Frequently (and not so frequently!) Asked *Mortgage Questions*

New to mortgages? Have questions but not sure where to start? We have the answers!

1. What is the best interest rate I can qualify for?

Your credit score plays a big role in the interest rate you can qualify for. The riskier you appear as a borrower, the higher your rate will be. While it is important to understand rate is NOT the most important aspect of your mortgage, it does still play a significant part. However, in some cases you may lose out on pre-payment privileges or porting options if you opt for the lowest rate. This is why it is important to look at your mortgage as a whole for your current and future needs.

2. What credit score is needed to qualify for a mortgage?

Generally, you are considered a prime candidate for a mortgage if your credit score is 680 and above. The higher you can get above 700 the better, as you will access lower rates. While almost anyone can obtain a mortgage via traditional or private lenders, if you have a lower credit score the key will be the size of your down payment. A sufficient down payment can reduce the risk to the lender providing you with the mortgage, thereby opening up lower rate options.

3. What happens if my credit score isn't great?

There are five main things you can do to improve a low credit score.

a. Pay down credit cards so they're below 70% of your limits. Revolving credit like credit cards have a more significant impact on credit scores than car loans,lines of credit,or other types of debt.

b. Limit the use of credit cards. Racking up a large amount and then paying it off in monthly instalments can hurt your credit score. If there is a balance at the end of the month, this also affects your score.

c. Check credit limits. If your lender is slower at reporting monthly transactions, this can have a significant impact on how other interested parties view your file. Ensure everything's up to date as old bills that have been paid can come back to haunt you.

d. Keep old cards. Older credit is better credit. If you stop using older credit cards, the issuers may stop updating your accounts. As such, the cards can lose their weight in the credit formula and, therefore, may not be as valuable – even though you have had the cards for a long time. Use these cards periodically and then pay them off.

e. Don't let mistakes build up. Always dispute any mistakes or situations that may harm your score. If, for instance, a cell phone bill is incorrect and the company will not amend it, you can dispute this by making the credit bureau aware of the situation.

4. What's the maximum mortgage I can qualify for?

To help you determine what you can afford, check out the My Mortgage Toolbox app on the iStore and Google Play. This app can assist with various calculations to determine the amount you can afford, how much your monthly mortgage payments will be, allow you to play around with payment frequencies, and so much more. You can also get pre-qualified on the app, which you can follow up with a proper mortgage pre-approval once you are ready to start shopping! This will also assist with solidifying your budget and understanding your mortgage costs.

5. How much money do I need for a down payment?

The minimum down payment required is 5% of the purchase price of the home. However, it is ideal to produce a down payment of 20% to avoid paying mortgage default insurance and, in some cases, to access a better interest rate.

6. What happens if I don't have the full down payment amount?

It can be hard to put together a down payment. Fortunately, there are many programs available that will

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allow you to utilize different forms of down payments through cash-back products, RRSP withdrawal or gifting from an immediate family member.

7. How much will I have to pay for closing costs?

As a general rule of thumb, it's recommended that you put aside at least 1.5% of the purchase price (in addition to the down payment) strictly to cover closing costs such as: property transfer taxes, lawyer/notary fee, survey costs, appraisal fee, title insurance and a home inspection.

8. What will a lender consider when qualifying me for a mortgage?

Most lenders look at five factors when determining whether you qualify for a mortgage:

a. Income - One of the first things a lender will consider is how much of your total income you'll be spending on housing. This helps the lender decide whether you can comfortably afford a house.

b. Debts - A lender will then look at your debts, which generally include monthly house payments as well as payments on all loans, credit cards, child support, etc.

c. Employment history - A history of steady employment, usually within the same job for several years, helps you qualify. However, a short history in your current job shouldn't prevent you from getting a mortgage, as long as there have been no gaps in income over the past two years.

d. Credit history - Good credit is also very important in qualifying for a mortgage.

e. Value of the property you wish to purchase – Lastly, the lender will also want to know that the house is worth the price you plan to pay.

9. Should I go with a fixed-or variable-rate mortgage?

The answer to this question depends on your personal risk tolerance. If you happen to be a first-time homebuyer, or you have a set budget that you can comfortably spend on your mortgage, it's smart to lock into a fixed mortgage with predictable payments over a specific period of time. On the other hand, if your financial situation can handle the fluctuations of a variable-rate mortgage, this may save you some money in the long run. Another option is to opt for a variable rate, but make payments based on what you would have paid if you selected a fixed rate. There are also50/50 mortgage options that enable you to split your mortgage into both fixed and variable portions.

10. How much will my mortgage payments be?

Your monthly mortgage payment cost will vary based on several factors, such as the size of your mortgage, whether you're paying mortgage default insurance, your mortgage amortization, your interest rate, and your frequency of making mortgage payments. The My Mortgage Toolbox app from Google Play and the iStore has many calculators that can help you preview different mortgage and payment scenarios.

11. What amortization will work best for me?

While the benchmark and typically used standard amortization period for a mortgage is 25-years, shorter or longer time frames are available. The main reason to opt for a shorter amortization period is that you'll become mortgage-free sooner. In addition, by agreeing to pay off your mortgage in a shorter period of time, the interest you pay over the life of the mortgage is greatly reduced. A shorter amortization also affords you the luxury of building up equity in your home sooner. Equity is the difference between any outstanding mortgage on your home and its market value. While it pays to opt for a shorter amortization period, keep in mind you will have higher monthly payments as a shorter amortization period means less payments overall. If your income is irregular or you're buying a home for the first time and will be carrying a large mortgage, a shorter amortization period that increases your regular payment amount and ties up your cash flow may not be the best option for you.

12. What mortgage term is best for me?

First it is important to understand that mortgage terms

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typically range from six months up to 10 years. When comparing various mortgage terms, it's important to understand that a longer term generally means a higher corresponding interest rate and a shorter term generally means a lower interest rate. While this may have you jumping to sign for a shorter term, it is not always the preferred option. If paying your mortgage each month places you close to the financial edge of your comfort zone, you may want to opt for a longer mortgage term, such as 5 or 10-year, so that you can ensure that you'll be able to afford your mortgage payments should interest rates increase. By the end of a 5or 10-year mortgage term, most buyers are in a better financial situation, have a lower outstanding principal balance and are afford higher mortgage payments.

13. How can I maximize my mortgage payments and own my home sooner?

Most mortgage products include prepayment privileges that enable you to pay up to 20% of the principal (the true value of your mortgage minus the interest payments) per calendar year. This will also help reduce your amortization period (the length of your mortgage). Another way to reduce the time it takes to pay off your mortgage involves changing the way you make your payments by opting for accelerated bi-weekly mortgage payments. Not to be confused with semi-monthly mortgage payments (24 payments per year), accelerated bi-weekly mortgage payments (26 payments per year) will not only pay your mortgage off quicker, but it's guaranteed to save you a significant amount of money over the term of your mortgage. With accelerated bi-weekly mortgage payments, you're making one additional monthly payment per year. In addition to increased payment options, most lenders offer the opportunity to make lump-sum payments on your mortgage (as much as 20% of the original borrowed amount each year).

14. Can I make lump-sum or other prepayments on my mortgage, or will I be penalized?

Most lenders enable lump-sum payments and increased mortgage payments to a maximum amount per year. But, since each lender and product is different, it's important to check stipulations on prepayments prior to signing your mortgage papers. Most "no frills" mortgage products offering the lowest rates often do not allow for prepayments. As well, please note that some lenders will only let you make these lump-sum payments on the anniversary date of your mortgage while others will allow you to spread out the lump-sum payments to the maximum allowable yearly amount.

15. If I have mortgage default insurance, do I need mortgage life insurance?

Yes. Mortgage life insurance is a life insurance policy on a homeowner, which will allow your family or dependents to pay off the mortgage on the home should something tragic happen to you. Mortgage default insurance is something lenders require you to purchase to cover their own assets if you have less than a 20% down payment. Mortgage life insurance is meant to protect the family of a homeowner and not the mortgage lender itself.

16. Is my mortgage portable?

Fixed-rate products usually have a portability option as lenders utilize a "blended" system where your current mortgage rate stays the same on the mortgage amount ported over to the new property, and the new balance is calculated using the current rate. With variable-rate mortgages, however, porting is usually not available. This means that when breaking your existing mortgage, a three-month interest penalty will be charged. This charge may or may not be reimbursed with your new mortgage. While porting typically ensures no penalty will be charged when you sell your existing property and buy a new one, it's best to check with your mortgage professional for specific conditions before making any changes.

17. If I want to move before my mortgage term is up, what are my options?

This will depend greatly on your particular lender and the type of mortgage you have. While fixed mortgages are often portable, variable are not. Some lenders allow you to port your mortgage, but your sale and purchase have to happen on the same day, while others offer extended periods. As long as there's not too much time between the

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sale of your existing home and the purchase of the new home, as a rule of thumb most lenders will allow you to port the mortgage. In other words, you keep your existing mortgage and add the extra funds you need to buy the new house on top. The interest rate is a blend between your existing mortgage rate and the current rate at the time you require the extra money.

18. How much will I have to pay for closing costs?

As a general rule of thumb, it's recommended that you put aside at least 1.5% of the purchase price (in addition to the down payment) strictly to cover closing costs such as: property transfer taxes, lawyer/notary fee, survey costs, appraisal fee, title insurance and a home inspection.

19. How do I ensure I get the best mortgage product and rate upon renewal at the end of my term?

The best way to ensure you receive the best mortgage product and rate at renewal is to enlist your mortgage professional to review your current mortgage product, financial situation and shop the market for you. A lot can change over a single mortgage term, and you can miss out on a lot of savings and options if you simply sign a renewal with your existing lender without consulting your mortgage expert.

20. What steps can I take to help ensure I don't become a victim of title or mortgage fraud?

Red flags for mortgage fraud:

a. You're offered money to use your name and credit information to obtain a mortgage

b. You're encouraged to include false information on a mortgage application

c. You're asked to leave signature lines or other important areas of your mortgage application blank

d. The seller or investment advisor discourages you from seeing or inspecting the property you will be purchasing

e. The seller or developer rebates you money on closing, and you don't disclose this to your lending institution. Sadly, the only red flag for title fraud occurs when your mortgage mysteriously goes.

<u>Ways to protect yourself from title fraud:</u>

f. Always view the property you're purchasing in person; check listings in the community where the property is located –compare features, size and location to establish if the asking price seems reasonable

g. Make sure your representative is a licensed real estate agent

h. Beware of a real estate agent or mortgage broker who has a financial interest in the transaction

i. Ask for a copy of the land title or go to a registry office and request a historical title search; in the offer to purchase, include the option to have the property appraised by a designated or accredited appraiser

j. Insist on a home inspection to guard against buying a home that has been cosmetically renovated or formerly used as a grow house or meth lab

k. Ask to see receipts for recent renovations; when you make a deposit, ensure your money is protected by being held "in trust"

l. Consider the purchase of title insurance.