GUIDE TO FINDING AND GETTING A MORTGAGE

Mortgage

Buying a home can be an exciting yet overwhelming experience especially if it is your first time. Mortgages are no different. Before purchasing any type of real estate property, it is recommended that you go in with a general understanding of how mortgages work. A mortgage is a legal agreement between a consumer and a lender and is used to finance all or a portion of the purchase price. Money is borrowed from a financial institution and then in turn the intended home of purchase is used as an insurance for the loan.

Mortgage payments are made up of two components:

- The principal (amount borrowed)
- The interested (amount charged for borrowing the money)

Depending on your lender's availability mortgage payments can be made monthly, bi-weekly or weekly. A conventional mortgage is for an amount that does not exceed 80 per cent of the appraised value of the property or the purchase price (whichever is lower); a least 20 per cent of the purchase price is required for the down payment. If you need to borrow than 80 per cent of the money you need, you would be applying for what is called a high-ratio mortgage.

There are several types of lenders that provide mortgages, for example, banks, mortgage companies, trust companies and credit unions. It is encouraged that you contact different mortgage lenders for quotes to ensure you are getting the best price. Another option to get a home loan is through a mortgage broker. A mortgage broker evaluates and compares mortgage products from a variety of lenders to find the best option and advice for you. This route can mean a larger selection of loan products and terms that you can choose from.

Even though mortgage approvals typically only take a few days to get; it is often recommended that you get a mortgage pre-approval. Almost always when you are submitting your offer to purchase, it is on the condition of getting a mortgage approval; this assures all parties involved that you are able to make your mortgage payments without defaulting. Some pre-approval mortgage agreements may also guarantee you an interest rate for a mortgage taken out during the 60-to-90-day pre-approval term.

Qualifying for a Mortgage

Qualifying for a mortgage involves submitting all your financial paperwork work to your prospective lender and in turn they provide you with a pre-determined mortgage amount. The lender will ask about your marital status, number of dependents, age, if you are currently working (including how many years you have been employed by your current employer), salary, as well as other sources of income. They will also request a list of assets (ie. vehicles, investments, land, etc.) and liabilities (i.e. credit card balances, car loans, etc.). A credit check will also be completed to verify that you make your payments on time.

The pre-determined mortgage amount will be calculated and influenced by your gross annual income, credit history, any assets and/or liabilities (past or present). A number of online mortgage calculators are available to assist you in determining an appropriate mortgage that will fit your financial situation.

TYPES OF MORTGAGES

Fixed Term Mortgage

A fixed-rate mortgage is where the interest rate is set and will stay the same through out the duration of the mortgage term. This means the monthly payment to principal and interest will remain unchanged regardless of if the rates move up or down; this does make it easier for personal budgeting. When interest rates are low it might be wise to take a longer term fixed-rate mortgage to avoid the rising fluctuation in the interest rates.

Open Mortgage

An open mortgage gives you the freedom to repay the mortgage at any time without penalty. The interest rates are typically higher for an open mortgage than that of a closed mortgage. An open mortgage provides flexibility until you are ready to lock into a closed term. Open mortgages are often chosen by those who are thinking of either selling their own home or are planning to pay off the mortgage in its entirety through other means, for example selling another property, by an inheritance, etc.

Closed Mortgage

A closed mortgage gives homeowners the protection of fixed payments for terms between 6 months to 10 years. The interest rates for closed mortgages are generally lower than that of an open mortgage. Many lenders will allow borrowers with a closed mortgage to make a lump sum payment of up to 10, 15, or 20 per cent of the original mortgage amount once a year without penalty. The payment would go directly toward paying down the principal of the original principal, which is more than what most people prepay on a yearly basis. One thing to keep in mind is that if you want to pay the complete mortgage before maturity, there will be a penalty for breaking the mortgage terms. The penalty is typically 3 months interest or the intertest rate differential.

The Adjustable Rate Mortgage (ARM)

If you are looking for a more flexible mortgage you may want to take a closer look at the Adjustable Rate Mortgage (ARM). Similar to a variable rate, your mortgage rate is floating, however, unlike a variable rate, your mortgage payment will change when the interest rates change. This mortgage is typically chosen when interests rates are going down for the reason that when the rates go down you pay less interest and more principal. Simply explained, if interest rates go up, your mortgage payment will go up, if interest rates go down, your mortgage payment will go down. Mortgage payments typically stay steady however the ratio between principal and interest do fluctuate. If the interest rates rise considerably the initial payment may not cover both the interest and principal; if this happens any portion not paid is still owed or you may be asked to increase your monthly payment. There are both pros and cons to adjustable-rate mortgages. A pro to ARM is that you are forced to pay down your mortgage at the same pace you were originally supposed to. Although a downside is that it can be difficult from a budgeting standpoint to handle the increases.

Some ARMs offer a prepayment opportunity at any time throughout the year, however, be sure to discuss with your lender if your prepayment would be with or without penalty, which is dependent on you term you choose.

Equity Mortgage

Equity mortgages are generally offered to applicants who do not meet the normal income and/or credit that is required to qualify for a mortgage (i.e. little or no income verification, self-employed, and/or less-than-perfect credit). Equity mortgages are assessed and based on the equity of the home, often called a second mortgage, (market value minus the mortgage amount). Typically, you would require at least 20 per cent equity in your home before you can qualify for a home equity loan.

Hybrid Mortgages

A hybrid mortgage, or multiple term mortgage, is when there is more than one type of mortgage, such as offering you the convenience of the lower rates of a short-term mortgage and the safety of a long-term mortgage. This could include a fixed rate portion, a variable rate portion, a line of credit portion, or any combination of these. It can be split in to five distinct parts each with their own different terms, rates, and amortizations but grouped into one convenient monthly payment. One thing to keep in mind with this type of mortgage is that you should be aware of any market changes. This type of mortgage is often suggested for the savvy borrower who will use this as part of their overall financial plan, isn't for everyone as it can be quite involved and stressful.

Convertible Mortgages

Convertible mortgages are agreements made at the beginning of a term which allows the borrower to change the type of mortgage they hold during its term. If a borrower decides to start with an open mortgage and then lock into a closed mortgage, a convertible mortgage is the right choice. Offering lower rates than an open mortgage, which allows the borrower the option of switching to a closed term. A conversion to a fixed rate mortgage can also be offered by most lenders when the borrower has originally selected a variable rate mortgage and then wishes to move to a fixed rate before the end of the term.

Secured Lines of Credit

A secured line of credit gives you the opportunity to use the equity in your home to complete home renovations, purchase a vehicle, purchase investments (where interest costs would be deductible against the earned income), etc. with interest rates as low as prime. You may have the opportunity to borrow a percentage of the purchase price or value of the home. Accessing your secured line of credit is often easy as most lenders will provide an issued credit and/or debit card. The money can be drawn on an as needed basis and can be paid off at any time or you can make monthly payments. As you pay down the balance more credit becomes available; this is called a revolving credit. With a secured product, the conventional legal and appraisal fees are applicable. From time to time, there are promotions where a lender will cover part or all of these costs. One thing to remember with the secured line of credit is that although they are very flexible and available it can be enticing to use for unnecessary purchases.

MORTGAGE GLOSSARY

Fees

The fixed charges that are in place by the banks and mortgage companies include the following:

- Application fee – a monetary amount paid to a lender for processing mortgage documents
- Insurance – a homeowner's coverage for fire and casualty to the home
- Origination fee - A fee charged to the borrower by the lender, often a percentage of the total principal of a loan, on initiation of the loan
- Closing costs – Expenses, over and above the price of the property, that normally both buyers and sellers incur to complete a real estate transaction
- Interest – the cost associated to using money from a lender, calculated on a percentage of the borrowed amount

All brokers and lenders should be able to provide you with an estimate of their fees and they are often negotiable. Certain fees are paid when you apply for the loan or at the time of closing. Should you need to borrow money to cover these fees, it will increase your loan amount and total costs. Sometimes there are "not cost" loans available however they usually involve higher interest rates.

Down Payment

A down payment represents a portion of the total purchase price and is often the most misunderstood concepts when purchasing a home. Certain people think the down payment is 50 per cent of the home's purchase price however most loans are based on a 20 per cent down payment. There are some options available now that would only require a 5 per cent or less down payment but this will mean that the buyer will need to purchase a private mortgage insurance. The purpose of the private mortgage insurance is to protect the lender should the buyer fail to pay. Reach out to the lender and ask what their requirements are for a down payment including what you can submit to confirm that you are able to access funds for your down payment. Also make sure to ask that if private mortgage insurance is required for the loan and how much it will be.

Amortization

The term amortization means paying off your mortgage debt in regular payments over a period of time, ie. 25 years. This would mean if you were to make the same monthly payments according to the terms of your agreement, then your debt will be paid off in the exact number of years that was set out for you. You will have the option to make additional payments towards your mortgage which would be applied directly to the principle and thus reduce your mortgage term. Be cautious though as some home loans may offer you a more appealing monthly mortgage payments which will promote a lower payment, but in-turn the payments will not cover the interest portion of the loan; this is called negative amortization. When this happens, part of the principal amount is deducted which means you are losing equity in your home.

Interest Rate

The interest rate is the price you pay to borrow money; it is presented through a percentage of the borrowed sum. Having a lower interest rate allows a purchaser to borrow more money than that of a high rate, having the same monthly payment. When shopping for a loan it's recommended to ask lenders if they offer "locked-in" rates, as interest rates do fluctuate, this will guarantee a set interest rate for a specified time period. Remember, a lender must disclose the Annual Percentage Rate (APR) of the loan to you. An APR will show you the cost of the loan, referring to the yearly interest generated in terms of a yearly interest rate. As it is typically higher than the interest rate due to it also including the cost of points, mortgage and other fees included within the loan. If the interest rate drops significantly, this would be a time to discuss refinancing with your lender. Many experts agree that if you plan to stay in your home for at least 18 months and you can get a lower interest rate than your current rate, refinancing is smart. However, keep in mind, refinancing may involve additional fees, some same fees paid at the time of closing, plus origination and application fees.

Mortgage Points

Mortgage points, also known as discounts points, are fees a homeowner pays up front on the mortgage to the lender in return for a reduced interest rate. This is also referred to as "buying down the rate." One discount point equals one per cent of the total loan amount. As an example, on a $100,000 loan, one point would be one percent of the loan amount or $1,000, two points equals two percent or $2,000. While loan shopping, ask lenders for an interest rate with 0 points, then ask how much the rate decreases with each point paid. When looking to see how long it would take to recoup your money, compare the monthly difference in payments with the total discount points you are willing to pay. Did you know points are tax deductible? Each time you make a payment, therefore increasing the equity in your home, the borrowed money is then used to purchase an income-producing investment, and the interest on the loan is tax-deductible, improving the effective interest rate on the loan.

Escrow Account

An escrow account, which is set up by your lender, is established to manage monthly contributions, covering annual charges for a homeowner's property taxes, insurance, and mortgage insurance. As a borrower, escrow accounts are a good idea, by contributing 1/12 of the annual costs monthly, this ensures that the lender will have sufficient funds available to pay for taxes and insurances.

CREDIT SCORE

Your credit score, or sometimes called a FICO score (Fair Isaac Credit Organization), is calculated by a statistical process, providing a guideline for lenders to extend credit, and how much, to the borrower. Based on the borrower's credit score, mortgage companies, banks, and insurance companies will then determine the interest rate they will charge. A credit score is determined by both your pay history and the amount of credit you currently have, it is a substantial portion of the entire credit report.

Having a low credit score will result in higher payments on loans, credit cards, and insurance.

Score Range	Rating
780+	Perfect
720 – 780	Excellent
675 – 720	Average
620 – 690	Fair
Below 620	Low

Remember, don't assume that minor credit problems or difficulties from unique circumstances, such as an illness or temporary income loss, will limit your loan to high-cost lenders. If a credit report returns with negative information, even though accurate you have good reason for trusting you to repay the loan, be sure to explain the situation to the lender. For unexplained credit issues, it's likely you will be required to pay more than those borrowers in good standing.

Ask your lender how your credit history can affect the price of your loan, or what would be required to receive a better price. Know your options, lenders offer many affordable mortgage options, if you are a first-time buyer, have little money saved for the down payment or closing costs, no or a poor credit history, long-term debt, or have experienced income irregularities. Lenders will assist you and help guide you in the right direction.