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# FIRST TIME BUYING A HOME?

Not to worry! We have the expertise to make sure getting you into your first home is as simple & stress free as possible!

## WHY SHOULD YOU USE A MORTGAGE BROKER?

### HOW MUCH DOES IT COST?

From the first consultation to the signing of your mortgage, our services are free. Based on the large volume of business we send to our lenders, we're able to negotiate very competitive rates for our clients. We are paid by the lender, based on the volume we send them and the length of your term, not on the interest rate offered. We don't get paid until your mortgage funds. Our goal is to get you the best product and the best rate possible. We work hard to make the process as seamless as possible.

### WHAT IS THE DIFFERENCE BETWEEN USING A MORTGAGE BROKER & USING A BANK?

There are generally two ways to get a mortgage in Canada: from a bank, or from a licensed mortgage professional. While a bank only offers the products from their particular institution, The Collin Bruce Mortgage Team sends hundreds of millions of dollars in mortgage business each year to Canada's largest banks, credit unions, trust companies, and financial institutions. This allows us to offer our clients more choices and access to hundreds of mortgage products. As a result, clients benefit from the trust, confidence, and security of knowing they are getting the best mortgage for their needs.

Whether you are purchasing a home for the first time, taking out equity from your home for investment or pleasure, or renewing your mortgage, it's important that you are making an educated buying decision with unbiased professional advice.

Dominion Lending Centres (DLC) is one of Canada's top mortgage brokerages. DLC funded over $78 billion in mortgages across Canada in 2021 and we have been DLC's #1 mortgage broker for number of mortgages funded in Canada for 11 years.

Simply put, the more volume we do, the lower rates you get.

# WHAT TYPE OF MORTGAGE IS RIGHT FOR ME?

## CONVENTIONAL MORTGAGE VS. HIGH-RATION MORTGAGE

### CONVENTIONAL MORTGAGE

A conventional mortgage is a mortgage where the total loan is at 80% or less than the value of the property. With a purchase, the value is either the final purchase price or the appraised value, whichever is less. When you own a home and want to refinance, the value is always based on the appraised value.

### HIGH-RATIO MORTGAGE *(INSURED)*

If your deposit is less than 20% of the purchase price your mortgage will be insured by one of the three insurers currently available in Canada: CMHC, Sagen or Canada Guaranty. The choice of insurer is determined by the lender, though it is also dependent upon the type of mortgage required and which insurer works best with that mortgage. This insurance protects the lender in case the borrower defaults on the mortgage. The premium is based on the loan-to-value ratio (mortgage loan amount divided by the purchase price) and the length of amortization. The most common premiums are listed below.

| LOAN TO VALUE | 25 YEAR AMORTIZATION |
|---|---|
| 5% down borrowed | 4.50% |
| 95% - 90.1% | 4.00% |
| 90% - 85.1% | 3.10% |
| 85% - 80.1% | 2.80% |

In most cases, once you are at 80%, you will not pay an insurance premium

The insurance is added to the mortgage and is not an out-of-pocket expense when buying or refinancing a home.

| EXAMPLE | |
|---|---|
| $300,000 Purchase Price | $400,000 Purchase Price |
| **LESS** | |
| $15,000 Down Payment (5% Down) | $20,000 Down Payment (5% Down) |
| **EQUALS** | |
| $285,000 Insurance Over 25 Years | $380,000 Insurance Over 25 Years |
| **MULTIPLIED BY 4.00%** | |
| $11,400 | $15,200 |
| **TOTAL MORTGAGE** | |
| $296,400 | $395,200 |

# WHAT IS THE DIFFERENCE BETWEEN INTEREST RATES?

## MORTGAGE INTEREST RATES

There are three types of mortgage interest rates: fixed, variable, or adjustable.

### FIXED

A fixed rate mortgage is a locked in interest rate that will not change for the length of the term. This is the most common type of interest rate chosen in Canada. The term can be from six months to 10 years. Generally, as the term gets longer and the rates are guaranteed for longer, the interest rates go up. These rates are based on bond rates, not the Bank of Canada's prime rate. As the economy improves and investors demand a higher rate of return on their investments, the fixed rates increase.

(Example: As the stock market increases, investors demand a higher rate of return when investing in a low risk bond that is secured by mortgages, as the potential to make more money in the stock market is higher.)

### VARIABLE

A variable rate mortgage is based on the Bank of Canada's prime rate. The payments stay the same, although the amount of principal and interest paid with each payment changes as the prime rate changes. Over the last five years, variable rates have been as high as Prime+ 1% (when prime rate was 6%) and as low as Prime -1% (when prime rate was 2.25%). For example, a client is at prime -0.5%, and prime rate increases from 3% to 3.25%. The client's interest rate would then increase from 2.5% to 2.75%.The client's payment would not change, but less of the client's payment would go toward principal, and more would go toward interest.

### ADJUSTABLE

Just like with variable rates, the adjustable rate mortgage is also based on the Bank of Canada's prime rate. The only difference is that, with an adjustable rate mortgage, the actual payments change as the prime rate changes.

## CLOSED OR OPEN MORTGAGE

### CLOSED MORTGAGE

A closed mortgage is a mortgage that you cannot pay off in full without paying a penalty unless you are at the end of the term. This is the most common type of mortgage in Canada. Closed mortgage rates are generally lower than open mortgage rates. With a closed mortgage, most lenders allow you to pay extra on your mortgage without penalty. The most common pre-payment privileges are:

1. A 20% payment increase gives you the ability to increase your payments by 20%. The privilege is non-cumulative, which means that if you don't increase your payments by 20% one year, you can't increase the payments by 40% the next year.
2. A yearly 20% lump sum payment is allowed by most lenders. You can make multiple lump sum payments up to 20% of the principal throughout the year, as long as the payments are at least $100. A few lenders will only allow you to put the lump sum payment down once per year on the anniversary date.

With a closed mortgage, if you decide to pay the mortgage off in full, the penalty is always the greater of three months' interest or the interest rate differential (IRD). Three months' interest is the interest portion of your monthly payment. The interest rate differential is when the lender takes the difference between your rate and the best rate they currently offer for the same length of time as you have remaining in your term.

Example of three months' interest penalty
**$300,000 mortgage at 5% rate, payments are $1,500 per month = $1,000 interest and $500 principal. Penalty = $1,000 I 3 months = $3,000**

Example of interest rate differential (IRD)
**$300,000 mortgage at 5% rate. Currently in the beginning of the third year of a five-year term.**

Best three-year rate lender currently offers: 4%
**IRD = $300,000 I (5% - 4% = 1%) = $3,000 penalty per year left I 3 years = $9,000**

IRD happens after significant interest rate decreases. If you are in a higher rate mortgage, the lenders charge you a penalty based on their loss of interest, which occurs when you pay off your higher rate mortgage and they have to re-lend it out at today's current lower rates.

Most closed mortgages are portable, meaning you can port the mortgage to a new property and keep your current rate without penalty. With a port, when you increase the mortgage amount, the increased amount will be at the current rates.

# OPEN MORTGAGE, AMORTIZATION & PAYMENT SCHEDULE

## OPEN MORTGAGE

An open mortgage is flexible. That means you can usually pay off part of it, or the entire amount, at any time without penalty. An open mortgage can be a good choice if you plan to sell your home in the near future. It can also be a good choice if you want to pay off a large sum of your mortgage loan. Most lenders let you convert an open mortgage to a closed mortgage at any time, although you may have to pay a small fee. Home Equity Lines of Credit (HELOC) are fully open. They are lines of credit secured against your home. HELOC's are allowed to go up to 80% of the value of your home.

## AMORTIZATION

Amortization is the length of time over which the entire mortgage debt will be repaid. Many mortgages are amortized over 25 years, but 35-year amortizations are still available.
The longer the amortization, the lower your scheduled mortgage payments, but more interest will be paid in the long run. If each mortgage term is five years, and the mortgage is amortized over 20 years, you will have to renegotiate the mortgage four times (once every five years).

## PAYMENT SCHEDULE

A mortgage loan is repaid in regular payments. Most banks offer monthly, semi-monthly, bi-weekly, or weekly options. When you rent a place, your rent payment on the first day of the month is for that month. With a mortgage, if you move in on the first day of the month, your first monthly payment is not until the end of that month. Interest accrues, and then you make your payment. The more frequently you make your payments,the less time the interest has to accrue, and the faster you pay off your mortgage.

Please note the difference between semi-monthly and bi-weekly payments.
There are 24 semi-monthly payments (twice a month) and 26 bi-weekly payments (every two weeks).

As well, there are accelerated weekly and bi-weekly payments, which are calculated differently than regular payments. Accelerated bi-weekly payments are monthly payments divided by two, with payments every two weeks. With accelerated bi-weekly payments, you have 26 payments instead of 24 payments every year.

**For bi-weekly regular payments,**
take monthly payments x 12 months divided by 26 payments. Example: Monthly payment: $2,000

Bi-weekly payments = $2,000 per month x 12 months = $24,000 divided by 26 bi-weekly payments = $923.08 per bi-weekly payment.

**Accelerated bi-weekly payments** = $2,000 per month, divided by 2 = $1,000.

$1,000 per accelerated bi-weekly payment. With accelerated bi-weekly payments, you pay off the mortgage faster, but you have a larger payment, too. Weekly and accelerated payments are based on the same principles.

# FIVE STEPS TO BUYING A HOME

## 1. GETTING PRE APPROVED

A pre-approval is an important first step when buying a home. This allows you to determine your borrowing power so you know the price range of homes you can shop for. With most pre-approvals, we can lock in your rate for up to 120 days (up to 18-month rate holds are available when building new homes). With the 120 day rate lock, if rates drop within the 120 days, you will get the lower interest rate. But if rates increase, then you keep your existing pre-approved rate.

## 2. SETTING A BUDGET

Now that you know what you are pre-approved for, it is probably a good idea to go over your own budget. Not only do you have to consider your mortgage payments, but there are also property taxes, house insurance, heating and utilities, condo fees (if buying a condo), phone & cable, and any repairs and maintenance over time. Home ownership comes with additional expenses, and you don't want to get in over your head.

## 3. FINDING THE RIGHT HOME

With a builder, you deal directly with the area sales manager. Usually builders have spec homes (which are close to being ready) or brand new builds, which can take anywhere from 6-12 months to be ready. The builder will require either a construction draw mortgage or a completion mortgage. A Realtor will set up property searches based on your specific requirements. Realtors are paid commissions by the sellers, so there is no cost to you. They help write up the purchase contract and negotiate with the selling party. They set up appointments for you to view homes.

## 4. MAKE THE OFFER

After you have agreed on a price with the seller, you both sign an offer to purchase. An offer to purchase is a legal instrument by which you are permanently bound to meet all the terms and conditions it contains. It should be prepared with care.

**The following points must be included.**

- Purchase price
- Fixtures/items included in the purchase price (window coverings, home appliances, pool, fireplace tools, etc.)
- Financial details
- Closing date
- Request for a current survey certificate for the property
- Offer's expiry date and time
- etc.

Usually the offer will have a condition for financing and a condition for home inspection. Your initial offer will require a deposit that is refundable until you remove your conditions. Generally conditions are for 7-10 days. Within this time, you will get your mortgage financed and home inspection completed. Upon removal of conditions, another deposit is usually required, and now both deposits are non-refundable. The deposits go toward your total down payment. At this point, you and the seller cannot back out of the contract.

## 5. FINAL SIGNING WITH LAWYER / GETTING YOUR KEYS

Once your mortgage financing is complete, the lender will send mortgage documents to your lawyer. You must provide your lawyer with the remaining down payment (less deposit already given), plus legal fees.

**If buying through a builder** you will do a final walk-through on the day of closing, and the builder will provide you with the keys to your new home.

**If buying through a Realtor** the Realtor will close the deal and give you the keys to your new home.

**If buying privately** you will make arrangements with the previous owner or with your lawyer to get your keys.

# REFINANCING

## WHY REFINANCE?

There are many reasons for refinancing a mortgage. You might want to stabilize your payments by changing from a variable to a fixed-rate mortgage. Perhaps you have improved your credit score and qualify for a better mortgage with a better discount. Or maybe you want to refinance a home loan to pull out equity for home improvements, investments, college expenses, or high-interest debt consolidation.

Home equity is an easy and affordable way to access the money you have accumulated in your home, especially if you have a good first mortgage in place. If you plan to remove equity from your home, you should be aware of the benefits and possible risks. Talk to a licensed mortgage professional and financial planner to discuss how you can make home equity work for you.

The government limits refinances to 80% of the value of the home.

**For example**

$400,000 property value
$300,000 mortgage owing current
80% of $400,000 = $320,000
In this example you are able to take out $320,000 - $300,000 = $20,000 equity from your home.

# SPOUSAL BUY-OUT

Ending a relationship can be extremely complex and emotional. We'd like to do our best to make the process of dividing your home equity as smooth as possible. With a legal separation agreement in place, we can work within the terms established in the agreement and assist you in buying out your partner, splitting up the equity, and paying off shared debt. The individual staying in the home can refinance the home at up to 95% of the homes appraised value.

This program also applies to common law couples and joint titled individuals (ie. siblings/friends who own a home together).

Please reach out to our team today for advice on starting this process. We'd love to answer all your questions and help guide you through this difficult time.

The government allows you to pull equity out from the home, up to 95% of the value if being used to pay off matrimonial debts and remove your ex from the mortgage and title.