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Buying your first home?

It is a big purchase and can be a little intimidating, but it doesn't have to be.

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

Personally, I got 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 MHC Mortgage Services.

Start Here - 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, what paperwork you need and avoid any unnecessary problems up front;
- **Meet with your Realtor** to identify the homes that fit your plan;
- **Visit properties** to find the right one;
- **Complete a Purchase Agreement** with your Realtor – conditional on things like financing and a home inspection;
- **Obtain a mortgage commitment** for your purchase;
- **Satisfy** your mortgage **conditions**;
- **Satisfy** your Purchase Agreement **conditions**;
- **Visit your lawyer** to sign documents and deliver the down payment; 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 and mortgage payments are everything they need to know.

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

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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 how much they will lend you, at what rate and terms, subject to them accepting your house. Lenders usually 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.

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" – meaning that no lender is involved.

Again, a Pre-Approval is a written commitment issued to you after a review of your application and credit bureau report. With more and more credit fraud happening, checking your credit report before you start negotiating a purchase agreement can give you time to sort out any errors when there is time to do so.

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.

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Step Four – Complete a Purchase Agreement

When you find a house to buy, your Realtor will put together the Purchase Agreement. This Offer to Purchase will have the price you are prepared to pay together with what is included in that price, 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 for usually 7-10 days on things such as getting your mortgage or having a home inspection done.

When the Seller accepts the Offer, they are committed to the Sale. You now have whatever time frame you put in the offer to deal with those conditions. If you can't, you can let the Offer expire. If you can and do, then you will waive those conditions and "firm up" the Purchase Agreement.

Step 5 – Obtain a Mortgage Commitment

Recall that the first step was to get pre-approved. Now, with a real Purchase Agreement we return to the lender to get a real Commitment/Approval specific to this property.

Just like your Purchase Agreement, the lender's Commitment with also be conditional – conditional on us proving what we stated in the application. For example, the lender will ask for an employment letter, a paystub and proof of your down payment among other things (different lenders – different policies). 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 required by your lender so you can waive your Purchase Agreement conditions. Then the lender will instruct your lawyer to prepare mortgage documents and ensure you get clear title to/ownership of 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 – hopefully without creating unnecessary confusion.

Now, let's look in more detail - down payments, interest rates, payment frequencies, Canada Mortgage & Housing Corp (CMHC) and mortgage terms and other related concepts.

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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 work with an experienced broker. 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 at lender Head Offices, they create competition for your business. The net result is that Brokers often can provide a better overall solution for you, 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 before tax income to your monthly debt payments and the mortgage payment and property taxes for the property

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you are buying. Your total debt payments can't be more than a specific percentage of your 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 a one-time 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 is you are putting 15% down, increasing to 2.75% for 5% down.

CMHC exists to protect the lender. Let's say they gave a mortgage above 80% of property value and things have gone bad. Now, they have to seize and sell a property to get their money back. If they can't get everything back with that Power of Sale, 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. Your government at work …

Down Payment Options

In Canada today, if you have a good credit score and credit history, you can get up to 95% financing. Interest rates are not affected by the amount of your down payment.

Note that in all cases, you must provide 3 months bank/investment statements for accounts where your down payment is deposited

If a close family member has provided you a gifted down payment, you will also need a 'gift letter' in a form specific to each lender. This letter and a bank statement showing the gift deposited into your account will be required.

RRSP New Home Buyers Program

First time homebuyers are eligible to withdraw up to $25,000 from an RRSP, without withholding taxes, under this program. The money must have been in the RRSP for 90

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days before it is withdrawn and you must agree to repay it into the RRSP over the next 15 years, minimum $1/15^{th}$ 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. It depends on whether you are comfortable with some risk, whether your income is fixed, how tight your budget is and many other factors. Discuss these options with your mortgage broker.

Payment Frequency Options

You can pay monthly, accelerated biweekly or accelerated weekly - and it can have a big impact on how much interest you pay.

Simply by paying every two weeks, you can drop years off your mortgage and tens of thousands of interest.

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 out the mortgage faster.

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 has different 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 provides options to make increased payments or extra payments without penalty.

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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 lets you buy the home and include the improvements in your mortgage.

We take the Purchase Price and add to it the value of contractor quotes for specific repairs in obtaining a mortgage commitment. At Closing, the sale price goes to the Seller – the rest is held back until the repairs are complete. Once they are complete, and an inspection proves it, the rest of the mortgage is provided to pay contractor(s).

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 – Budget 1 .5% of the Purchase Price

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, Realtor or lawyer can help you here.

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.

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

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About Jim Cook

Jim Cook, MBA, AMP, administers the ontariorates.com program. He is a licensed Mortgage Broker and an Accredited Mortgage Professional working through MHC Mortgage Services, powered by TMG The Mortgage Group, a national mortgage brokerage firm brokering some $8 billion in mortgages in annually.

He was recognized with a national Award of Excellence from Mortgage Professionals Canada in 2014, is in the top 20% nationally of TMG Brokers and more relevant for you, has been proven over a decade with friends and neighbours. Visit www.mymortgageplace.ca to see what they have to say about their experiences.

What did he do before returning to a mortgage lending role?

> 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.
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> 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 initially with Mortgage Intelligence and now with MHC Mortgage Services.
>
> As Accredited Mortgage Professional, Jim has demonstrated to the National Association a commitment to an ethical standard and to a continuing education standard necessary to proudly hold that designation.

You can check into Jim's extensive management background at http://www.linkedin.com/in/jimcookjv

Jim's video business card: http://youtu.be/LUm1UOoM_4c

Jimcookbook – a bit of fun: http://youtu.be/7qgCwaOoMAk

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