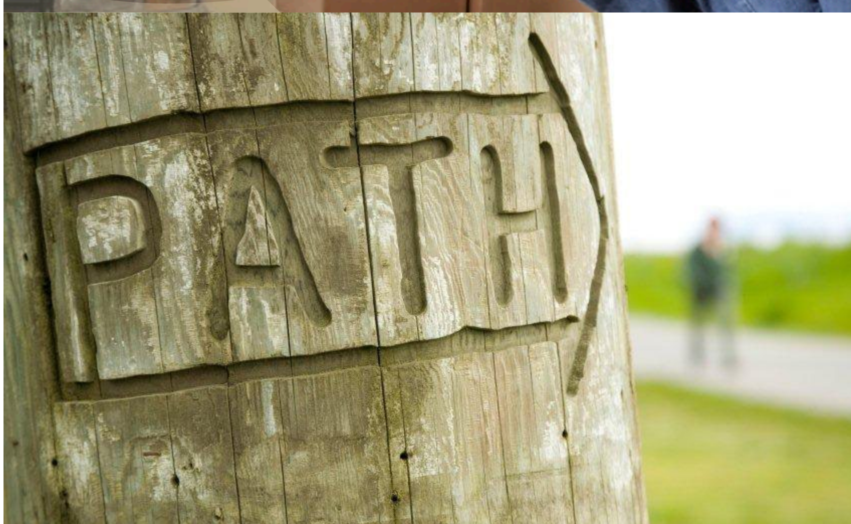

"Step by Step"

First-Time Home Buyers Guide

Prepared By:

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Overview

Summing it up, when getting pre-approved and then obtaining an unconditional mortgage financing commitment, lenders require proof of:

1. **Down payment** – how much do you have to put down on the purchase of your new home?
2. **Income** – how much income can you prove (stringency of proof depends on lender, product and loan-to-value)?
3. **Credit** – is the financial institution confident that you will pay them back?

This guide examines all of these areas. To begin, and to provide you with a solid understanding of a lender's rationale for why they lend or do not lend to a particular individual, here is a summary of the 5 Cs of credit (the first three are the most critical):

1. **Capacity** – Is your income sufficient to support the repayment of the requested loan amount? At this point, lenders examine the Gross and Total Debt Service Ratios:
   a. Maximum GDSR < 32% (Principal + Interest + Property Taxes + Heating Costs + 1/2 of Condo Fee must not exceed 32% of Gross Income).
   b. Maximum TDSR < 40% (Principal + Interest + Property Taxes + Heating Costs + 1/2 of Condo Fee + Monthly Obligations including Credit Cards & Loans must not exceed 40% of Gross Income).

   If you have good credit, your permissible debt service ratios will be higher – contact your Mortgage Intelligence mortgage professional for full details.
2. **Capital** - Capital is the money you have personally invested in the purchase, otherwise known as your down payment.
3. **Collateral** - Collateral is additional security you can provide the lender should you for some reason not be able to provide repayment. In real estate transactions, collateral is generally the property, and the lender will want to ensure that the property for which they are providing mortgage financing is marketable real estate.
4. **Character** - Character is your reputation and reliability – the general impression you make on the potential lender. The lender will look at educational background, business experience, length of time at your current employment and residence.
5. **Credit** - Credit is the evaluation of your habits in meeting credit obligations.

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1. Getting a Pre-Approval: A Smart Move

1a. Why A Mortgage Pre-Approval?

Getting a pre-approval for mortgage financing before you start to look for a home is a smart move.
A pre-approval:

- gives you the edge and confidence when putting offers on homes in areas where buyers are actively competing for properties on the market.
- provides you with a clear sense of how much you are eligible to borrow.
- assures you of a particular mortgage rate for a period typically of 90-120 days.
    - A locked-in rate means there is no risk of any interest rate increases while you are house hunting. The good news for those who turn to a an independent mortgage professional is that a an independent mortgage professional may be able to obtain a longer pre-approval rate hold. Plus, if the rates drop, your rate changes to the new rate.

Keep in mind the following:

1. A pre-approval is not a guarantee of financing, as the property you intend to purchase – along with your supporting information (such as income, down payment and employment history) – has to meet the financial institution's criteria to be approved for lending.
2. A pre-approval does not eliminate the need to make a conditional offer.
3. A pre-approval does not take into account closing costs such as inspection and appraisal fees, legal fees, land survey or title insurance, land transfer tax and moving costs.

1b. Information Required For A Pre-Approval:

For a pre-approval, the following information (at a bare minimum) is required of the applicant (and co-applicant); however, no proof at this time is necessary!

1. Full Legal Name(s)
2. Income(s)
3. Social Insurance Number(s)
4. Date(s) of Birth
5. History of residence and employment – 3 years
6. Summary of banking information (accounts etc.)
7. Summary information on assets & liabilities
8. Condo/maintenance fees, if applicable
9. Purchase price of property and down payment.

This information is submitted to the lender so they can make a preliminary decision of qualification, as well to enable the Mortgage Intelligence Mortgage Consultant to obtain the pertinent credit file(s).

- Credit file information reveals to the Mortgage Intelligence Mortgage Consultant where most likely your deal can be placed, or more specifically, narrows down the lenders and products that best suit your needs and qualifications.

It is important at this point in the process to be completely open regarding any past credit issues.

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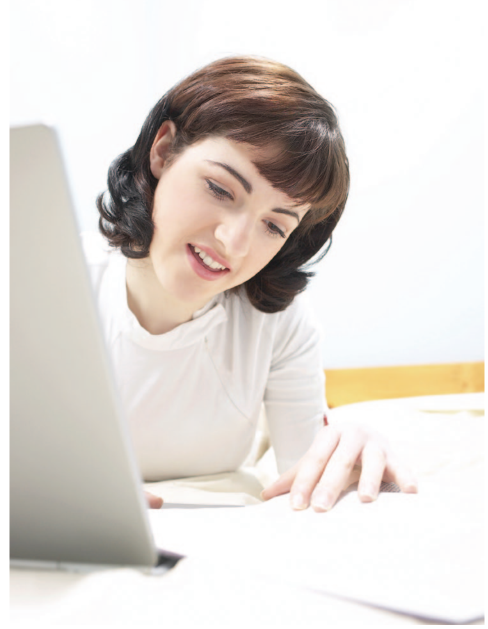

2. Things to Consider After Your Pre-Approval

2a. Gathering Information for the Lender

Now that you have your pre-approval, and have found the home that you want to purchase, it is time gather all of the information required to meet the guidelines of the selected financial institution so the mortgage can close. Obviously, you will need to provide proof of the information that you supplied in order to get you pre-approved:

- Income verification – i.e. pay stubs, copy of previous year's T4, letter from employer, spousal support etc.
  - Commission sales - 3 years personal tax returns plus Notice of Assessments from Revenue Canada.
  - Self employed – same as commission sales, plus 3 years business financial statements, and 3 years business tax returns (if applicable).
  - Lenders requirements do vary and depending on the product and LTV (loan to value), the verification will differ. In some cases, a self-directed letter is sufficient proof to the lender or income.
- Banking information (location, accounts and balances ...)
- Assets (cash, investments ...) and Liabilities (loans, credit cards, any other payments, including alimony and child support ...).
- If condo/maintenance fees, proof of fees, planned increases a special assessments to be levied.
- Down payment: please see section 3a.

2b. Understanding the Applicable (Closing) Costs of Purchasing a Home

Many Canadians, whether being called by the lawyer days before, or while sitting in the lawyer's office on the day of closing, are surprised by the final costs of purchasing a home. Especially those who are buying a new home, where small print in the contract adds up to thousands of dollars for such services provided by the builder.

Here is a summary of some of the costs you may incur on or before the closing date for your property purchase. It is important to understand these costs for a couple of reasons:

1. Moving into a new home should be a celebration and not a stressful experience because of mounting financial concerns.
2. You may want to consider decreasing your down payment (if possible) to have extra capital on hand to cover guaranteed and potential cash outlays.
3. City taxes are paid July 1st for the tax year starting in January and ending in December. It is important because:
   - Prior to July 1, the seller will compensate the buyer for every day spent in the home from January to the sale date
   - After July 1, the buyer will compensate the seller for every day spent in the home from sale date until Dec 31.

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Here is a list of costs to consider for pre-closing, at closing and post-closing, along with an area to fill in the estimated amounts:

Closing Cost Checklist

Pre-Closing Costs

Appraisal Fee	$ ________________
Home Inspection Fee	$ ________________

Closing Costs

Down Payment	$ ________________
CMHC / Genworth Application Fee	
(for high-ratio mortgages)	$ ________________
Legal Fees, Disbursements	$ ________________
Land Transfer Tax	$ ________________
Survey Certificate	$ ________________
Title Insurance / Land Survey	$ ________________
Maintenance Fee Adjustment	$ ________________
Tax and Interest Adjustments	$ ________________

Post-Closing Costs

Moving Expenses	$ ________________
Slight renovations and repairs	$ ________________
Decorations (i.e. window coverings)	$ ________________
Appliances	$ ________________
New Furniture	$ ________________
Yard Tools	$ ________________
Utility Hook Up	$ ________________
Property Insurance	$ ________________
Property Taxes (holdback)	$ ________________
Sundry	$ ________________

Estimated Total Costs $ ________________

Tip: *Don't forget, in order to close you will have to provide proof to the lender that you have home (fire) insurance, and if a newly built home, the "new home warranty".*

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2c. The Main Players in Your Home Purchase

When buying a home or other property, you will have to rely on a range of professionals to guide you through the process.

Mortgage Broker – A mortgage expert introduces buyers to a full range of mortgage products, interest rate options, and strategies to pay off a mortgage more quickly. This professional works only on his or her client's behalf.

May also be known as a mortgage consultant, mortgage agent or associate, depending on the jurisdiction.

Lender – Financial institutions, such as banks, credit unions, trust companies, pension funds, and life insurance companies which lend money to home buyers.

Realtor – A real estate representative finds properties in your price range and who arranges the purchase transaction on your behalf.

Appraiser – The appraiser determines a property's mortgageable value, based on its condition and the selling price of comparable properties recently sold in the area. The market value enables the lender to determine the loan to value ratio of the mortgage (the amount of the mortgage versus the value of the home).

Property Inspector – Property inspectors examine the home you intend to buy to evaluate its roof and structural stability, electrical work, plumbing, appliances, fireplaces and furnace. This inspection is usually arranged by the buyer, and allows him or her to address any issues with the seller prior to closing, as well as anticipate any repairs that may be required.

Lawyer / Notary Public – Your lawyer or notary will review the Agreement of Purchase and Sale, ensure that all closing documents have been completed correctly (including the title search and title insurance), as well as file documents with the provincial land title office. Your lawyer or notary will also ensure your property is clear of all existing mortgages, judgments and builder's liens.

Default Mortgage Insurer – Mortgage insurers (CMHC and Genworth) protect lenders from a borrower defaulting on a mortgage at any time during the amortization period. Home buyers with down payments of less than 20% must purchase mortgage insurance.

Who is Part of My Home Purchase Team?

Realtor: ....

Lawyer: ....

Home Inspector: ....

Other: ....

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3. Looking at Your Different Options

3a.Looking at Your Different Options

In reality, there really are only two mortgages, of which, as you will see, there are many characteristics and features (see section four, Understanding Mortgage Features):

1. **Conventional Mortgage:** A mortgage loan less than or equal to 80% (Loan to Value ratio) of the value of the property. I.e. a mortgage for $160,000 on a $200,000 home.

2. **High Ratio Mortgage:** A mortgage loan greater than 80% (Loan To Value ratio) of the value of the property, and therefore subject to mortgage loan insurance (aka default insurance – see below for insurance premiums) through either Canada Mortgage and Housing Corporation (CMHC) and Genworth Financial Canada. With mortgages insured through CMHC or Genworth, the insurance premium (one-time) is added to the mortgage amount.

DOWN PAYMENT	% FINANCING (as % of mortgage amount)	INSURANCE PREMIUM (calc. from mortgage amount)
5 – 9.9 %	90.1 – 95 %	2.75 %
10 -14.9 %	85.1 – 90 %	2.00 %
15 – 19.9 %	80.1 – 85 %	1.75 %
20 – 24.9 %	75.1 – 80 %	1.00 %
25 -34.9 %	65 – 75 %	0.65 % (special circumstances)

Amortization - 30 Years – add an additional 0.20 % to above premiums

3b. Mortgages with Extended Amortizations – Up To 30 Years

Canadians planning to buy a home can now choose to have their mortgage amortized over a period longer than the conventional 25-year amortization. Common extended amortization is 30 years.

These new options give homebuyers a financing alternative and open the door to homes they may not have been able to afford under a traditional 25-year mortgage. The new extended amortizations may appeal to homebuyers in larger urban centres where rising home prices have impacted housing affordability.

While a longer mortgage amortization offers the flexibility to reduce monthly mortgage payments, borrowers should plan to increase their monthly payments as soon as their finances permit, and consider making lump sum prepayments to lessen the amount of interest they pay over the life of the mortgage.

3c. Key Down Payment Information

Whatever amount that you have for a down payment will need to be verified by the selected financial institution prior to an unconditional commitment. Here are some important tips that will allow you to be fully prepared regardless which one of three resources your down payment comes from:

Note: 35 or 40 yr amortizations are only available on conventional mortgages

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1. **Own resources:** If the down payment has come from your own resources, whether it is savings, investments that will be cashed out, RRSPs, the financial institution will want documentation to show that 90 days prior to the close of the mortgage transaction these funds were available.

2. **Gift:** If the down payment has come from a gift, a gift letter will need to be provided to the financial institution stating that the funds are an outright gift. The funds also have to be in your possession.

3. **Sale of existing property:** If the down payment comes from the sale of an existing property, the financial institution will need to see the sale agreement (with no conditions) and mortgage statement.

CMHC, Genworth, and the lenders have come up with a number of programs to make purchasing a home easier and more readily available to Canadians. Such programs as extended amortizations up to 35 years are an example. Other such examples are:

1. **"0" Down Payment with a Cashback Mortgage or Borrowed Down Payment.**

2. **5% Down Payment.**

3. **RRSP Home Buyers' Plan – Use your RRSP for a Down Payment.**
   - Qualifying purchasers can withdraw up to $20,000 each from their registered retirement savings plans (RRSPs) to buy or build a qualifying home without incurring tax penalties.
     i. Withdrawn funds are not taxed, however this is contingent on the RRSP being repaid within 15 years with minimum annual payments of 1/15th of the withdrawn amount.

Where Will My Downpayment Come From?

Source	Amount for down payment use
Savings	
RRSPs (you can use $25,000 per person max)	
Gifts / other contributions	
Other assets	
Total	

3d. Purchase Plus Improvements Mortgage

If you intend to buy a home that needs some immediate upgrades, a "purchase plus improvements" mortgage covers the purchase price of the home, plus any renovations that would increase the value of the property. Finishing the basement, adding a deck, redoing the kitchen or bathrooms are all examples of improvements that can be financed with no need for a second mortgage. For current homeowners, a "refinance with improvements" option may also be available.

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4. Understanding Mortgage Features

4a. Mortgage Types

Today, more than ever, there are numerous mortgage options available.

- Fixed-rate: 6 month, 1, 2 and 3 year (open, closed and closed-convertible) 4, 5, 7 and 10 year closed
- Variable-rate: 3, 4 and 5 year (open, closed, closed-convertible and capped)
- Split-term: Combination of all possible terms (6 month through 10 years)
- Self-directed RRSP: A specialty mortgage – term optional – within CMHC guidelines.
  Invest your own RRSP funds into all or part of your home mortgage.

4b. Repayment Options

Prepayment Options: Many lenders allow you to make a lump sum payment – usually 10% to 20% of the original principal balance, per annum. In addition, many mortgage products now include a double-up and skip-a-payment feature. This lets you bank extra mortgage payments for a rainy day, at which time you can skip them if you need to. Payment Changes: Mos t mortgages now allow the amortization to be adjusted by increasing the payment on closed terms by 10% – 20% per year, once annually.

Payment Frequency: Most mortgages now come with the option to pay your mortgage at a frequency that matches your cash flow – weekly, bi-weekly or semi-monthly. The added benefit of the accelerated weekly and bi-weekly payments is that by dividing a regular monthly payment into two or four respectively, and deducting it at the new interval, an extra payment a year is made directly against principal. The surprising effect of this one extra payment a year is to reduce the amortization of the average mortgage by approximately 5 years, with savings at the end of the mortgage term.

5. Closing Day

You will need to provide your lawyer on closing a certified cheque to them in trust to cover the down payment, as well as the other closing costs. The exact closing costs depend on where you live, how much you are borrowing, etc., and your lawyer will advise you of the exact amount required a day or two in advance.

Tip: *Don't forget, in order to close you will have to provide proof to the lender that you have home (fire) insurance, and if a newly built home, the "new home warranty".*

6. Your Broker Works For You

Please feel free to call your broker at anytime. From the preapproval, to purchase and beyond, your broker is there to answer all your questions and assist you to make the very best mortgage decisions.

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Appendix 1: Moving Checklist

About one month before moving

- ❑ Organize important papers in a fire-safe box.
- ❑ Hold a garage sale or donate unwanted items to charity.
- ❑ Hire a moving company (get written estimates and references), or reserve moving truck and equipment.
- ❑ Arrange mail forwarding with Canada Post.
- ❑ Get moving supplies – boxes, packing tape, markers.
- ❑ Pack (and label) boxes of seldom used items.
- ❑ List valuables to insure; arrange moving insurance.

About two weeks before moving

- ❑ Confirm your moving date and time with your moving company.
- ❑ Cancel memberships, as necessary.
- ❑ Arrange to board your pets on moving day.
- ❑ Coordinate disconnect/connect dates for gas, electric and cable TV.
- ❑ Arrange cancellation of newspaper deliveries.
- ❑ Order cheques with new address.
- ❑ Contact your doctors for medical records, dentist for dental records.
- ❑ Arrange for the disconnection or changeover of utilities.
- ❑ Begin packing less-used items. Number and label each box, and create an inventory.
- ❑ Retrieve and return all borrowed items.

The week before moving

- ❑ Clean out safety deposit box. Transfer bank accounts, as necessary.
- ❑ Clean out the cupboards and plan remaining meals so you don't buy any more perishables than you have to.
- ❑ Make an inventory list of all items going with you personally. Keep valuable items such as jewellery and heirlooms with you during the move.
- ❑ Confirm arrangements and dates with moving & storage companies.
- ❑ Clean out and defrost your freezers and refrigerator.
- ❑ Disassemble furniture or others items.
- ❑ Be sure to check yard and sheds for all items to pack.

On moving day

- ❑ If doing the move yourself, load heavy furniture first, pad fragile items and secure the load.
- ❑ Clean the home and check yard before leaving.
- ❑ Keep important documents and keys handy. Double check closets, attic, basement and garage.
- ❑ Leave forwarding address, garage door openers and keys, if agreed to, for the new occupants.
- ❑ Make sure all windows and doors are closed and locked, and all appliances and lights are turned off.
- ❑ Take a box of basics with you, not the movers, and keep it readily available. Things to include: permanent markers, masking tape, scissors, toilet paper, paper towels and cleaning rags, vacuum cleaner, cleaning products, sealable baggies, trash bags, scrub brush, sponges, broom, mop.
- ❑ At your new home, supervise placement of boxes and furniture.
- ❑ Check to see if utilities and phones are working.

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Appendix 2: Mortgage Glossary

During the mortgage process, you may encounter unfamiliar words and phrases. A glossary explaining a full range of terms is available on www.mortgageintelligence.com. Here are a few terms that have been discussed in this document that you may want to refer to:

Agreement of Purchase and Sale: A contract by which one party agrees to sell and another agrees to purchase.

Amortization: The process of paying off the principal balance owed on the mortgage through scheduled, systematic repayments of principal and extra payments of principal at irregular intervals. Amortization is up to 35 years in Canada.

Appraisal: The estimate of the current value of the property for the lender.

Bridge Financing: Interim financing to bridge between the closing date on the purchase of a new home and the closing date on the sale of the current home.

Closed Mortgage: A mortgage whose terms state that it cannot be paid out, even with a penalty, unless the lender agrees. In some cases, a closed mortgage may be discharged at a defined cost, usually Interest Rate Differential (IRD), but sometimes with a punitive penalty such as full interest to maturity.

Closing Costs: One time costs incurred.

Closing Date: The date of which the sale of the property becomes final and the new owner takes possession.

Commitment Letter: A written commitment from a lender to lend mortgage funds to specific borrowers as long as certain conditions are met within a specified time period before closing.

Conditional Offer: An offer to purchase subject to specified conditions. These conditions could be the arranging of a mortgage, or the selling of a present home. Usually the time limit in which the specified conditions must be met is stipulated.

Conventional Mortgage: A mortgage usually amounting to 80% (Loan to Value ratio) or less of the value of the property.

Credit Report: A record of an individual's payment history available at a credit bureau. Individuals can order a copy of their own report by contacting their local bureau.

Credit Bureau: Credit reporting agency that compiles your credit history. In Canada the main ones are Trans Union and Equifax.

Deposit: A portion of your down payment that is offered at the time of offer.

Gross Debt Service Ratio (GDS): The percentage arrived at by dividing your monthly shelter costs (principal, interest, property taxes, heating and half of condo fees) by your gross monthly income and multiplying by 100. This is used by all lenders as a yardstick by which to measure the ability of a borrower (or borrowers) to make mortgage payments. For example, most lenders require that this ratio be no more than 32% for a particular application, while others allow higher limits. This is also the maximum qualifying GDS for most default insurance applications.

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Land Transfer Tax (LTT): A tax payable to the Provincial Government by the purchaser upon the transfer of title from a seller.

Loan-to-Value Ratio (LTV): The percentage of the value of the property for which a mortgage is required. This ratio is important in determining whether or not default insurance is required, and if so, what the cost of that insurance will be (see "Mortgage Insurance") For example, if the property value is $200,000, the down payment available is $20,000 and the required mortgage is $180,000. The LTV is $180,000/$200,000 or 90%.

Mortgage Insurance: If your down payment is less than 20% of the purchase price of the property, the lender is going to require either private mortgage insurance or public mortgage insurance through Genworth Mortgage Insurance Corporation or Canada Housing and Mortgage Corporation (CMHC). The fee is calculated as a percentage of your mortgage. This is known as default insurance. (Please note that Mortgage Intelligence will calculate this amount for you automatically if your mortgage falls into this category.)

Open Mortgage: This allows you to pay back the borrowed funds without notice or penalty. There are two types of open mortgages:

- **Fixed Rate Mortgages**; the term is usually fairly short (6 months to a year) and the interest rate will be higher than on a closed mortgage.
- **Variable Rate Mortgages** (VRM's) are usually open (and are "collateral" type mortgages) but recently, several institutions have introduced closed versions.

Prepayments: The right to repay periodically more than the scheduled principal payment.

Principal: The amount of money owing on your mortgage, including accrued unpaid interest.

RRSP: A Federal Plan which allows a taxpayer to contribute approximately 18% of earned income – to a maximum of $13,500 into a retirement plan "tax free". If the taxpayer has already paid tax on personal income, then the RRSP contribution (which can be made until March 1st of the year following the year in which the income was earned and taxed) can result in a significant tax rebate.

Since RRSP contributions can be made up retroactively, this facility and the large cash refunds it can generate are central to numerous Realtor-driven programs designed for first time buyers.

Total Debt Service Ratio (TDS): The percentage arrived at by dividing your monthly shelter costs (principal, interest, property taxes, heating and half of condo fees) PLUS all other monthly debt obligations by your gross monthly income and multiplying by 100. This is used by all lenders as the "upper limit" yardstick by which to measure the ability of a borrower (or borrowers) to make mortgage payments. For example, most lenders require that this ratio be no more than 40% for a particular application, with some as low as 37%. 40% is also the maximum qualifying TDS in most applications for default insurance.

Variable Rate Mortgage (VRM): The interest rate is usually compounded monthly and fluctuates with the prime rate at the chartered banks.

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