Chris knew getting

ALL THE FACTS

would help her find

THE RIGHT MORTGAGE

Our experts helped her get smart about home buying and mortgages.

COASTAL COMMUNITY

TOGETHER, LET'S DO GREAT THINGS

Table of Contents

Prepared with assistance by Central 1 and Concentra.

Shopping for Your New Home

Most major purchases require planning in order to obtain the best value for your dollar. The purchase of a new home may be the largest investment you make in your lifetime.

It is important to obtain all the facts before deciding to purchase a new home. Facts About Mortgages can help you make well-informed decisions. From tips to remember when buying a home to advice on applying for a mortgage, this handy booklet will take you through all the steps required to purchase a home.

Making the Right Choice

Some factors to consider when purchasing your new home are:

- Value
- Location
- Price Range
- Physical Requirements

Think about these items before you begin looking. Ask yourself questions such as:

Location

What areas do we prefer? Should we spend some time driving/walking around the neighbourhoods first, during the day and evening, to determine which ones are right for us? Do we want to live near work, schools, shopping, family, friends, recreational facilities, public transportation? Is the area appreciating or depreciating in value?

Price Range

What price range can we afford? What type of home – detached, semi-detached, townhouse, condo, new or resale? This workbook will help you determine the maximum you should consider. It's a very good idea to get a pre-approved mortgage before you start shopping for your new home – it will help you keep a good price range in mind.

Requirements

What do we require in our new home? How many bedrooms? A garage? Available parking? Are we buying a home to meet today's needs or our needs in 3 to 5 years?

Trade-Offs

What trade-offs are we willing to make? If we have to make a choice, which is more important – the location or the features of the home?

Financial Assistance

Are the present owners prepared to assist with financing? e.g. Vendor would carry the mortgage. Or, the vendor would provide a second mortgage at existing rate and term while allowing the purchaser to assume the existing first mortgage.

Resale

Will the property be readily saleable if we are required to move?

Energy Efficiency

Is the house energy efficient? What type of heating does the home have? Check efficiency of windows and doors. How is the hot water heated? Is the home fully insulated?

Repairs

Are there likely to be any major repairs required in the near future (such as electrical, plumbing or roofing repairs). Test the water pressure by turning on the taps. Does the home appear well built and structurally sound?

When making comparisons, remember the older houses may require costly repairs. If you are uncertain about the quality of a home, call in an expert to carry out an inspection. The cost of making improvements and repairs may be more than you think. Professional house inspectors are available on a fee-for-service basis. They can inform you as to the condition of the furnace, existence of old oil storage tanks, foundation, walls, roof, electrical system, floors, plumbing, sewer system and so on, and can estimate costs of necessary repairs quickly and accurately. A few dollars spent on inspecting the house may save you money in the long run. An inspection prior to purchase may also give you information helpful in negotiating a final price with the seller.

Public Transportation

If we rely on public transportation, how frequent and reliable is the service?

Property Tax

Is the property tax situation stable, or are tax increases likely to cause financial problems?

Prepaid Services

What proportion of road, water and sewage services is prepaid?

Education Facilities

Are education facilities available and, if so, are they satisfactory?

Road Service

Are roads and highways promptly cleared in winter?

Drainage Problems

Are there likely to be drainage problems in the spring? Look for water damage stains, leaks or cracks.

Planning Changes

Are municipal or regional authorities planning changes (in land use, for example) that could adversely affect the property or the neighbourhood? Are there major developments or zoning changes planned?

As you can see, there are many things to consider before you actually set foot in any home. A knowledgeable real estate agent can be of great assistance in helping you answer these and many more questions. To find a good realtor, ask your friends for referrals. Select one you trust and who will listen to your needs and understand your priorities. They can help you by showing only properties that meet your price range and your needs.

Choosing the Right Price

Four areas to consider in determining the right price range for you are:

- Down Payment Available
- Monthly Mortgage Payment
- Other Debts
- Price Range of Suitable Homes

Down Payment

A minimum of 5% of the purchase price of the home is required. When a home is purchased with a down payment between 5% and 20% of the purchase price, this is referred to as a NHA Insured Mortgage or a "high ratio" mortgage. These mortgages were introduced through the National Housing Act (NHA) in order to assist more Canadians in owning their own home. This privilege carries with it a premium (insurance coverage for lender). However, this cost can be added to the amount of the mortgage so it is not necessary to come up with the extra cash at the time of purchase.

Mortgage insurers – such as Canada Mortgage & Housing Corporation (CMHC), Genworth Canada and Canada Guaranty Mortgage Insurance Company – offer more flexible down payment options. These include non-traditional sources of down payments for loan values between 90.01% and 95%, and for qualifying borrowers with a proven track record of managing their debts (typically with credit score of 650 or more).

Examples of non-traditional sources of down payment are:

- Personal loans, lines of credit, credit cards (payment must be included in the Total Debt Service Ratio calculation)
- Lender cash back incentives*
- Any source that is arm's length to and not tied to the purchase or sale of the property
- Sweat Equity

The insurance premium for this product is slightly higher. Speak with your potential lender to confirm availability of this product and for qualifying criteria. More information about the benefits of mortgage insurance can be found on these websites: cmhc-schl.gc.ca; genworth.ca; canadaguaranty.ca.

A down payment of 20% or more, along with an appraisal, is usually required to qualify for what is called a Conventional Mortgage. Mortgage loan insurance is usually not required for this type of mortgage.

** Applies to provincially regulated financial organizations only.*

Monthly Mortgage Payment

This payment varies according to:

- Amount Borrowed
- Interest Rate
- Amortization (Life of the Mortgage)
- Taxes

The general rule of thumb is to allow approximately 35% of your gross household monthly income (before deductions) to cover your monthly mortgage payment (including property taxes, heating costs and 50% of condominium fees). The 35% guideline is known as the Gross Debt Service (GDS) ratio. The following chart shows these factors and will assist you in determining what you can afford. (Allowable GDS/TDS may vary based on mortgage type and reviewed on a case by case basis).

Example (using monthly amounts):	
Gross Monthly Income	**$**
Spouse's Gross Monthly Income	**$**
Other Income	**$**
Total Income	**$**
Total multiplied by 35% less property taxes, heating costs (and 50% of condo fees if applicable) equals maximum principal and interest payment	**$**

Other Debts

Another rule of thumb is to allow approximately 42% of your gross monthly income (before deductions) to cover your monthly mortgage payment plus any payments you may be making on other debts, such as loans from financial institutions, credit cards, or other regular monthly debt commitments. This 42% guideline is referred to as the Total Debt Service (TDS) ratio.

Price Range

By knowing the amount of your down payment and your maximum payment (taking into account your other monthly payments and the amount of the property taxes), you can determine the maximum price range of homes that you can look at. The following is an example.

Example:

Monthly Income	
Your Gross Monthly Income	**$** 2,000
Spouse's Gross Monthly Income	**$** 2,000
Other Income	**$** NIL
Total Income	**$** **4,000**
Multiply by 32% equals maximum payment	$ 1,280 **(A)**

Monthly Debt Payment	
Credit Card Payments*	**$** 200
Car Loan Payment	**$** 200
TOTAL DEBTS	**$** **400**

** A credit card payment is generally 3% of the outstanding balance. This is a required guideline for federally regulated financial institutions.*

Multiply total income by 40% to determine maximum payment including debts	**$** 1,600
– Subtract debt payments	**$** 400
MAXIMUM MONTHLY MORTGAGE PAYMENT AFTER DEBTS	**$ 1,200 (B)**

Note: The maximum allowable mortgage payment would be the lower amount of 'A' or 'B'. In this case, 'B' is the maximum monthly mortgage payment. The maximum mortgage payment after debts needs to include the principal, interest, taxes and heat (PITH).

Price of House	**$** 100,000
Down Payment (10% of purchase price)	**$** 10,000
Mortgage Insurance Premium (2.0% on 90% of mortgage loan)	**$** 1,800
Mortgage (25 yr. @ 5%*)	**$** 91,800

** Mortgage rates will vary.*

Calculation of payment using amortization chart below.		
7 x 91.80	$	642.60
Property Taxes ($2,400/12)	$	200
TOTAL PAYMENT	**$**	**842.60**

Amortization Schedule

The following table shows the monthly payment of principal and interest for each $1,000 of mortgage. The calculation for a monthly payment is based on a $125,000 mortgage @ 6.0% for a 25 year amortization is: **(6.40 x 125 = $800)**

Interest Rate	5 Years	10 Years	15 Years	20 Years	25 Years
3.00%	17.96	9.65	6.90	5.54	4.73
3.25%	18.07	9.76	7.02	5.66	4.86
3.50%	18.18	9.88	7.14	5.79	4.99
3.75%	18.29	9.99	7.26	5.91	5.13
4.00%	18.40	10.11	7.38	6.04	5.26
4.25%	18.51	10.23	7.50	6.17	5.40
4.50%	18.62	10.34	7.63	6.30	5.53
4.75%	18.74	10.46	7.75	6.44	5.67
5.00%	18.85	10.58	7.88	6.57	5.82
5.25%	18.96	10.70	8.01	6.71	5.96
5.50%	19.07	10.82	8.14	6.84	6.10
5.75%	19.19	10.94	8.27	6.98	6.25
6.00%	19.30	11.07	8.40	7.12	6.40
6.25%	19.41	11.19	8.53	7.26	6.55
6.50%	19.53	11.31	8.66	7.41	6.70
6.75%	19.64	11.43	8.80	7.55	6.85
7.00%	19.75	11.56	8.93	7.69	7.00

Please Note: Your monthly mortgage payments can vary depending on the term of your loan. In that respect, these figures should be viewed as approximations subject to variation.

Understanding Gross Debt Service (GDS) Ratio and Total Debt Service (TDS) Ratio

GDS Ratio

This is the percentage of gross monthly income required to cover payments associated with housing. Payments include mortgage principal, interest, property taxes and, if applicable, heating, condominium fees etc.

TDS Ratio

This is the percentage of gross monthly income required to cover payments associated with housing and all other debts and obligations, such as car loans and credit card payments.

Calculating GDS – Example	
Monthly mortgage payment: (principal and interest)*	**$** 642.60
Property taxes: (monthly)	**$** 200.00
Heating costs: (monthly)	**$** 100.00
Other**	**$** 50.00
TOTAL MONTHLY PAYMENTS	**$ 992.60**
GROSS MONTHLY HOUSEHOLD INCOME	**$ 4,000.00**

$$\text{GDS} = \frac{\text{Total monthly payments}}{\text{Gross monthly income}} \ (\text{x } 100)$$

$$\text{GDS} = \frac{\$992.60}{\$4,000.00} \ (\text{x } 100) = 24.82\%$$

* *Principal and interest must be based on the total insured loan amount, including mortgage insurance premium (if you choose to add the premium to your mortgage and not to pay the premium up front). Mortgage payment is based on calculations on page 8.*

** *If you are purchasing a condominium, you must include 50% of the monthly condominium fee.*

Calculating TDS – Example	
Total monthly housing payments (from GDS calculation)*	**$** 992.60
Other debts: (car loan & credit cards from page 8)	**$** 400.00
TOTAL MONTHLY PAYMENTS	**$ 1,392.60**
GROSS MONTHLY HOUSEHOLD INCOME	**$ 4,000.00**

$$\text{TDS} = \frac{\text{Total monthly payments}}{\text{Gross monthly income}} \text{ (x 100)}$$

$$\text{TDS} = \frac{\$1{,}392.60}{\$4{,}000.00} \text{ (x 100)} = 34.82\%$$

Find out how much you can afford with a few simple calculations by using the chart found on page 34.

Checking It Out

The Comparison Chart provided on the following four pages will help you select a home that fits your needs, your dreams and your budget. Make several copies of this list and take it with you when you look at homes.

Comparison Chart

PROPERTY ADDRESS		PRICE		SIZE OF LOT	
A		A		A	
B		B		B	
C		C		C	

Property exterior															
SERVICES				ROAD TYPE				LANDSCAPING				SIZE OF LOT FOR AREA			
	A	B	C		A	B	C		A	B	C		A	B	C
Water				Paved				Ground cover				Large			
Gas				Gravel				Garden				Average			
Sanitary Sewer				Curbs				Trees				Small			
Septic tank				Sidewalks											
Storm sewers															

Comparison Chart

Building exterior																			
TYPE				EXTERIOR				ROOF				PARKING CAPACITY				DRIVEWAY			
	A	B	C		A	B	C		A	B	C		A	B	C		A	B	C
Detached				Brick				Asphalt/Duroid				Garage				Private			
Semi-detached				Stone				Cedar				Carport				Mutual			
Row				Frame				Slate				No. of vehicles				Lane			
Apartment				Stucco				Roofing tile				None							

Building interior

FLOOR PLAN				INTERIOR WALLS				BASEMENT				HEATING SYSTEM				FUEL				MAINTENANCE			
	A	B	C		A	B	C		A	B	C		A	B	C		A	B	C		A	B	C
Good				Plaster				Full				Hot water				Electric				Excellent			
Fair				Drywall				Partial				Gravity air				Oil				Good			
Poor				Paneling				None-slab				Forced air				Gas				Fair			
								None-crawl				Electric				Conversion				Poor			
Area (in square feet)																							
FIREPLACE				INSULATION				WIRING				HOT WATER				PLUMBING				FLOORS			
	A	B	C		A	B	C		A	B	C		A	B	C		A	B	C		A	B	C
Open				Walls				Amp 60/100				Electric				Galvanized				Hardwood			
Electric				Windows				New				Gas				Copper				Tile			
Gas				Roof				Old				Oil				Plastic				Carpet			
None				Doors				Adequate				Capacity											

Number and type of rooms

ROOM	L/R			D/R			KIT			B/R			BATH.			LAWN.			FAM.			OTHER		
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C
Basement																								
First floor																								
Second floor																								
Other																								

KITCHEN				BATHROOM				LIVING ROOM				BEDROOMS				CLOSETS			
	A	B	C		A	B	C		A	B	C		A	B	C		A	B	C
Excellent				Excellent				Excellent				Excellent				Ample			
Good				Good				Good				Good				Adequate			
Fair				Fair				Fair				Fair				Fair			
Poor				Poor				Poor				Poor				Inadequate			

GROSS TAXES	
A	
B	
C	

EXISTING MORTGAGE	
A	
B	
C	

INTEREST RATE		
A	B	C

Writing the Offer

When you see a home you particularly like, and you think that this may be the right one, force yourself to be objective. Ask to go through the home a second time, at a different time of day from your initial visit; daylight and evening impressions can be very different. Look for surface deficiencies that you might have missed on the first viewing. Consider requesting a property disclosure statement which would disclose any pre-existing problems with the property unless it is being sold on "as is" basis. Ask more questions. Take the time to walk around the immediate neighbourhood. Is it an area you want to live in? Then go back to your comparison chart. If the advantages of the property outweigh its disadvantages (very few homes will be perfectly suited to your taste), you are probably ready to make an offer to purchase. Take along another party with a "critical eye".

The property will be listed at an asking price. You can offer what you think is a reasonable (usually lower) alternative. (Note that if you are buying in a seller's market, you may find yourself competing in a price bidding war. Unless you absolutely must buy now, try to postpone your purchase until the market settles down. Otherwise you may be drawn into paying more for a home than you originally intended.)

When you make an offer, you should have the full amount of the down payment available as well a percentage of the purchase price to cover your land transfer tax (typically between 0.5% and 2%; check with your lawyer/notary to see what the current rates are in your province or municipality). In addition, you will also need funds available for legal fees and adjustments for prepaid property taxes/ utility bills, etc.

You should have also talked to at least one potential mortgage lender about your eligibility for a loan, current rates and terms. It's a good idea to apply for a pre-approved mortgage. This will determine the amount you can borrow, the interest rate, your level of payments and your payment schedule before you buy. These preliminary steps are important. An offer to purchase may be legally binding (see below) and even if it is not, you are only wasting your time (as well as the vendor's and the real estate agent's) if you make an offer that you cannot finance.

An offer to purchase (or "interim agreement") is made in writing and is accompanied by a deposit for a portion of the down payment. Where a real estate agent is arranging the purchase and sale, the agent will make out a standard offer to purchase form. If you have negotiated for the inclusion of specific items (for example, appliances, light fixtures, mirrors or draperies), make sure that these are listed separately and described in detail in the offer to purchase. If your offer is subject to approval of your mortgage loan or the results of an appraisal, be certain to have that condition written into the offer.

The offer should be subject to approval of mortgage financing. This is known as a conditional offer to purchase and, if by chance the conditions cannot be met (if rates increase or the amount of mortgage required cannot be arranged, for example), the offer becomes void. If the offer is firm with no conditions, you are legally bound to the agreement once the vendor (person selling the house) accepts the offer. You will either have to forfeit your deposit or be forced to complete the purchase.

Note: If you become involved in a private sale, with no real estate agent, have your lawyer assist you in preparing the offer to purchase.

The offer to purchase will state your preferred date for taking possession of the property (the "closing date" – usually at least 30 days from the date of acceptance of the offer). It will also set a time limit on your offer, which allows the vendor a reasonable time to consider it and respond. If for some reason the vendor does not respond by the specified time, the offer ceases to be legally binding. You may then renew it, rewrite it or abandon it and continue your search for a suitable property.

If you live in an apartment, consider the notice period required. Can you afford overlap: rental of your apartment and mortgage payment in the same month? Do you want some overlap to allow for a staged move? If you live in a house, consider making the offer conditional on the sale of your house. Or, can you afford potentially two mortgages?

Once your offer to purchase has been drafted to your satisfaction, sign the offer and return it to your real estate agent. The agent will present the offer to the vendor on your behalf.

The vendor of the property will either accept your offer as is or make changes to the offer, either in price or in the items included in the deal. If the offer is changed, you can decide to either accept it with the changes or withdraw the offer. It is a good idea to decide upon your upper limit before beginning negotiations.

When deciding to make an offer to purchase, give yourself ample time to be certain you are happy with the house and with the price you will be paying. Don't be pressured into making a snap decision, even if you are told that another buyer is making a competing offer. You may lose the house, but that's better than buying a home that you may be really unhappy with. Take your time and make the right choice.

Other Costs of Purchase

It is important to prepare for other costs so there are no surprises. If you need further explanation of these costs, call a Financial Services Officer at your credit union.

Down Payment – minimum of 5% of purchase price. More flexible down payment options for the borrower(s) outlined on page 6.

Inspection Fee – if a professional is to inspect the house prior to completion of the purchase.

Appraisal Fee – sometimes required by the financial institution to ensure the property is sufficient security for the mortgage.

Legal Fees – includes lawyer's fees plus any disbursements required to transfer the property. These vary so check for estimates from a few reputable firms.

Survey Certificate – required by financial institution to ensure the house is situated on the lot within legal restrictions. A survey is not required if the mortgagee has Title Insurance.

Tax Adjustments – you will be responsible for paying the taxes for the portion of the year which you own the property.

Property/Land Transfer Tax – this may/may not be applicable in your province. Also called Land Purchase Tax.

Mortgage Insurance – if the down payment is less than 20% of the purchase price, an insurance premium on the mortgage amount is required (this premium may be added to the mortgage amount).

Home or Property Insurance – arranged on the property in the event of fire or other damage. Property insurance must be in place on closing day.

Life Insurance – optional, but is available to cover amount of mortgage in event of death of you or your spouse.

Moving Costs – dependent on how far and who is helping you move.

Shopping for a Mortgage

Available Sources

Mortgages are available from many sources, including credit unions, chartered banks, trust companies, insurance firms, mortgage companies and private individuals. Sometimes the vendor of the property is willing to take back a mortgage as part of the purchase and sale agreement; sometimes the buyer assumes an existing mortgage on the property. Often it is advantageous to arrange for a new mortgage with the credit union or other financial institution that handles your other personal banking business. Your credit union manager will be glad to advise you on the various alternatives available to you. Some questions to ask are:

1. Does the mortgage company require a Survey Certificate?
2. What terms are available?
3. Will the interest rate be guaranteed from your application date to the closing date?
4. Are you allowed to increase monthly payments if extra funds are available from time to time?
5. Can extra payments be made on principal? When? How much? Is there a penalty?
6. When can the mortgage be renewed? Are there renewal fees? How much?
7. Are there penalties for paying the mortgage out prior to the end of term?
8. Can the amount borrowed be increased at current first mortgage rates?
9. Is life insurance available?
10. Are weekly and bi-weekly payment options available in addition to monthly payments?
11. Is the mortgage assumable?
12. What are the current interest rates? Are they competitive? How much of a reduced mortgage interest rate would be offered if I bring the rest of my financial business to the credit union?
13. Does the company have a good reputation? Are the staff friendly and knowledgeable?
14. Is the financial institution NHA approved? What are the fees charged on a high ratio mortgage?
15. How quickly can a mortgage be approved?

It Pays to Shop Around

Alternatives Available

Now that you are in the market for a mortgage, shop around. Lenders have diversified their mortgage options extensively during the past few years and you will probably be surprised by the variety of alternatives you have. Some mortgage options include:

Open*

Gives the borrower the option to repay any amount of the balance owing at any time without penalty (interest rates are usually higher on open mortgages).

Fixed/Closed*

Gives the borrower peace of mind because their mortgage payment and interest rate will remain unchanged for the term chosen. It allows the borrower to repay portions of the mortgage amount through extra payments called "prepayment privileges" without an interest penalty. This privilege is outlined in your mortgage document. If a fixed mortgage is paid in full prior to the maturity date of its term, an interest penalty is usually applied.

Variable*

Potential for significant savings of interest costs and improved flexibility. The product allows the borrower to take advantage of a low rate environment without locking in a specific rate and term. The interest rates can vary and so can the monthly payment. There are two options for variable rate mortgages;

1. A **capped variable rate mortgage** means the payment is fixed based on an agreed rate and term. The interest rate is based on the prime rate and fluctuates with rate changes, however, your payment remains unchanged. The rate cannot exceed a maximum rate which has been agreed upon (the capped rate). The borrower has the advantage of the lower interest rate and the mortgage is paid down sooner as their payment does not reduce.
2. An **adjustable or uncapped variable rate mortgage** means that the payment amounts fluctuate in direct correlation with changing interest rates.

   In both of these products, the borrower, generally, has the option to lock-in to a fixed mortgage at any time.

Home Equity Line of Credit*

Home equity line of credit is a collateral mortgage whereby a line of credit is secured with a property. The mortgage is registered for a maximum amount and the borrower has control over how much they would like to draw down these funds. This is not popular with first time home purchases, but is often used for borrowers who want to use the equity in their home to borrow against.

**See "Mortgage" in the Glossary of Terms.*

In recent years, rapidly fluctuating house prices and interest rates have prompted financial institutions to introduce a great many mortgage options. For additional information about various alternatives, see your credit union manager or loans officer, or other financial advisor.

The Effect of Weekly Payments

A comparison between a mortgage of $100,000 with conventional monthly payments and one of the same amount being paid weekly:

Mortgage amount of $100,000 at 7.0% interest calculated on the declining balance	Monthly Payments	Weekly Payments
Payment per period	$700.42	$175.11
Total annual payment	$8,405.04	$9,105.72
Total interest	$110,126.00	$86,667.26
Amortization period	25 years	20.5 years

In this example, by making payments weekly, you can save $23,458.74 and almost 5 years on your mortgage.

Mortgage Options

A variety of different mortgage payment options are available to you. Some financial institutions, such as credit unions, will make arrangements for you to make weekly payments, bi-weekly payments or lump sum payments on your mortgage without penalty. Making additional or weekly payments can substantially reduce the cost and life of your mortgage. For example, if you decide to make weekly payments on your mortgage, the monthly payment amount is divided into four to arrive at a weekly payment. Since there are 13 four-week periods in a year, you will make the equivalent of one additional month's payment each year.

The impact of weekly payments is demonstrated in the table on page 21. Having the option of making weekly or bi-weekly payments allows you to have your mortgage payments coincide with your pay periods, making it a little easier to fit these payments into your spending plan.

Be sure to check with your financial institution about what payment options are available to you and what effect these options will have before you make a decision on your mortgage. When making your decision, it is important to consider:

- The terms and conditions of the mortgage;
- Current interest rate and expectations as to whether rates will rise or fall;
- The type of mortgage; and
- The reliability of the lender and the legality of the contract (has a firm and legally binding commitment been made by the lender to grant the mortgage?).

Repayment Periods

Mortgage loans can be amortized. Amortizations can be between 6 months and 30 years (or 25 years for new mortgages with a down payment of less than 20%), depending on the borrower's ability to make larger payments. A shorter amortization will save you money because you will pay less interest costs over the life of the mortgage. Within this repayment schedule, lending institutions then establish a rate of interest that they will charge the borrower for a specified period of time or "term". Depending on prevailing interest rates and market conditions, you will select a term of anywhere from a few months to several years. At the end of the term, you can extend or renew the mortgage for another specified period, or you can renegotiate the mortgage with another lender. (In the latter instance, however, you will likely incur an additional cost, since the new lender will sometimes require a reappraisal of the property before approving the loan.)

Some mortgage agreements allow the borrower to prepay all or a portion of the mortgage before the end of the term or before the loan matures. Very often, a prepayment penalty applies, to compensate the lender for loss of interest expected on the original life of the loan. When you negotiate your mortgage, be sure to ask whether or not you will be permitted to pre-pay and whether a penalty will apply.

Interest Rates

Comparing interest rates is fairly simple. Provided the conditions are the same, a 5.5% 5-year mortgage is obviously cheaper than a 5.6% 5-year mortgage. But be sure to check the basis for calculations. While most financial institutions calculate interest on a semi-annual compounding basis, there are a few institutions that also calculate mortgage interest using monthly compounding. Depending on the method of calculations used, there is a difference in cost to the borrower. The more frequently the interest is compounded, the higher the overall cost of the mortgage will be to the borrower.

Therefore, mortgage interest calculated on a monthly compounding basis will cost you more in the long run than mortgage interest calculated on a semi-annual compounding basis. In addition, if the interest compounding frequency is anything other than semi-annual (eg. monthly) and the mortgage calls for blended payments of principal and interest, the Canada Interest Act requires the lender to disclose to the borrower the "equivalent" semi-annual compounding rate. It is this rate that should be used for comparison with other financial institutions' rates. Ask the lender to explain the exact terms and conditions to you so that there is no misunderstanding later. Negotiate with the lender regarding mortgage terms, especially if you have a relationship already established with the financial institution.

Types of Mortgages

Conventional Mortgage

The loan amount generally does not exceed 80% of the appraised value or purchase price of the property, whichever is less. The balance is usually made up by a cash down payment and a second mortgage, if necessary. Mortgage insurance is usually not required for this type of mortgage.

High Ratio Mortgage

The loan amount usually exceeds 80% of the appraised value of the property or the purchase price, whichever is less. This type of mortgage must be insured by one of Canada's residential mortgage insurers (CMHC, Genworth Canada or Canada Guaranty) against payment default. Mortgage loan insurance protects the lender, who will receive payment in the case of default by the borrower (if the borrower fails to pay the mortgage).

This insurance fee depends on the product but could be significant (for example, $2,062.50 based on a $75,000 mortgage). The cost of this type of insurance is in the form of a premium. This amount is usually added to the mortgage and repaid over the amortization period, but it can also be paid up front in a single lump sum.

The High Ratio Mortgage is described as follows: A NHA Insured Mortgage, under the National Housing Act administered by Canada Mortgage and Housing Corporation (CMHC, crown corporation wholly owned by the federal government), is available for the purchase of an existing home or the construction of a new home.

Most credit unions and other financial institutions are approved lenders under the act. While the loans are granted by them, the maximum lending value and the corresponding loan amount are determined by the mortgage insurers (CMHC, Genworth Canada or Canada Guaranty). The lending institution determines the availability of funds, applicable interest rates and the amortization period of such a mortgage within the CMHC guidelines.

Since 2008, a NHA Insured Mortgage may be authorized for up to 95% of the appraised value or purchase price of the home, whichever is less.

Effective April 2010, for government-backed mortgages, all mortgage borrowers must meet the standards for a five-year fixed rate mortgage, even if they choose a variable mortgage with a lower rate or shorter term.

Effective July 9, 2012, the maximum amortization period is 25 years for new government-backed mortgages with less than a 20% down payment. Government-backed mortgage insurance (for high loan-to-value mortgages with less than 20% down payment) is now only available for homes with a purchase price of less than $1 million.

Second Mortgages

A second mortgage is an additional loan taken out by the borrower to assist with financing of the purchase. Suppose, for example, interest rates begin to increase and the purchase price of a home is $125,000 with an existing mortgage on the property of $60,000 at an interest rate of 6.5%. If interest rates become higher than 6.5%, the buyer will want to assume the existing mortgage because of the lower interest rate, but may lack sufficient cash to cover the $65,000 spread between the first mortgage and the purchase price. A second mortgage bridges the gap.

From the borrower's point of view, a second mortgage is similar in many respects to a first mortgage, except that the interest rate will be higher than the current rate on the first mortgage. The reason is that the lender's risk is increased in the case of a second mortgage. If the borrower defaults on either loan and the lender forecloses, the first claim against the property belongs to the holder of the first mortgage. If the property is sold (or, on an insured mortgage, a claim is submitted to the insurer), the first mortgage is paid off first, and any proceeds remaining go to the holder of the second mortgage, up to the outstanding balance on that loan.

Obtaining a Mortgage

The Application

As a credit union member, consider borrowing from your credit union. When you first start looking for a home, talk to the loans officer or manager about your plans and probable financing requirements. The loans officer can give you some preliminary advice about your eligibility for a mortgage, current interest rates and the various mortgage options available. Once you have made an offer to purchase the property you want, the next step is to complete a mortgage application form. You will be asked to provide detailed information about your present financial situation: your household income, assets (such as cash savings, bonds, car and previously purchased real estate) and existing debts (amounts owing on credit cards and charge accounts, and any personal loans) as well as the amount and frequency of payments required. However, you may want to consider applying for a pre-approved mortgage which will determine your price range before you buy. Once you've received the approval, your mortgage rate and payments are guaranteed if you complete your home purchase within a reasonable period.

All of the parties involved in the mortgage agreement must sign the mortgage application form. When applying for a mortgage, you should bring the following items with you:

- Identification;
- T-4 slip or other proof of salaried employment, or a complete financial statement/income tax returns for three years if you are self-employed;
- Your Social Insurance Number;
- Offer to Purchase should include the real estate listing cut sheet and a picture of the home;
- Information and details on all bank accounts, loans, credit cards and other debts;
- Your confirmation of down payment and closing costs.

Processing the Application

Processing your mortgage application will be handled promptly. However, you should discuss the time required for approval with your financial institution prior to making an offer to purchase. Once the loans officer has qualified you for your requested mortgage amount and a satisfactory credit bureau report has been obtained, the lender will proceed with the following steps:

- With conventional financing (within 80% loan to value), it's likely an appraisal on the property being purchased will be required. If you have access to a recent appraisal, this may be acceptable. Otherwise, the lender will select their own appraiser. The appraiser inspects the home and evaluates the surrounding neighbourhood to determine the current market value of the property. This assessment assures the lender that the loan will be adequately secured.
- The formal mortgage documents are prepared and issued to both the borrower(s) and your lawyer. The lawyer will request the presence of all borrowers to sign the documents. At this time, the principal details of the mortgage will be explained, and any questions with respect to the mortgage documents itself will be answered. The lawyer will then arrange to register the mortgage and obtain the loan funds to complete the purchase. Tax adjustments and the balance owing on the down payment will also be payable.

As explained earlier, at the time an offer to purchase is tendered, the potential buyer and the vendor agree on a payment settlement (or closing) date. Your lender and lawyer will be advised of this date, so that they can arrange for all the paperwork to be completed and the transaction can be concluded as scheduled.

Taking Possession of Your New Home

While your lawyer and your lender are working on the legal and financial aspects of the purchase, there are a number of other details that you should address. One of the most important of these is confirming the date of the closing with your insurance agent. Your new homeowner's policy should take effect on the day that the deed passes into your name. If you are at present in rental accommodation, you will also have to give your landlord adequate notice of your move.

Ideally, the termination date of your rental arrangement and the date of the closing should coincide. If you remain in your rented apartment or house beyond the closing date, you will in effect be paying a double housing cost. If, on the other hand, you are required to leave your rented premises before the closing date, you will have to find temporary accommodation in the interim, and probably put your furniture and other effects into temporary storage. This could also be expensive.

If the vendor is vacating the home in advance of the closing date, the vendor may suggest that you move some or all of your possessions into the empty premises. You are cautioned not to do this, even though it may seem a convenient arrangement. You have no legal right to occupy and use the premises before the transaction is completed and the relevant documents are registered. Similarly, you have no insurance protection for furniture and effects left on the premises prior to the closing day.

Although formally, your lawyer will be dealing with the vendor (or the vendor's lawyer) on legal and financial questions pertaining to the purchase, you should try to establish informal relations with the present owner, so that you can resolve any concerns of a more mundane nature. For example, it is very helpful, before actually moving into a new home, to go over the premises with the vendor and ask to be shown how various things work. Following are some questions to consider asking:

- How is the heating system regulated?
- What is the usual servicing arrangement with fuel suppliers?
- If you are buying the vendor's appliances, does the vendor still have the owner's manuals and warranties? If not, what do you need to know about their operation?
- Ask the vendor to provide information regarding the little quirks or peculiarities of the home which only a homeowner knows.

Some vendors will also be generous in allowing the buyer to come back at intervals and take measurements for furniture, carpets, drapes and so on. This kind of friendly arrangement depends very much on personalities, but it is worth your while to at least find out whether the vendor is willing to tell you what you want to know.

At the closing, the vendor usually hands over all the keys to the premises. It is to your advantage to go to your new home fast prior to closing and make a thorough inspection of the property. If you agreed to buy appliances or furnishings, make sure that they are all in place and in acceptable condition. Also make sure that the condition of the home is satisfactory (allowing for the fact that an empty house shows more blemishes than a furnished one). If you have bought a newly constructed home, your inspection should be more detailed and critical. Check all installations against your specifications. In either case, if you discover significant damage or defects, notify your lawyer immediately.

Making Your Move

Here are just a few reminders when you are ready to make the move into your new home:

1. Change your address for magazines, insurance policies, creditors and places where you have charge accounts or credit cards, driver's licence, vehicle registration and health services cards, doctors and dentist; schools; financial institutions; employer; government (income tax, family allowance, CPP etc.); subscribe to a postal forwarding service.
2. Arrange with your insurance agent to have insurance coverage on your new home in effect on the day of closing and send notice to the lender or funds cannot be distributed.
3. Arrange for utilities to be available at your new home:
   - Telephone
   - Heating Fuel Company
   - Natural Gas
   - Electricity
   - Cable TV, Internet
4. If moving out of province, arrange for hospital and medical coverage.

Glossary of Terms

Agreement of Sale

Formal document between the vendor and you, the purchaser, prepared by a lawyer for registration in the Land Titles Office. It sets out the conditions of the sale.

The title to the home remains in the vendor's name until the mortgage sale is closed. A Land Transfer is then executed and registered in the Land Titles Office. This transfers title to the property into the name of the purchaser. It is the responsibility of the purchaser to see that this is done.

Amortization Period

The number of years over which the repayment of your mortgage is calculated.

Appraised Value

An estimated market value of the property being held as security for the mortgage.

Assets

The value of property, investments and items you own.

Assumable Term

If you sell your home during the term of your mortgage, the purchaser may take over or "assume" your mortgage and become responsible for making the payments. This can sometimes mean an advantageous rate for the purchaser as compared with current market conditions. The vendor, however, must consider his or her potential liability if the purchaser defaults on the mortgage payments. This is because the mortgage may contain a provision stating that the original mortgagor will remain liable, even if the mortgage payments are assumed by another party.

Beacon or FICO® Score

The Beacon or FICO score (your credit score) is a summary of your credit worthiness, and is used to determine your credit risk. A FICO or Beacon score ranges between 300 and 900, with a low score representing an increased credit risk, and a high score representing less risk. A credit score between 650 and 750 is generally considered good.

Capped Rate

Some variable rate mortgage products have a maximum rate that can be applied during the term of the mortgage. This cap protects the borrower in periods of rapidly rising interest rates.

Closing Date

The date on which the sale of the property becomes final and the new owner takes possession; at that time all costs and charges to close the deal are payable.

CMHC

Canada Mortgage and Housing Corporation, the Federal Crown Corporation administering the National Housing Act for the federal government. CMHC also develops and sells mortgage loan insurance products.

Conventional Mortgage

Available from most lending institutions, usually in an amount not exceeding 80% of the appraised value of the property.

Discharge

Release from the debt upon final payment.

Equity

The monetary value or interest in a property in excess of claims or liens against it.

Foreclosure

Court action taken by the lender to take possession of your home. This action can start when you have failed to make a single payment. However, most lenders will grant a period of time for you to catch up on the payments owing before taking action, providing you have not purposely avoided your commitment.

Once foreclosure is completed, it is the lender's right to resell the home. From the proceeds of the sale, the lender can recover the outstanding balance of the mortgage and other costs associated with the foreclosure and resale. Any equity that you may have had in the property could be lost.

Gross Debt Service Ratio (GDS)

The monthly mortgage loan payments of principal and interest plus 1/12th of annual property taxes as a percentage of gross monthly income. Energy costs and 50% of condominium fees, if applicable, are usually included as well. Normally this ratio should not exceed 32% of your gross monthly income (before taxes and other deductions).

Interest Adjustment Date

Since most mortgage lenders require that their mortgage payments be paid only on the first day of each month, the interest adjustment date shall be 30 days prior to the first payment date. Should you purchase your home on any other day than the first of the month, you will be required to either pay a full payment in less than 30 days, or pay interest on the days outstanding. If payments are being made more frequently than monthly, the interest adjustment date will be one payment period prior to the next payment due date.

Maturity Date

The date on which the term of the mortgage expires; the mortgage must be either paid out in full or re-negotiated for another term. When applying for another term, you may be required to pay a renewal fee.

Mortgage

The security you give a company or person for the money loaned to you, usually to buy a home. It is a registered charge on your property and should be removed when the loan has been completely repaid.

An open mortgage allows the borrower the option to pay off all or any of the balance owing on the mortgage at any time, without a penalty for doing so. A higher interest rate may be charged for this privilege. Regular monthly payments are required to keep the mortgage in good standing.

A fixed mortgage allows the borrower to pay off any or all of the mortgage at any time but with an interest penalty. This type of mortgage is generally offered at a lower rate than an open mortgage. (In some contracts, an extra payment of an approved amount is allowed annually).

A closed mortgage does not allow the borrower the right to repay any or all of the mortgage before the end of its term. This type of mortgage is generally offered at the same rate as a fixed mortgage.

With a variable rate mortgage, the interest rate will vary during the term of the mortgage in accordance with established rates of the major chartered banks.

Home equity line of credit (HELOC) is a collateral mortgage whereby a line of credit is secured with a property, unlike a conventional mortgage. Home equity lines of credit give the borrower flexibility to use the funds when and how they wish. They are usually attached to a chequing account and borrowers access the funds using cheques or a debit card. There is also flexibility in payments. Home equity line of credit must be paid in full if the property is sold. For more information about HELOC or the availability of this product, check with your financial institution.

Mortgage Default Insurance

Mortgage Default Insurance, commonly referred to as Mortgage Insurance, is required federally on high-ratio mortgages – mortgages with a down payment of 20% or less. This insurance, which protects the lender in case of borrower default, gives lenders the flexibility to offer borrowers with low down payments the same low interest rates they would offer to homebuyers with more equity.

Mortgage insurance premiums are based on the amount of the mortgage and although they can be paid in a lump sum upon closing, they are normally added to the mortgage amount and paid over the length of the mortgage.

There are 3 residential mortgage insurers in Canada: Canadian Housing and Mortgage Corporation (CMHC), Genworth Canada and Canada Guaranty.

This insurance is not to be confused with mortgage life insurance which protects homeowners and their families in the event of death or illness.

Mortgagee

An individual or institutional lender that holds a mortgage on property as security for a loan.

Mortgagor

A person who offers a mortgage on property in exchange for cash consideration.

NHA

National Housing Act; a mortgage insured under the act allows the purchaser to borrow up to 95% of the purchase price of the property, given that the price is within fair market value of the area.

Offer to Purchase and Interim Agreement

Initial documents binding the vendor and purchaser until such time as it is feasible for formal documents to be completed by a lawyer.

Prepayment Penalty

A stipulation that requires the payment of a penalty on the amount being prepaid on the mortgage. In some mortgage agreements, you are allowed prepayment at certain times and of certain amounts, without having to pay a penalty. (Check with your lender for details of options available.)

P.I.T.H.

Principal, interest, taxes, and heat – the amount of the regular mortgage payment.

Principal

The amount of money borrowed under the mortgage, not including the interest.

Term

The period of time for which the mortgage agreement has been written. The term locks your interest rate for the specified period, except for the case of variable rate mortgage. At the end of a term, you will probably wish to extend or renew your mortgage for a further term of your choice at the mortgage rates prevailing at the time. The term of the mortgage can generally be from a few months to several years. Therefore, it does not cover the total amortization period (the life of your mortgage).

Total Debt Service Ratio (TDS)

The monthly mortgage loan payments of principal, interest and taxes, plus all other monthly debt obligations (such as car loans and credit card payments) as a percentage of monthly gross income. The TDS ratio should not exceed 40% of gross income.

Calculate Your Own – How Much Can You Afford?

Find out how much you can afford with a few simple calculations – use the examples on page 10 as a guide to calculate your own GDS and TDS ratios.

Monthly Mortgage Payment	
Property Taxes	**$**
Heating Costs	**$**
Condo Fees (if required)	**$**
Other	**$**
Total monthly payments	**$**
Gross monthly household income	**$**
Other Debts (Credit Cards, etc.)	**$**
TDS %	**$**

Other booklets available for consumer information include: *The Budget Book*, *The Credit Book*, and *Planning For Your Retirement*. Ask for copies at your Credit Union.

Note: The information contained in this booklet pertains only to the provinces of Ontario, Manitoba, Saskatchewan, Alberta, British Columbia and the Atlantic provinces at the time of publishing.

About

COASTAL COMMUNITY CREDIT UNION

At the heart of Coastal Community is a passion for improving financial health, enriching people's lives and building healthier communities. In total, the Coastal Community family of companies serves over 110,000 people on Vancouver Island and the Gulf Islands, from Victoria to Port Hardy.

Providing services for almost 70 years, parent company Coastal Community Credit Union (CCCU) is the largest Vancouver Island-based financial services organization, and among the top 25 largest credit unions in Canada when measured by asset size. CCCU provides personal, business and commercial banking services, complemented by its wholly-owned subsidiaries Coastal Community Insurance Services (2007) Ltd., (offering personal and commercial insurance solutions) and Coastal Community Financial Management Inc., (offering wealth management services through its Coastal Community Private Wealth Group division).

CCCU was the first to bring cutting-edge Interactive Teller Machine technology to the Island, incorporating live video teller service and extended hours of operation. Past recipient of the Corporate Responsibility Award for the Vancouver Island region, Coastal Community is also one of BC's Top Employers® for 2015. Learn more at:

cccu.ca

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