

# **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 35 years or less.
- \* **CANADA MORTGAGE AND HOUSING CORPORATION (CMHC) or GENWORTH** 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 3.25% 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.

## 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.

The normal banking system allows home buyers to use **up to 32% (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 42% (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).

If your credit bureau has a Beacon Score of over 680, you're now allowed to use a ratio of 44% for both housing and other debts.

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 \$250,000.00. Your mortgage is \$200,000.00 at 4.50%, with a 25-year amortization. Your gross annual income is \$60,000.00 (or \$5,000 per month).

Mortgage payment	\$1,107.00	
Monthly taxes	184.00	(\$2,200 per year/12)
Monthly heat	85.00	
½ Condo fees	<u>100.00</u>	(estimated \$200 per month)
<b>Total monthly housing costs</b>	<b>\$1,476.00</b>	

Gross monthly income is \$5,000.00 (\$60,000.00 per year).

$$\text{Therefore: } \frac{\$1,476.00 \text{ Total monthly housing}}{\$5000.00 \text{ Gross monthly income}} \times 100 = \mathbf{30\% \text{ G.D.S.*}}$$

**\*This ratio should not exceed 32%**

## 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 **42%** of your gross monthly income. Assume your monthly car payment is \$300.00. See chart below.

Total monthly housing cost	\$1,476.00	(from previous page)
Car payment	<u>300.00</u>	
<b>Grand Total monthly costs</b>	<b>\$1,776.00</b>	

Gross income is \$5,000.00 (\$60,000.00 per year).

$$\text{Therefore: } \frac{\$1,776.00 \text{ Total monthly housing}}{\$5,000.00 \text{ Gross monthly income}} \times 100 = \mathbf{36\% \text{ T.D.S}^*}$$

**\*This ratio should not exceed 42%**

## 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 by one may be more suited to your needs than the other.

## 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.

## **Prepayment Privileges**

Most mortgages, unless specified otherwise, are closed. Closed means, that during the term, 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 be quite different 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 (i.e. courier, registration fees etc) costs associated with that process. A lawyer is required on all home purchases to transfer clear title of the property from the buyer to the seller. 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 the mortgage, they are normally required to have an appraisal and or CMHC/Genworth approval. If CMHC/Genworth is 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% of the mortgage amount. When your offer to purchase is accepted, ask what 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 chart (below) to determine the estimated tax based on your particular purchase price.

<b>PURCHASE PRICE</b>	<b>TAX</b>	<b>PURCHASE PRICE</b>	<b>TAX</b>
\$ 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	\$ 1,825.00	\$ 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
<p>*calculations above are not warranted see Ontario Govt. web site below for details of calculation.  <a href="http://www.rev.gov.on.ca/en/tax/ltt/rates.html">www.rev.gov.on.ca/en/tax/ltt/rates.html</a></p>			

## **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 his banking, but is this likely source of funds always the best source of funds? The answer may be no.

All institutions have different rates, prepayment options and terms. It is 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? Is the institution offering competitive rates and privileges? Is the loans officer you will meet knowledgeable, and have the authority to approve your mortgage?

To simplify the search for your mortgage, a common method is to 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 to suit your needs, not necessarily 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. He has been a consultant for over 25 years, dealing with mortgage financing of residential and commercial real estate. Ottawa-Carleton Mortgage Inc. is a registered Mortgage Brokerage with the Ministry of Financial Institutions, and Mr. Faubert completed the Ministry's Mortgage Brokers licence in 1989.

**MORTGAGE PAYMENT CALCULATOR**

**MONTHLY PAYMENT PER \$1000 OF MORTGAGE**

<b>- Annual Rate - (%)</b>	<b>-Amortization Period -</b>		
	<b>15 Year</b>	<b>25 Year</b>	<b>35 Year</b>
3.75	7.26	5.13	4.26
4	7.38	5.26	4.41
4.25	7.50	5.40	4.56
4.50	7.63	5.53	4.71
4.75	7.75	5.67	4.86
5	7.88	5.82	5.01
5.25	8.01	5.96	5.17
5.50	8.14	6.10	5.33
5.75	8.27	6.25	5.49
6	8.40	6.40	5.65
6.25	8.53	6.55	5.82
6.50	8.66	6.70	5.98
6.75	8.80	6.85	6.15
7	8.93	7.00	6.32
7.25	9.07	7.16	6.49
7.50	9.21	7.32	6.66
7.75	9.34	7.47	6.83
8	9.48	7.63	7.01
8.25	9.62	7.79	7.18
8.50	9.76	7.95	7.36
8.75	9.90	8.12	7.54
9	10.05	8.28	7.72
9.25	10.19	8.44	7.90
9.50	10.33	8.61	8.08

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

**EXAMPLE: USING MORTGAGE PAYMENT CALCULATOR**  
**\$170,000 mortgage at 4%, with a 35 year amortization**  
**170\*4.41=\$749.70 per month**

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170 \* 6.40 = \$1,088.00 per month

## **Fax Back Pre-Approval Process**

There is nothing worse than looking at houses that you can't afford. The \$200,000 townhouse never looks as good as the \$450,000 single family 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. Simply fill out the attached application, sign it and fax it back to me. It obligates you to nothing, and at the same time lets you know what you qualify for. It guaranties 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**  
**Mortgage Consultant**  
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**Direct office # 613-563-5070**  
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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			
<b>Referred By:</b>					

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](mailto: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: \_\_\_\_\_