Understanding **Mortgages**

Buying a home is an important and exciting step in one's life. For most people, this will be the largest financial decision they'll make. Before you get the keys to your new place, there are some steps you need to take to make sure that you're committing to a home that is right for you and your family.

What is a mortgage and how does it work?

A mortgage is a type of loan taken out by a borrower to assist with the purchase of a home. The lender (usually a financial institution) gives the borrower access to funds, under the promise that the borrower will pay it back as per specified repayment arrangements and terms. There is a cost to a mortgage – the lender will charge the borrower interest or service charges depending on the agreement. How much interest you pay depends on three factors:

1. How much you borrow (the principal)
2. The interest rate on the loan
3. How long you take to pay it back (the amortization period)

Mortgage pre-approval

Getting a mortgage pre-approval from G&F is an important first step before you begin your house hunt. A mortgage pre-approval factors in your financial situation so you will know how much you can afford for a house and what price range you should stay within. It will also give the home seller more confidence in your offer because you have financing arranged.

Determine your price point

When considering how much you are willing to spend on purchasing a new home, take into account more than just the price of the house itself. Here are four areas that will help determine what your price point should be:

1. **Down payment.** The amount you have available for a down payment will determine if you will need a high ratio or conventional mortgage. The minimum required for a down payment is 5% of the purchase price. By putting less than 20% down, you will receive a high ratio mortgage. A high ratio mortgage was designed to help Canadians with a steady income and good credit to purchase a home when they do not have a large down payment saved up. This type of mortgage comes with a premium (as insurance for the mortgage lender), but that cost can be rolled into the overall mortgage amount. By putting 20% or more in as a down payment, you will receive a conventional mortgage.
2. **Monthly mortgage payment (and frequency).** The amount of money and when you make those payments towards your mortgage is dependent on a few variables, including the amount borrowed, your interest rate, taxes and the life of the mortgage (amortization). As a general rule, you should budget no more than 35% of your household gross monthly income towards your mortgage payment.
3. **Other debts.** A good rule of thumb is to consider your total monthly debts, including your mortgage payment, and allow approximately 42% of your gross monthly income to cover this. This is known as the Total Debt Service (TDS) ratio and can help keep you financially on track as a home owner.
4. **Price range.** By knowing and taking into consideration your mortgage pre-approval amount, down payment and TDS ratio, you have the information you need to determine a price range that works for you for house hunting.

What mortgage term option is right for you?

There are a number of different mortgage options to choose from, depending on what works best for you financially.

1. **Open mortgage –** An open mortgage gives you the option to re-pay any amount of the balance owning at any time, without taking a penalty. With open mortgages, interest rates are usually higher.
2. **Fixed/closed mortgage –** A closed mortgage can provide peace of mind because your mortgage is 'locked' in to a specific interest rate for a chosen term and immune to the fluctuations in the market. With a closed mortgage, you don't have the re-payment flexibility of an open mortgage, but you are often allowed a few penalty-free re-payment periods that are built in to your agreement.
3. **Variable –** A variable mortgage has the potential to save you interest and gives you the freedom of added flexibility. With this type of mortgage, you can take advantage of low interest rates without having to lock in to a specific rate. By not locking in, your interest rate can vary from month-to-month.

No matter what type of mortgage you commit to, you have a number of different payment options available to you. You can choose to pay weekly, bi-weekly or monthly, depending on your financial circumstances. In order to pay off your mortgage faster, paying on a weekly basis can cut several years off of your overall mortgage timeline.

There are a number of incentives for first time homebuyers.

Take this example of a mortgage for $100,000 at 7.0% interest. By paying on a weekly basis as opposed to monthly, you can save $23,458.74 and take 5 years off your mortgage term.

	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

First time homebuyer incentives

First time home buyers are exempt from paying the property transfer tax if the purchase price of the home is less than $475,000. And, to help facilitate the purchase, first time home buyers can also withdraw up to $25,000 from their RRSP tax free, and repay it over the next 15 years.

Getting a mortgage

The first step to get a mortgage is to talk to a G&F Mortgage Relationship Manager (MRM) about what you're looking for and start exploring financing requirements. The conversation you'll have with the MRM will be a discussion about your mortgage availability, current interest rates and the mortgage options that are available to you.

The next step in the process is the mortgage application form. You can fill this out before you begin house hunting, in order to receive pre-approval for a certain price range, or you can take this step after you have made an offer on a property. This form requires details about your current financial situation, including your household income, assets and debts.

To be prepared for the mortgage application form, and to save yourself time, you should bring the following items with you when you fill it out:

- Picture ID
- T-4 slip, or proof of salaried employment (or three years of financial statements, if you are self-employed)
- Social Insurance Number (SIN)
- Information and details on all bank accounts, loans, credit cards and other debts
- Confirmation of down payment and closing costs (if you are applying for a mortgage after you put an offer on a home)
- Offer to purchase, with real estate listing and picture of the house (if you are applying for a mortgage after you put an offer on a home)

Home buying costs

Buying a house involves a number of stages and steps, and also comes with some costs that you should be prepared for. By educating yourself on what to expect, there will be no financial surprises.

1. **Down payment –** this is a minimum of 5% of the purchase price of the home.
2. **Inspection fee –** a fee paid to a professional who will inspect your home prior to the completion of the purchase.
3. **Appraisal fee –** this fee is sometimes required to ensure that the property is sufficient security against the mortgage.
4. **Legal fees –** these include lawyer fees and fees required to transfer the property.
5. **Property transfer tax –** The property transfer tax is 1% of the first $200,000 of the home price and 2% on the remaining value.
6. **GST for new homes –** If you're buying a new home, you will need to factor in the GST, which is 5% of the cost of the home.
7. **Strata fees for condos and townhouses –** these are monthly fees charged to all owners to covers common costs such as lawn care, roof maintenance, etc. These fees can vary, depending on what amenities are included.
8. **Tax adjustments –** you will be responsible for paying the taxes for the portion of the year in which you own the property.
9. **Mortgage insurance –** if your down payment is less than 20% of the purchase price, and insurance premium on the mortgage payment is required. This fee may be added to the overall mortgage amount.
10. **Home or property insurance –** this will help protect your property in the event of a flood, fire, theft or other damage. Property insurance must be in place on closing day.
11. **Moving costs –** these may apply, depending on how far you are moving and the type of help that you require.
12. **Realtor fees –** Most realtors are paid a percentage commission on the purchase price of the home.

Discuss your options

Before you dive into your house hunt, discuss your entire financial situation and determine how much house you can realistically afford. Connect with us to set up a plan that's right for you. Visit us in-branch, call our Member Hub (604-419-8888) or book an advisor online.