mortgagejake

FIRST-TIME BUYER GUIDE

Getting Started

Interested in purchasing a property? Your first step is determining if you need a mortgage. There is an array of options available for you, and with a pre-approval you can figure out how much you can afford, what your payments will be, and also what your credit rating is. In a matter of minutes we can assess your finances and you can continue making one of the most sound investment decisions: real estate.

What is a mortgage pre-approval?

A mortgage pre-approval is an immediate summary of your “purchasing power”. We check your credit, determine your yearly income and figure out your total down payment on the house. With all this information, the lender will issue us a certificate of pre-approval which will tell you what your maximum borrowing amount is, what your options are and also secure us an interest rate for upwards of 120-days. Once you have this pre-approval, you're ready to explore properties listed in your price range. Keep in mind a few important things:

- Although a pre-approval lasts 120-days, if you do not find a property in that time, it does not mean you are no longer pre-approved. Rather, the rate is “reset” and we continue to pre-approve you should you need more time. Therefore, a pre-approval does not expire – though the interest rate held for 120-days does. If the rates change, your pre-approved rate will change after that time.
-
    - Example: On February 1st 2010 we pre-approved a buyer for a mortgage $400,000, at a rate of 3.89%. Her pre-approval expires 120 days from then (June 1st). She needs to find and close a deal by June 1st in order to take advantage of the 3.89%. IF she does not, we can extend the pre-approval at the whatever the best rate is available on June 1st, and keep extending if need be every 120 days, although, the interest rate will be then subject to change at each extension.
    -
- you are never obligated to work with the lender(s) that has given you the pre-approval. We can shop around for 2-3 pre-approvals although most lenders offer similar rates at pre-approval time. That being said, once you have made the purchase, we then decide which lender is best suited for your deal.

Do not think of a mortgage pre-approval as a guaranteed approval – as the final and firm approval will still need to undergo a rigorous underwriting process from the lender. A pre-approval is automated by the computer, and cannot take into account certain factors and exemptions that come when submitting the full application.

Jake Abramowicz – c. 416-910-4448
FSCO: M08003274
MBL: #10680
Head Office (905) 707-6702 :: Fax: 905-707-6823
15 Wertheim Court, Suite 210 :: Richmond Hill, Ontario, Canada :: L4B 3H7

Think of a pre-approval as a starting point, but not a firm commitment from a lender.

Ok, so how do I get pre-approved?

To get pre-approved is simple, and takes about 5 minutes. We check your credit rating, quantify your assets and liabilities, verify your income and figure out what the maximum you have for downpayment.

Your credit rating is based on a "beacon score" established by credit agencies. The minimum beacon score standard is 600, but most lenders want to see at least a 620 beacon score, with some even going to a minimum of 650.

> *What is a beacon score?*
> *The beacon score is your credit ranking from two agencies: Transunion and Equifax. Some lenders use one, while others use both and average the scores. For a mortgage with less than 20% down in Canada, your minimum beacon score must be 600, although 620 is considered the norm. Some lenders require 650 or higher, so we'll determine where to go once the credit is checked. We can also work on ways to improve the score to get you to that number so we get an approval.*

Once we know your credit rating, measuring your gross income versus your financial obligations is next. The general rule of thumb is the 32/40 "ratios". Lending guidelines state that no more than 32% of your PRE-tax income can go towards mortgage payments, taxes, and utilities, and no more than 40% of your PRE-tax income can go towards the above three + any monthly debt obligations (such as car payments, student loans, credit card and line of credit payments).

> *Scenario: husband and wife both employed full-time, earn a combined gross salary of $78,000. They only have one car payment of $400 per month and no debt. They have a total $20,000 available for down payment in their RRSPs, as well as $5,000 saved up for closing cost fees. Using an online affordability calculator, this couple has figured out the maximum they can borrow is $345,000.*

What if I am in a bidding war, will a pre-approval help?

In a real estate climate of low rates and low inventory, it is not unusual for more than one buyer to make a bid on a property. The result is a bidding war between buyers which typically drives the price of the property above the list price. A Realtor will be better able to guide you through a bidding war, but a pre-approval is essential if you are indeed in one of these situations. Many times when competing for a property without a pre-approval on hand, you are not going to be considered by the seller as a "qualified buyer".

Jake Abramowicz – c. 416-910-4448
FSCO: M08003274
MBL: #10680
Head Office (905) 707-6702 :: Fax: 905-707-6823
15 Wertheim Court, Suite 210 :: Richmond Hill, Ontario, Canada :: L4B 3H7

Scenario: East-end Toronto semi-detached asking $399,000, priced under market value to attract multiple-offers. Recent sales of identical houses were recorded in the $435,000 price point. The seller receives 5 offers with the top 2 having a strong $25,000 deposit and almost identical prices of $435,000. Offer 1 has waived the financing condition, satisfied the property and its value is what the market will bear. Offer 2 has asked for the standard 5-day financing condition. Seller will look at both offers and almost without hesitation accept offer 1 because there is no condition of financing.

(One note of caution: because of the increased number of multiple offers, we are seeing properties sell for much more than asking price. A financing condition is important because it allows the lender to assess whether the price paid meets in-line with the values of similar properties. However in cases where a financing condition cannot be put in place because of competition, two ways of assessing value are either 1) an appraisal and / or 2) a comparable analysis with your Realtor.)

In a few minutes we can give you the peace of mind that you *can* qualify for that property, and make a strong offer.

What should I do to ensure a smooth approval?

When the search for your property is over, keep in mind is that your credit will be checked by your lender when we submit the deal for underwriting the final approval. As a result, it is crucial not to take out too much credit between now and the time of purchase, for this may adversely affect your ability to get a mortgage – and nobody wants that to happen. When I have had the opportunity to review your credit rating with you, I can make suggestions on how to improve it, and how to maintain it so we can proceed at the real-deal stage without any problems. Some brief examples of how some people can cause ruin to their credit include:

1. Being late on payments – this is a huge problem and will cause the lender to think twice, if not outright reject our application.
2. Being over the limit on credit cards. Another huge problem that will cause your beacon score to drop dramatically.

What is mortgage insurance? CMHC? Is it mandatory? What will it cost me?

Every mortgage in Canada with a downpayment of less than 20% is subject to mortgage default insurance, offered by two companies: Canada Mortgage and Housing Corporation (CMHC) and Genworth. Both insure mortgages at the same premium levels:

Jake Abramowicz – c. 416-910-4448
FSCO: M08003274
MBL: #10680
Head Office (905) 707-6702 :: Fax: 905-707-6823
15 Wertheim Court, Suite 210 :: Richmond Hill, Ontario, Canada :: L4B 3H7

Downpayment	Premium at: 25-year	30-year	35-year
5.00%	2.75%	2.95%	3.15%
10.00%	2.00%	2.20%	2.40%
15.00%	1.75%	1.95%	2.15%
20.00%	0.00%	0.00%	0.00%

Not every pre-approval will include the CMHC premium. When the final approval comes from the lender, CMHC is *added* to the total borrowing amount. Example, at 5% down, your CMHC on a 25-year amortization mortgage is 2.75% *of the mortgage amount.*

$200,000 purchase price
$10,000 downpayment
$190,000 mortgage
+2.75% = $5225.00 CMHC
Total Mortgage: $195, 225.00
(this is the amount you are paying back)

For every 5 years extra of amortization, add 0.2% to the CMHC premium, to a maximum 35-years. In our 10 years of mortgage experience, we have only had one example ever where a client wished to pay the CMHC premium up-front! Mortgage insurance is important because it allows lenders to share the risk of "high-ratio" mortgages – i.e. mortgages with less than 20% downpayment – with the insurance providers.

What are the average closing costs on a real estate purchase these days?

To close a typical deal it will cost you approximately 2-3% of the purchase price. To budget for closing costs, the following needs to be taken into account:

1 – Land transfer taxes
2 – Lawyer fees
3 – Moving expenses
4 – HST
5 – Other

1. Land Transfer Taxes

In general, when purchasing a property in Ontario, you are subject to paying Ontario Land Transfer Tax. Residents of Toronto proper are also subject to a Toronto Land Transfer Tax. As a 1st time buyer, there are rebates available from both levels of Government, with specific information found here for Ontario:

http://www.rev.gov.on.ca/en/refund/newhome/

and here for Toronto: http://www.toronto.ca/taxes/mltt.htm#rebates

To summarize, the total rebates one is eligible for is $2000 from the Ontario LTT and $3750 from the Toronto LTT.

2. Lawyer Fees

Lawyers charge to prepare a residential purchase transaction including the mortgage documents, and register it on the provinces' land titles. These fees vary as they are set by each lawyer. An average transaction will cost a client approximately $1500 PLUS HST (if the closing is after July 1st 2010). This includes title insurance, registration, disbursement, and lawyer fees, along with any other fee associated to close.

3. Moving Expenses

Depending on the size of your property and geographical distance between move, moving expenses can range from $1,000 and upwards.

4. HST – Harmonized Sales Tax

If your transaction includes CMHC insurance, your closing cost will also include the HST on the insurance component. Using our above example of a $5225 insurance, add 13% to that on closing, totaling $679.25.

5. Additional potential closing costs

Depending on the lender and the deal in question, additional closing costs could be: Appraisals (generally $300 – mortgages with over 20% down are usually subject to an appraisal), minor renovation costs including a new coat of paint, property tax holdback from the lender – this is where a lender will request a certain amount of property taxes held back on closing to cover future increases in property taxes. I will always make you aware of any potential costs so your budget can cover them.

What rate and term should I pick?

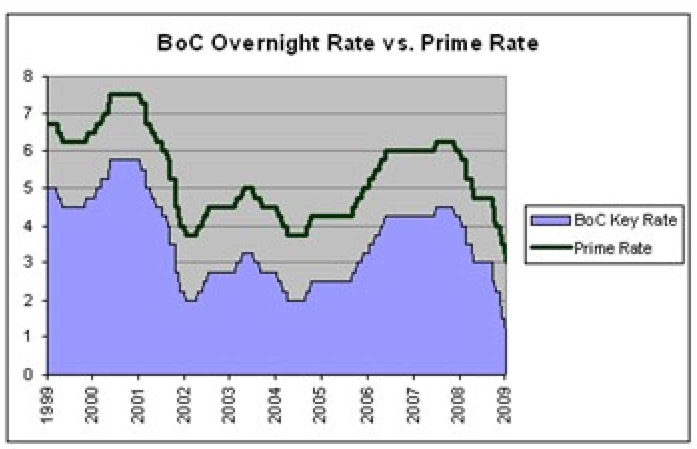
A very popular question these days, especially with market-low rates. A client that takes a fixed mortgage is someone who is more risk-averse, and does not mind paying a slight rate premium for protection from higher rates in the future. As of February 2010, the rate for a 5 year fixed rate mortgage is 3.85%. Rates are forecast to increase in near term, however, so now is an incredible time to lock in a very low rate moving forward. Other scenarios where a

Jake Abramowicz – c. 416-910-4448
FSCO: M08003274
MBL: #10680
Head Office (905) 707-6702 :: Fax: 905-707-6823
15 Wertheim Court, Suite 210 :: Richmond Hill, Ontario, Canada :: L4B 3H7

fixed makes sense is in the rental market, where an investor client will prefer to have their payments set so they do not worry about changes in payments while renting the property out.

On the other hand, a variable rate mortgage with a fluctuating interest rate, has proven to be more cost effective than a fixed rate mortgage in the long run BUT carries with it the risk of increased interest rates . The average Prime Rate has been 4.9% in the past decade, and today it is an an all-time low of 2.25% - lenders offer a discount from this rate of approximately .30 to .40, with the net rate being 1.85% to 1.90% – incredibly affordable money!

The following chart compares the variable and fixed rates over a period of 5 years:



It is estimated by the C. D. Howe Institute that by mid 2011, Prime Rate will have risen by an average of 2%, to 4.25%. That means, that while today your payment on a variable rate mortgage is very low, it may increase substantially in the future.

http://www.cdhowe.org/display.cfm?page=monetaryReleases

Who chooses variable? Clients who are comfortable with the risk hope to use low monthly mortgage payment to accumulate reserve funds which allow them to pre-pay the mortgage faster and/or allow for other household expenses. It is also important to remember that a client who chooses a variable mortgage may close it at any time during the term <u>without</u> penalty – to a fixed rate mortgage (terms will vary depending on the lender but most lenders require you to close for at least the number of years left on the mortgage).

<u>Moving Forward</u>

Now that your property is closing or has closed, and you are making payments to your mortgage, there are a few important ways that, depending on the lender, allow you to pay your principal down much faster, including:

Jake Abramowicz – c. 416-910-4448
FSCO: M08003274
MBL: #10680
Head Office (905) 707-6702 :: Fax: 905-707-6823
15 Wertheim Court, Suite 210 :: Richmond Hill, Ontario, Canada :: L4B 3H7

- bi-weekly accelerated payments: the advantage on a 25-year amortized mortgage is that by increasing your payment to bi-weekly it reduces the amortization period by approximately 3.5 years! If you make bi-weekly accelerated payments to your mortgage, you make 26 payments per year, versus the usual 12. As a result, each year you're making one extra payment towards principal, and after 5 years you've knocked your amortization down by 3.5-4 years.

- Increasing payments by the maximum allowed: Just as with many Canadians not using their maximum RRSP contribution each year, too few Canadians opt to increase the payments on their mortgage to the maximum allowed. Paying down your mortgage is one of the wisest investment decisions, and many lenders allow for a pre-payment privilege to the mortgage. Example, ING Bank has the leading class pre-payment policy of "25 and 25". This means a client can do the following; add 25% to their regular payment AND add 25% to the principal balance yearly. Keep in mind: EVERY penny you make in additional payments goes straight towards Principal.

- Porting/Refinancing/Switching: when the time comes that you have outgrown your property, or perhaps downsizing, do not ever feel trapped in your mortgage. Most lenders allow you to transfer your mortgage between properties (as long as the closing dates are within a set period of time, usually being 90 days). As a result you avoid paying the high interest penalties to break the mortgage. Feel free to contact us when that time comes, so we can decide if it is worth to stay with the current lender's rate, or move elsewhere.

Jake Abramowicz – c. 416-910-4448
FSCO: M08003274
MBL: #10680
Head Office (905) 707-6702 :: Fax: 905-707-6823
15 Wertheim Court, Suite 210 :: Richmond Hill, Ontario, Canada :: L4B 3H7

mortgagejake

PERSONAL INFORMATION:

Name	**co-applicant**
Date of birth	**DOB**
SIN	**SIN**
Street address	**Street address**
city	**city**
Postal code	**Postal code**
Contact info	**Contact info**

JOB INFORMATION:

	Applicant 1	**Applicant 2**
Company		
Position		
Employment Type (Full-time / Part-time / Contract / Self-employed)		
Gross Salary/Earnings		
Length of Employment		

I/WE WARRANT AND CONFIRM THAT THE INFORMATION GIVEN IN THE MORTGAGE APPLICATION FORM IS TRUE AND CORRECT AND I/WE UNDERSTAND THAT IT IS BEING USED TO DETERMIDE MY/OUR CREDIT RESPONSIBILITY AND TO EVALUATE AND RESPOND TO MY/OUR REQUEST FOR MORTGAGE FINANCING. YOU ARE AUTHORIZED TO OBTAIN ANY INFORMATION YOU MAY REQUIRE FOR THESE PURPOSES FROM OTHER SOURCES (INCLUDING, FOR EXAMPLE, CREDIT BUREAU) AND EACH SOURCE IS HEREBY AUTHORIZED TO PROVIDE YOU WITH SUCH INFORMATION. I/WE ALSO UNDERTAND, ACKNOWLEDGE AND AGREE THAT THE INFORMATION GIVEN IN THE MORTGAGE APPLICATION FORM AS WELL AS OTHER INFORMATION YOU OBTAIN IN RELATION TO MY CREDIT HISTORY MAY BE DISCLOSED TO POTENTIAL MORTGAGE LENDERS, MORTGAGE INSURERS, OTHER SERVICE PROVIDERS, ORGANIZATIONS PROVIDING TECHNOLOGICAL OR OTHER SUPPORT SERVICES REQUIRED IN RELATION TO THIS APPLICATION AND ANY OTHER PARTIES WITH WHOM I/WE PROPOSE TO HAVE FINANCIAL RELATIONSHIP.

Jake Abramowicz – c. 416-910-4448
FSCO: M08003274
MBL: #10680
Head Office (905) 707-6702 :: Fax: 905-707-6823
15 Wertheim Court, Suite 210 :: Richmond Hill, Ontario, Canada :: L4B 3H7

MORTGAGE EDGE
IT'S ALL ABOUT YOU

I/WE FURTHER ACKNOWLEDGE AND AGREE THAT EACH POTENTIAL MORTGAGE LENDER, MORTGAGE INSURER OR SERVICE PROVIDER TO WHO YOU PROVIDE THE MORTGAGE APPLICATION AND/OR MY/OUR PERSONAL INFO IS PERMITTED TO RECEIVE SUCH APPLICATION AND INFO AND MAINTAIN RECORDS RELATING TO ME/US AND MY/OUR MORTGAGE APPLICATION AND TO HOLD, USE, COMMUNICATE AND DISCLOSE PERSONAL INFORMATION ABOUT ME/US INCLUDING MY/OUR SOCIAL INSURANCE NUMBER IF I/WE PROVIDE IT, AND COLLECT PERSONAL INFORMATION FROM ME/US, YOU AND FROM THIRD PERSONS INCLUDING CREDIT BUREAU, CREDIT REPORTING AND COLLECTION AGENCIES, FINANCIAL INSTITUTIONS, MY/OUR PAST AND PRESENT EMPLOYERS, CREDITORS AND TENANTS, MY/OUR SPOUSE OR ANY OTHER PERSON WHO HAS INFORMATION ABOUT ME/US FOR THE PURPOSES OF RECORDING, EVALUATING AND RESPONDING TO MY/OUR APPLICATON FOR MORTGAGE FINANCING OR RELATED ACTIVITIES AND I/WE SPECIFICALLY CONSENT TO THE RELEASE AND DISCLOSURE OF PERSONAL INFORMATION BY SUCH PERSONS TO AND AMONG YOU AND EACH POTENTIAL MORTGAGE LENDER, MORTGAGE INSURER OR OTHER SERVICE PROVIDER.

APPLICANT:
DATE:

CO-APPLICANT:
DATE:

Jake Abramowicz – c. 416-910-4448
FSCO: M08003274
MBL: #10680
Head Office (905) 707-6702 :: Fax: 905-707-6823
15 Wertheim Court, Suite 210 :: Richmond Hill, Ontario, Canada :: L4B 3H7