



# HOME BUYER GUIDE

Everything you need to know to help make  
buying your home easy and successful.



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## **WHY WORK WITH A MORTGAGE BROKER?**

I shop over 25 mortgage lenders for the best rates, products and options. I determine your financial needs and goals regarding home ownership and then advise you on the lending options available. I work closely with the major Canadian banks, and non-bank lenders, credit unions, and trust companies. Let me research options, secure competitive interest rates, and do all of the legwork for you!

## **WHAT IS A MORTGAGE PRE-APPROVAL?**

A mortgage pre-approval lets you know the amount of financing you can be approved for and the payment amount. During a mortgage pre-approval we will discuss purchase price, available down payment, the source of down payment, income, net worth, debts and future financial goals and personal budget. We can complete the pre-approval by email or even better meet in person and I can collect your details, answer all your questions and provide advice!

## **WHY ARE MORTGAGE PRE-APPROVALS IMPORTANT?**

A mortgage pre-approval will allow you to narrow down your home search by setting a maximum purchase price so you know what you can afford. You will also be able to plan ahead and budget for the new mortgage payment, property taxes, and utility costs. In most cases there are five business days to obtain home financing once there is an accepted offer on a home. A pre-approval will give you the confidence to know the financing process is already under way and on the right track!

**There are many factors that influence the amount of a mortgage pre-approval including purchase price, down payment, income, and credit scoring and history.**

## **PURCHASE PRICE: THE AMOUNT YOU ARE WILLING TO PAY FOR YOUR NEW HOME**

The purchase price of a new home is determined by affordability for the applicant's. Mortgage pre-approvals calculate a ratio of total income vs. the mortgage payment, property taxes, heating, and any debts owing (car loans, credit card balances, credit lines balances, child or spousal support). The ratio must be under certain levels in order for a lender to provide a mortgage approval. The ratio for a home buyer with less than 20% down payment is at a maximum of 43%. With a down payment of over 20% the debt servicing may be able to go to a slightly higher level.

## **DOWN PAYMENT: THE FUNDS YOU PROVIDE AS COLLATERAL TOWARDS YOUR NEW HOME PURCHASE**



## **SAVINGS**

Many first time home buyers have built up a savings fund for their down payments. The savings can be held in a bank account or TFSA. All lenders require a 90-day history of any funds being used for down payment purposes. Account statements can be accessed through on-line banking. The statements must include first name, last name, account number, and a history dating back 90 days from the time of the offer on the home.

## **RRSP FIRST TIME HOME BUYER WITHDRAWAL**

Many first-time home buyers use their RRSP savings to help finance a down payment. With the federal government's Home Buyer's Plan, you can use up to \$25,000 in RRSP savings (\$50,000 for a couple) to help make the down payment on your first home. You then have 15 years to repay your RRSP. To qualify, the RRSP funds you're using must be on deposit for at least 90 days before your home purchase. To note if you have not owned a home in over five years you may be eligible to access the Home Buyer Plan even if you are purchasing your second or third home.



## **GIFTED FUNDS FROM IMMEDIATE FAMILY MEMBERS**

Parents, grandparents, or siblings may be in a financial position to gift down payment funds to a home buyer. The funds must be a gift not a loan. Lenders provide a one-page form called a gift letter. This form includes the amount being gifted, the address of the new property, and signatures of the person gifting the funds and the applicant's receiving the funds.

## **INCOME: WHAT YOU EARN AND HOW THE INCOME IS EARNED**

Types of incomes include annual salary, annual bonus, hourly, commission, self-employed, seasonal, and part time income. Other forms of income are pension, maternity leave, and investment income.

During the mortgage pre-approval and approval process income must be verified in writing for each applicant. Salary positions require a recent pay stub and employment letter. Hourly or additional bonus income requires a two-year average of total income verified with Notice of Assessments. Self-employed income required the last two years of Notice of Assessments for a two-year average and verification income taxes are paid and up to date. Most lenders require two forms of income verification – a pay stub and an employment letter for example. Stated Income Programs can be very beneficial to self-employed / business owner applicant's in the mortgage approval process.



## **CREDIT BUREAU: YOUR CREDIT HISTORY AND CREDIT SCORING**

A credit report is a snapshot of your credit history and current balances. If you have taken a loan or used a credit card you will have a credit history. Financial institutions that give you credit may send information about whether or not you make your payments on time to a credit-reporting agency/bureau. Credit bureaus collect information about you and how long it takes you to pay back money you have borrowed. This is called your credit history.

Banks and lenders rely on a credit bureau to analyze an applicant's current and past credit history in order to determine the likelihood of future repayment. Credit reports provide mortgage lenders with an impression of your ability to repay debts. The two Canadian credit bureau agencies are Equifax and Transunion.

Let's review your credit score and history together.

Credit bureaus provide a credit score based on the information collected. The credit score is an important part of a mortgage pre-approval. All banks and lenders have minimum credit score requirements. Late payments, missed payments, collections, debt write-offs, and bankruptcies all impact credit bureau scoring.

There are simple and easy ways to increase your credit score! If you are concerned about your credit history the best way to move ahead is to access the credit bureau and work on repayment plans and paying minimum payments every month on time! We can assist with advice and develop six month and one year plans to improve credit scoring. It's never too late to turn credit issues around.

# WHAT IS MORTGAGE INSURANCE?



Mortgage default insurance, commonly referred to as “mortgage insurance” helps Canadian consumers buy a home sooner and with down payment of less than 20%. In fact, for qualified borrowers a home can be purchased with as little as five per cent down. Mortgage insurance protects the lender and investor – not the homeowner – from losses related to borrower default and foreclosure. Many Canadians are familiar with CMHC – Canada Mortgage and Housing Corporation but there are actually two other mortgage insurers in Canada – Genworth and Canada Guaranty.

## HOW IS MORTGAGE INSURANCE CALCULATED?

The premiums are based on the down payment. The premiums decrease as the down payment increases from 5% to 10% and again to 15%.

## DO I PAY THE MORTGAGE INSURANCE PREMIUMS OUT OF POCKET?

No, the premiums are rolled into the mortgage amount and become part of the monthly payment.

## IS MORTGAGE INSURANCE OPTIONAL?

No, all mortgage applications with less than 20% down payment must be approved by one of the three mortgage insurance companies and the premiums are added into the mortgage amount.



## Q&A

GO

Don't forget to plan for funds required for closing costs

### LEGAL FEES

Home buyers are required to retain a lawyer to act for you in the purchase and mortgaging of a property. We can provide a referral to a highly respected real estate lawyer.

### TITLE INSURANCE

Title insurance is an insurance policy that protects you, the homeowner, against title fraud and challenges to the ownership of your home.

### PROPERTY TAXES

Property taxes are determined by the city or municipality the property is in. Taxes are evaluated and set annually. In the city of Calgary property tax assessments are provided in January of each year. Taxes can be paid annually or monthly. There can be a property tax adjustment may be required when you purchase home depending on the time of year. The most common type of adjustment occurs when the sellers of the home have paid property taxes ahead of time and the amounts must be settled.

### HOME INSURANCE

Lenders required homeowners to maintain home insurance at all time. At the time of home purchase the law office must verify that there is a home insurance policy in place on the new property. This verification is called an "insurance binder" and details the type of coverage and the property covered.

### MOVING COSTS

Plan ahead for any moving costs – boxes, cleaning charges for your current property or new property, moving vans etc.