



7 Things You Need To Know Before You Apply For A Mortgage

The information that you are about to read will give you some insight into how the mortgage industry operates and help you avoid making decisions that are harmful to your own best interests. The types of mistakes we are referring to are not so much poor judgment as they are lack of understanding about how mortgages work. It is our hope that this report will provide some much-needed information that will enable you to avoid costing yourself money.

1. What Do Lenders Want?

It's pretty simple, really. Think of it this way. If someone came to you and asked to borrow money, what kinds of things would you want to know before lending it to them?

How much money do you make?

First of all you would want to know, "Can you afford to pay me back?" To know that, you would have to ask, "How much money do you make?" And, out of that money, "How much do you already owe to other people?" This way, you would be able to determine if the borrower could afford to pay you back.

How much debt do you have?

Lenders are no different. They will ask for your income and a list of your debts. Because some people are paid every week, every two weeks, on the 1st and the 15th of every month, but bills are paid monthly, lenders will calculate your monthly income and divide it by your monthly debt to get a percentage figure. This figure is called the Debt Service Ratio or Total Debt Service ratio (TDS). A high TDS ratio means that you have a large percentage of debt compared to your actual income and it will be more difficult for you to pay an additional monthly payment than it would for someone with a low TDS ratio. Most lenders look at a 40% TDS (or 40% of your gross income going towards paying debts) as being the most that they will look at for a mortgage loan. The second part of the debt equation is called your Gross Debt Service ratio (GDS). Essentially what this means is that you take your gross monthly income and divide it by all of your monthly housing costs. Lenders will want to ensure that your GDS ratio isn't more than 32% of your gross monthly income. Housing costs include monthly mortgage principal and interest, property taxes, heating expenses. In the case of condominiums and townhouses, one cost that is quite often forgotten but that is included in GDS is condominium fees and common area fees so make sure you know how much yours is.

What is your credit rating?

The next thing that lenders want to know is, "Are you likely to pay me back?" This is why they need to see your credit report. This tells them how you have paid your other debts. Modern credit reports calculate the amount of credit you have accumulated, how much of it you are using (are all your credit cards at or near their limits?), and whether you have paid the required payments on time. They summarize all of these factors in a Credit Score, known as a Beacon or FICO Score, which predicts the likelihood that you will default on a loan. Scores range from 300 to 900, with the higher being the better. Even the number of inquiries on your credit file from lenders will affect your score. People who are always seeking credit are scored lower. The majority of Canadians have a Beacon Score the 600 to 800 ranges.

If you want to know what is on your credit report to see if it is accurate then you have a couple of options. First, there are 2 credit reporting agencies, or credit bureaus in Canada. They are Equifax and TransUnion. They both will have a credit file on you and they may not be the same depending on what creditors you have that report information to them on a regular basis. You can request a copy of your credit file by mail from both agencies for free or you can get immediate online access to your credit file by paying a fee on your credit card (for approximately \$25) at www.equifax.ca and www.tuc.ca.



We would recommend that everyone check his or her credit file once a year to make sure that it is accurate. Not only can your creditors report inaccurate information, but also other people's information can end up on your credit report (Yes, we have seen this happen more than once). Sometimes they don't report any information at all. You may think this is good but it can be devastating if you only have one or two loans and you think that you have a great credit history but the lenders that you have the loans with haven't told anyone about it. At that point you would have no Beacon or FICO score. Everyone wants to know how to "fix my credit" and you see ads on the Internet proclaiming the latest quick fix for credit. Everyone deep down knows how to maintain his or her credit record. Pay your bills on time and fulfill your obligations. There is no big secret. We are not credit experts but we will give you one bit of advice. Pay your minimum monthly balance every month. Even if it is only \$10! If you let it carry on to the next month by saying that "it's only \$10, why bother" then what shows on your credit report is a late payment and it doesn't say for how much. No big deal, right? Wrong! Do that a couple of times a year and a potential lender will think that if you can't make a \$10 payment every month then how could you possibly make an \$1,000 mortgage payment every month? All of a sudden you're in a different credit class and you're paying a higher interest rate. Those \$10 missed payments could cost you thousands over a few years in mortgage interest. Pay your minimum payment regardless of the amount.

What is your down payment or how much equity do you have in your home?

A risk factor lies in the amount being borrowed compared to the value of the property. In other words, if you default on the loan, what can a lender do? A mortgage places a lien on your property in the amount of the mortgage, so if you default, the lender can foreclose and sell the property to get his money back. This is why loans for more than 75% of the property value require Mortgage Loan Insurance, a type of insurance that protects the lender for any amount of the loan in excess of 75% of the property value.

In Canada this insurance is provided by CMHC (Canada Mortgage and Housing Corporation) or Genworth Financial Canada. Mortgages that are insured by CMHC or Genworth require the borrower to pay an application fee (approximately \$165), and an insurance premium on the mortgage, which could be up to 3.15% of the mortgage amount, and is included in your mortgage and paid monthly. Good information on housing and mortgage insurance can be found at www.cmhc.ca and www.genworth.ca.

What should your interest rate be?

The next thing the lender wants to know is, "How much interest should I charge?" This is determined by the degree of risk. Someone with a low credit score and a high TDS is a greater risk of not paying than someone with a high credit score and a low TDS. To offset higher risk, lenders charge a higher interest rate. But don't get too caught up on the interest rate as interest rates are at an all time low and mortgage rates are by far less than credit cards rates and the rates on other loans. Be smart, look at the overall picture and get good advice.

2. Things You Can Do To Prepare Yourself Before You Talk with a Lender

Before you talk to any mortgage lender, it is important to get all your ducks in a row. They will ask you questions in order to evaluate your situation, and if you expect to get an accurate quote you must have accurate information at hand.

What is your home or the home you wish to purchase worth?

If you are buying a home then you will know what they are asking for it and approximately what you will pay to buy it. If you own a home it may be more difficult to know what it is worth. You will need to find a copy of the most recent appraisal (possibly when you purchased your home) and write down the amount and the date of the appraisal. If you are aware of any homes in the neighborhood that have sold recently, and you know the selling price, write that down also.



If you want to know what homes in your city or area are going for, you can check on the Internet www.mls.ca. Finally, if you aren't sure what your house is worth then call a Real Estate Agent and get an "opinion of value" from them. Ask them, "if we were to list my property for sale tomorrow, what could we ask for it, what should it sell for and how quickly would it sell?"

Just know upfront that there is a good chance that before the mortgage is approved, you will have to get an appraisal done by an approved appraiser. The appraiser needs to be approved by the lender that you're borrowing from so don't order one too early because each lender has a different list of approved appraisers. Also know that you will have to pay for the appraisal out of your pocket and that it could cost you up to \$300. You don't want to pay for two!

What is your income?

You will need to also write down your exact income, as well as that of your co borrower (usually your spouse). Get your most recent pay stubs together for each of you and a copy of your NOA's for the past 3 years. What is an NOA? After you file your taxes and get a refund or have to pay, Canada Customs and Revenue sends you an NOA (Notice of Assessment) to say that everything is fine with your tax return and that you don't owe any money. That is what a lender needs to see. You will also need a letter from your employer that summarizes how long you've worked there, how much you make and how you are paid (salary, hourly, commission, contract, etc). Remember that over-time earnings may not count as part of future income unless you can show that it is consistent and will continue in the future. Lenders will look at your "average" income for the last 3 years to determine the amount of mortgage loan that you qualify for. For people that are commissioned, self-employed or make income from tips, this can be difficult to work with but not impossible. In that situation your credit score is even more important in the equation. What is your current mortgage or down payment situation?

If you currently own a home, get a copy of your first mortgage note and write down the date of your current first mortgage, the original amount borrowed, your remaining balance, the term, the amortization, whether it is a fixed rate of variable, and the amount of your monthly payment. If you have a 2nd or 3rd mortgage then find the same information for that. See if there is a prepayment penalty on your loans.

Also, if you have property taxes included in the payment, write the amount of annual property taxes that you are paying. If you are purchasing and are not sure what the property taxes are yearly then a good rule of thumb is to take the purchase price and multiply it by .75%. That will give you an estimate of your annual property tax amount.

If you are buying your first home, you will need to know how much you can put down on the purchase price, or your down-payment. Remember that when purchasing a house there are certain fees to be paid on closing or finalizing the sale. Land transfer tax, appraisal, and legal fees are just a few. You will need to have at least 1.5% of the purchase price from your savings for these "closing costs" and your lender will need to see that you have this amount plus your down-payment amount on deposit somewhere (probably your bank) so get that paperwork ready as well. At some point you will need a lawyer so ask around for some referrals. Some lawyers do a lot of real estate deals and some not as many. Check around, call at least 3 lawyers and ask questions. You'll get a good feeling as to what lawyer would work best for you and your family, so use them.

What other debts do you have?

Finally, write down all your bills except for utilities. Include your mortgage payments, car payment or other installment loans, and any credit card balances and payments. Keep this information handy for reference when you speak to a lender. They will need to know this to see how much of a loan that you will qualify for.



3. Remember, It's Your Home and Your Mortgage. What Do You Really Want?

Yes, your immediate, obvious objective is clear. You want to purchase a home, or refinance your home. Or consolidate some debt, or do some home improvements, but it's important to look a little deeper. Ask yourself some questions about your ultimate goals and take some time to look at your current situation so that you can decide how to get where you want to go. For instance, are you a younger couple in your first home, or are you approaching retirement age? Will you be staying in the home for the rest of your life, or will you be moving as your family grows and you need more space? Does your current job involve possible promotion and relocation in the future? Is there a realistic likelihood that your income will increase greatly in the future, or that it will dramatically decrease, as with retirement, for example, before your mortgage is paid off?

Why are these things important to know? Because they will determine the best lender and the best program that will enable you to do what it is that you really want.

4. Don't Assume that Your Bank is Necessarily Your Best Option

In our grandparent's day, getting a mortgage was a simple matter of going to the local bank where they did their checking and savings. The bank was dependent upon local customers for their business, and their account holders were regarded accordingly when they applied for a mortgage loan. But times have changed. The bank where you do business is probably not locally operated: in fact, its headquarters may be in another province entirely. This means that bank management that is far outside the influence of your community makes policies and most of the real decisions. You may think that the bank manager makes all of the decisions but I'm afraid that has changed as well. An underwriting team that is located at the bank's head office and not at the branch level makes most loan decisions. Does this mean you won't be treated fairly? No, but it does mean that you probably won't be given any special treatment, either.

A Bank Type Customer? Banks tend to have relatively conservative guidelines, so you need to ask yourself, "Am I a bank-type customer?" You pretty well know what that means:

- Do I have near-perfect credit?
- Do I have a consistent job history with considerable time at my current employer?
- Am I self-employed, if so, can I document enough income to qualify for a mortgage loan?
- Do I have a log home, a mobile home, or other unusual property?
- Is there sufficient equity/down-payment for me to obtain a loan that is a reasonably low percentage of the actual property value?

Now you're starting to see why we asked ourselves those questions earlier, as they all come into play now.

If you feel that you are pretty much a bank-type borrower, you have established one possibility to explore for a mortgage loan. But is it the best option? How can you know?

5. Take Time to Explore Your Lender Options

Who, other than banks, can provide mortgage loans? Trust Companies, Credit Unions, Finance Companies, Mortgage Bankers, and Mortgage Brokers are all possible sources for your loan. Once you have formulated clear objectives, become familiar with your credit history, determined your property value and the amount of money you intend to borrow, it is time to take a look at the best source for the loan you are seeking. If your credit is less than perfect, you may find your credit union to be more lenient than your bank. Seriously damaged credit may mean a finance company is a more realistic option. Mortgage lenders, known as mortgage bankers, usually specialize either in A to A- Credit Loans or B Credit and below. Other mortgage banker's focus on home equity loans for debt consolidation or home improvement, many of them offering up to 85% of the value of your property. However, unless you are



experienced in the industry, it is not easy to know which mortgage banks specialize in what types of loans and which of them have the best programs for your needs. This is one of several reasons many borrowers choose to deal with a mortgage broker or mortgage consultant. Brokers work on your behalf to obtain a mortgage from one of several lenders that meets your needs. Because they are familiar with the mortgage programs of dozens of lenders, they are in a position to know what programs will be most suited to your situation.

But are all brokers alike? How can you go about choosing the best one for you?

6. How to Choose the Best Mortgage Broker for Your Loan

This is where you must become the expert and where you must trust your instincts. Be prepared beforehand. Remember your list of objectives. Get your paperwork together. Now you are ready to actually speak with a broker.

When you call a mortgage brokerage company, you will speak with a mortgage consultant. After introducing yourself and explaining what you are looking for, pay close attention to how he or she responds. You are looking for someone who asks a lot of questions, not someone who gives quick superficial answers and pushes for an appointment. If the mortgage agent quotes you a rate immediately, guarantees no closing costs or makes any offers that sound too good to be true, you should be very cautious. On the other hand, if they ask you about your objectives, take time and seem to be interested in finding out the details of your situation first, you are on the right track.

What you want to AVOID:

- Someone who makes outlandish promises
- A fast-talking person who pushes to set up an appointment
- Someone who seems impatient or who does all the talking
- Someone who seems evasive or avoids answering your questions directly
- Someone who seems to make assumptions about you
- Someone who offers no information that you find useful
- Someone who doesn't give you a distinct impression of professionalism

On the other hand, what you DO WANT:

- 1• Someone who is courteous and friendly, yet businesslike
- 2• Someone who takes the time to ask you about your objectives
- 3• Someone who answers all your questions directly and completely
- 4• Someone who seems sincerely interested in helping you meet those objectives
- 5• Someone who asks hard questions and asks for supporting documentation
- 6• Someone who demonstrates patience and does not seem in a hurry for you to make a decision, but who is able to provide the information you need to make an informed decision

In short, what you are looking for is a Trusted Advisor. Trusted Advisors are professionals who take the time to determine your ultimate goals and use their expertise and experience to help you find the ultimate solutions to those goals. Their insights can provide you with answers that you had not previously considered, such as how to reduce your overall debt, and how to own your home sooner. They can help you decide whether a variable rate might be in your best interests, and whether or not some degree of debt consolidation might work in your favour.

7. Why It Is Important to Give Straight Answers to Tough Questions

Many of the questions your mortgage consultant will ask you may make you feel slightly uncomfortable because they involve private areas of your financial life. Questions about income, debts, and late payments may feel invasive, and you may feel put on the spot. You may even feel tempted to exaggerate your income or the value of your home, or to understate late payments or the number of debts you have.



Perhaps you have been turned down elsewhere, and you assume that omitting whatever detail kept you from getting the previous loan may help you slide through this time. However, we would like to caution you strongly. Never lie to your mortgage consultant. Don't exaggerate, leave anything out, or minimize any negative aspects.

Why? Because everything you tell him or her will have to be documented and verified anyway. The truth will come out in the end, regardless, and you will merely have delayed the inevitable and wasted everyone's time – including your own. It's sort of like a smoker who is having chest pains telling his doctor he doesn't smoke. Accept the reality of your situation, warts and all, and make it clear to the person attempting to get you a loan. Your mortgage consultant is essentially taking your application, making it into a nice, neat package and submitting it to the best lender for your situation based on the information that you've given them. This lender will still have to confirm all of the details provided so that they can confirm if your deal is best suited for them as a lender. Without accurate information, the mortgage consultant and the lender cannot do their jobs properly and the result is that you won't get the loan. Give your mortgage consultant all of the information needed and then let them roll up their sleeves and go to work on getting your loan approved.

Some Final Advice

By now, you have a good overall picture of how mortgages work, and how to choose a Trusted Advisor. It is now time to consider something that may not have been included in your original objectives. Millions of people find themselves living from pay-cheque to pay-cheque. Deluged with credit card offers and a relentless barrage of advertising offers, it is easy to understand why many people find themselves so deeply in debt that the concept of becoming debt free begins to seem like an unrealistic fantasy. This is where your Trusted Advisor can help. After all, for most of us, our home is our greatest financial asset. It is also a powerful financial resource that can be leveraged to help eliminate high-interest debt and free up large portions of you income to pay off your home sooner. Don't forget to ask your mortgage advisor for suggested scenarios that can help you achieve the ultimate objective – becoming totally free of debt.

Thank you for taking the time to read this report. This is not meant to be a comprehensive guide to the mortgage industry but merely an eye-opener to some of the questions you should ask yourself about mortgages and to give you an idea of how lenders view borrowers.

We should mention that if you learn one thing from this report that is you should seek the advice of a professional in the mortgage industry before you make any decisions. Your mortgage is most likely one of the biggest decisions in your life and it should not be taken lightly. There is a ton of good information out there and taking some time now could save your thousands in the long run.

Now you are ready to begin gathering the information you will need. You should feel confident that you are now prepared to contact a mortgage professional, and it is always good to do so as soon as you can, because even a slight change in interest rates can greatly affect your savings. If you are anxious to get started, or if maybe you just have a few questions, call the enclosed number for a free, no-obligation consultation.

Troy Alexander
Mortgage Specialist
VERICO Select Mortgage
T: (250) 483-1383
C: (250) 661-1396
TF: (877) 262-7888

Bruce MacLeod
Mortgage Specialist
VERICO Select Mortgage
T: (250) 483-1380
C: (250) 514-7007
TF: (877) 262-7888