterprise with whom I/we have or propose to have a financial relationship.

X _____
APPLICANT **DATE**
 Email: _____

X _____
CO-APPLICANT **DATE**
 Email: _____