FINANCING YOUR HOME

Most people purchasing a home will need a mortgage to finance payments for the home. It is beneficial to obtain a written letter of mortgage pre-qualification prior to beginning your search. This will provide you with an idea of the price range of houses you can comfortably afford. Sellers will view buyers who have obtained mortgage pre-qualification from a lender more favourably than those who do not.

You can lock in a mortgage rate for a future mortgage for usually 90 days and at times for up to 120 days. Since banks and financial institutions are competing for your business you may be able to bargain for a rate lower rate than what is currently posted.

The lender will want the following:

Personal Information such as number of dependents and marital status;

Details of employment, including a letter from your employer verifying your salary;

Banking and investment information;

Details of your assets (i.e. a car, other property):

Information on loans and other liabilities;

Your permission to do a credit check.

Mortgage lenders use two calculations to determine if you will be qualified for a mortgage or the maximum amount you will be allowed.

Your monthly mortgage, taxes and heating costs should not exceed 32% of your gross monthly income.

Your monthly mortgage, taxes and heating costs combined with all your other monthly payments (loans, credit cards payments, lines of credit and other debts) should not exceed 40% of gross monthly income.

When purchasing a home a minimum down payment of 5% of the total purchase price is required. (10% if you purchase a multi unit dwelling)

Developing a budget will help you make financial decisions and determine the price range you can afford or are comfortable with. The home budget includes mortgage payments and the other monthly costs in owning a home; taxes, insurance, utilities, and maintenance costs. The **mortgage calculator** on our website will assist you with budgeting. Once your pre-qualification is complete, you will know how much you can borrow and you will be ready to start searching for a home.

Mortgage Options

There are a variety of mortgage options. The type of mortgage that will be available for you will depend on the amount of your down payment and what you are comfortable with or can afford for monthly payments. Below are some of the more commonly used options.

Fixed or Variable Interest Rates Mortgages

With a fixed rate your interest rate is locked in for a specified time period known as the term. If interest rates go up your interest rate remains the same.

With a variable rate your interest rate may go up or down if rates change.

Closed or Open Mortgages

Closed mortgages cannot be paid off early without paying a prepayment charge.

Open mortgages allow the mortgage to be paid off at any time during the term without paying a charge. Generally, the interest rate for an open mortgage is higher than a closed mortgage with the same term.

Conventional Mortgages

Require a down payment of 20% of the property value. The benefit is you are not required to purchase mortgage default insurance.

High Ratio Mortgages

When the down payment is less than 20% of the purchase price mortgage, default insurance is required. Depending on the total amount borrowed 0.5% to 3% of the mortgage amount will be added to the mortgage. This insurance is to protect the mortgage lender in case you are unable to maintain your mortgage payments. It does not provide any insurance protection for you.

Mortgage Conditions

Conditions in mortgages vary. Some require no payment until the time that they are to be paid off, some require only interest payments and others require both interest and principal payments.

The most common type of mortgage is an ***amortized mortgage*** (conventional house mortgage). The principal balance owing under an amortized mortgage is reduced with each payment.

Amortization

The amortization refers to how long it will take the borrower to pay back the entire amount of the mortgage. For example if it takes 25 years to pay off the mortgage, then the amortization period of that mortgage is 25 years.

The Mortgage Term

This is the length of time the agreed upon interest conditions whether a fixed or variable rate, will remain. This is usually between one and five years. Once the term is up you will need to once again negotiate an interest rate and term for your mortgage.

We would be happy to refer you to one of our preferred and trusted mortgage lenders.