



Step By Step

Taking You Through Each Process

Introduction

Are you equipped with the knowledge and information you need to finance your own home? Today, there are so many choices to make, professionals to deal with, and far more sophisticated points to consider. Understanding how much you can afford, how much is a good down payment, selecting a financial institution for your mortgage, choosing between fixed or variable, whatever your situation, this information can help. Written in plain English, “*Step By Step*” allows you to be aware of the critical information to make the right financing decisions for you. If at any time you have questions while reviewing this information, please don't hesitate to call. Our goal is to help you through this process, every step of the way.

Primex Mortgages



Step By Step

A Guide for New and Existing Home Buyers



EACH VERICO BROKER IS AN INDEPENDENT OWNER OPERATOR
Prepared by Verico Primex Mortgages Inc. T: 604-552-6190 Email: support@primexmortgages.com

Basic Steps When Purchasing A Home

- ⇒ Find a Mortgage Professional that you are comfortable working with. Complete a Mortgage Application in order to be pre-qualified.
- ⇒ Once it is determined how much you qualify for, have a pre-approval put in place in order to secure your interest rate. This will protect you in the event rates rise while you are shopping for your new home.
- ⇒ Find a Realtor that you are comfortable with. Your Mortgage Professional will have some they can refer to you if you do not already have one.
- ⇒ Advise your Mortgage Professional of who your Realtor is and vice versa to ensure they are working seamlessly on your behalf.
- ⇒ Start Shopping for your new home.
- ⇒ Once you find a home that you want to purchase, your Realtor will put in an offer on your behalf.
- ⇒ The seller either accepts the offer you made or counter offers, you then can accept the counter offer or decline it. It's YOUR choice.
- ⇒ If you accept the counter offer, then you now have a Purchase and Sale Agreement in place. This is now a legal and binding contract.
- ⇒ The Realtor will make the offer with subjects. You should have at least 7-10 days to remove your subjects, they are in place to protect you, the buyer, so that if the terms and conditions are not satisfactory to you, you do not have to go through with the purchase.
- ⇒ Have your Realtor fax a copy of the contract to your Mortgage Professional immediately upon acceptance.
- ⇒ Your Mortgage Professional will then convert your Pre-Approval into an Approval.
- ⇒ Once the bank approval is received, you will then sign the paperwork with your Mortgage Professional and they will collect any remaining documents from you. This must be done prior to subject removal.

- ⇒ Do not remove subjects on any property until YOU are satisfied with the mortgage terms and the inspection. You will make the final decision whether you want to remove subjects or not. Once you do, this is a firm binding contract and you will be expected to follow through with completion.
- ⇒ Upon subject removal, you will give the Realtor a deposit, this must be in the form of a **bank draft made out to the real estate company's name, this will be held in trust until your completion date.**
- ⇒ You will need to choose a lawyer or notary that will register the property in your name and you will sign documents with them 7-10 days prior to completion. They will contact you to set up the appointment.
- ⇒ The lawyer or notary will give you an exact figure on how much to make out your final bank draft for. This will be for the balance of your down payment and all other closing costs in order to complete your purchase. Take two pieces of ID, one including a picture with you to this appointment.
- ⇒ On completion day, the seller receives all funds on your behalf for the property, which are a combination of mortgage funds and your down payment. The financial transaction is handled completely between the lawyers/notaries.
- ⇒ Usually within the next few days, on Possession Date , **YOU GET THE KEYS TO YOUR NEW HOME!!**



Getting Started

Whether you're renewing an existing mortgage or buying your first home, a pre-approval is always the place to start. Lenders should be willing to analyze your credit history, review your paperwork, and offer to discuss your finances in order to provide you written confirmation of an approval. The approval should always include a maximum mortgage amount, a guaranteed interest rate, and a date for when the commitment period expires. Now you'll have a clear picture of what you can realistically afford in terms of price, down payment, and on-going mortgage payments.

A pre-approved mortgage should guarantee you an interest rate for up to 120 days or 4 months. This protection could save you a substantial amount of money if interest rates are volatile or fluctuating while you are weighing all your options.

In order to be pre-approved, all lenders will review three basic aspects of your personal finances. First is your income, which determines your ability to make monthly payments. Second are your savings, which allow you to make a down payment, cover closing costs, and keep some cash reserves to cover unexpected expenses. Third is how you manage other credit, such as car loans and credit cards. Your strengths and weaknesses can be gauged by looking at these components relative to one another.

Benefits of being Pre-Approved:

- ✓ Interest rate guarantee for up to 4 months or 120 days
- ✓ Free with no risk and no obligation
- ✓ Know what you can afford
- ✓ Consultation, recommendations and review of your documents
- ✓ Better service from Realtors

Documents you may need to provide:

- ⇒ Signed application form with credit authorization
- ⇒ Job letter, current pay stub, notice of income tax assessments, and/or tax returns
- ⇒ Down payment confirmation via bank statements / RRSP statements verifying funds have been in your name for at least 90 days

ALWAYS START WITH A
PRE-APPROVAL



“How much do I qualify for?”

In order to determine how much of a mortgage payment you can afford, financial institutions normally use the following two guidelines:

Gross Debt Service Ratio (GDS)

⇒ Allocate up to a maximum of 35% of your gross annual income towards the repayment of principal and interest towards your mortgage, property taxes, and heating expenses.

Let's look at an example. Suppose a young couple who both work are looking to buy a home in the Lower Mainland. Together they make \$66,000 per year, or \$5,500 per month. They want to know how much they could qualify for.

	Example	
Monthly income	\$5,500	
Maximum GDS	<u>35%</u>	
Total housing payment	\$1,925	per month
Less property taxes and heat (estimate)	<u>\$ 200</u>	
Max. mortgage payment available	<u>\$ 1,725</u>	

The total mortgage payment that they could qualify for based on their income of \$5,500 per month is \$1,725 per month.

Total Debt Service Ratio (TDS)

⇒ Allocate up to a maximum of 42% of your gross annual salary for all credit payments - including mortgage, car loans, and credit card payments if applicable.

Our couple qualifies for a housing payment of \$1,725 per month, as well as \$695 per month to cover any other car loans, student loans, or credit card debt that they may already have.

Tip - It's important to leave room in your budget so that you can still afford simple luxuries and have extra spending money.

Down Payments

Very few home buyers have the cash available to buy a home outright, most will need to borrow in the form of a mortgage. The down payment (or equity) is that portion of the purchase price that you provide from your own financial resources. To qualify for a conventional mortgage, you generally need a down payment of 20% or more.

Home Buyers' Plan

The federal Home Buyers' Plan (HBP) is a program that allows you to withdraw up to \$25,000 from your registered retirement savings plans (RRSP's) to buy or build a qualifying home for yourself. You do not have to include eligible withdrawals in your income, and your RRSP issuer will not withhold tax on these amounts (i.e. no tax implications). You can withdraw a single amount or make a series of withdrawals throughout the same year, provided the total of your withdrawals is not more than \$25,000. If you buy a qualifying home together with your spouse or other individuals, each of you can withdraw up to \$25,000.

You have to repay all withdrawals to your RRSP's within a period of no more than 15 years. Generally, you will have to repay an amount to your RRSP each year until you have repaid the entire amount you withdrew. If you do not repay the amount due for a year, it will be included in your income for the year.

How do I make a withdrawal?

You need to complete Form T1036 Request to Withdraw Funds from an RRSP, for each withdrawal that you make under the HBP. This form can be found at <http://www.cra-arc.gc.ca/E/pub/tg/rc4135/rc4135-05e.pdf>

What are the conditions for participating in the HBP?

1. You have to enter into a written agreement to buy or build a qualifying home;
2. You have to intend to occupy the qualifying home as your principal residence;
3. You have to be considered a First-Time Buyer—(have not owned your principal residence in the last 4 years)
4. Your HBP balance on January 1 of the year of withdrawal has to be zero (0);
5. Neither you or your spouse can own the qualifying home more than 30 days before the withdrawal is made;
6. You have to be a resident of Canada;
7. Have filed two income tax returns in BC in the last 6 years;
8. You have to complete Form T1036;
9. You have to receive all withdrawals in the same year;
10. You can not received more than \$25,000;
11. You have to buy or build the qualifying home before October 1 of the year after the year of withdrawal.

On Canada Customs and Revenue Agency's web site you can download many useful publications including the complete *Home Buyers' Guide* (RC 4135 E 2001) and "*The Request To Withdraw Funds From An RRSP*" (T1036 E 2001) at www.cra-arc.gc.ca.

Down Payment Requirements

When you need a mortgage that is more than 80% of the purchase price of your home, mortgage loan insurance is required. In Canada, mortgage insurance is provided by either CMHC, a crown corporation, or Genworth or Canada Guaranty, two large public corporations. Mortgage insurance protects the lender and, by law, most Canadian lending institutions require it. Having mortgage loan insurance means that if you, the borrower, default on your mortgage, the lender is paid back by the insurer. With the risk of losing their money removed, lenders have confidence to make mortgage loans up to 95% of the purchase price of the home. That means you can purchase a home with as little as 5% down payment, providing you meet all the lenders terms and conditions.

How much does it cost?

**Insurance Premiums as of July 23, 2010* (subject to change without notice)*

Your insurance premiums will be added to your mortgage amount and you will not need to include this in your closing costs. It depends on the amount of your mortgage in relation to your purchase price. The larger the down payment, the less the insurance premium.

Down Payment	Loan to Lending Value Ratio	Premium as to % of Loan
5%	Up to and including 95%	2.75%
10%	Up to and including 90%	2.00%
15%	Up to and including 85%	1.75%
20%	Up to and including 80%	1.00%

Let's look at an example. If you are purchasing a home for \$250,000, to qualify for a conventional mortgage you would need 20% of the purchase price as a down payment or \$50,000 (20% of \$250,000). However with mortgage insurance you only need 5% down or \$12,500 (5% of \$250,000). That's a difference of \$37,500. In this case you would need a \$237,500 mortgage (\$250,000 purchase price less \$12,500 your down payment).

As an incentive to the bank to lend you the mortgage you need, your premium would be \$6531.25 (2.75% of \$237,500). The bank will pay this premium to the insurer on your behalf and then add it on to your mortgage. Instead of a mortgage for \$237,500, you would get a mortgage for \$244,031.25 (\$237,500 plus \$6531.25 premium) and your monthly payments would be based on this higher amount.



Criteria for qualifying...

1. The home must be in Canada and must be your principal residence
2. You must be a Canadian Citizen or have Landed Immigrant Status
3. Your mortgage payment plus the monthly portion of your property taxes, heating costs, and strata fees (if it's a condo or townhouse) must not exceed 35% of your gross monthly household income (GDS ratio)
4. Your total debt load (mortgage, car, credit cards, etc...) must not exceed 42% of your household income (TDS ratio)
5. At the time of application, you must show you have sufficient funds to cover your closing costs (at least 1.5% of your purchase price even if you don't have to pay them)
6. There is no longer a maximum purchase price for the 5% down program
7. Both new and resale homes are eligible.

**Other restrictions may apply and are subject to change.*

Other Down Payment Options

Gifted Down Payment - Gift down payments are acceptable as long as they are from an immediate family member of the borrower. The money must be in the borrower's possession no later than 15 days prior to the closing date. A Gift Letter is required to be signed by both the borrower and donor, your Mortgage Professional will be able to provide this for you.

Cash Back Mortgages - Generally bank will charge an interest rate higher than the best market rates in order to offer the cash back. This can become quite costly in the long run as you are charged a higher rate on the entire mortgage amount not just the cash back portion.

Borrowed Down Payment - Lenders will allow you to use borrowed funds for a down payment. This can be from a line of credit or loan.



Closing Costs

Over and above your down payment, there are always last-minute costs such as taxes, legal fees, appraisal fees, moving expenses, and house insurance to pay before you are finally a new homeowner. These are known as “closing costs,” and there are some that you simply cannot avoid or lessen, as they are legally required and often fixed at a particular rate or charge. You must be prepared to pay most, and perhaps all, of the following costs.

Property Purchase Transfer Tax (1st Time Buyers are Exempt)

The British Columbia provincial government imposes a Property Purchase Transfer Tax (PPTT) which must be paid when a property is legally transferred to a new owner. The tax is 1% on the first \$200,000 of the property value and 2% on any value over \$200,000. As a First Time Home Buyer, you may be eligible for an exemption. For more information please visit http://www.sbr.gov.bc.ca/individuals/Property_Taxes/Property_Transfer_Tax/ptt.htm

Harmonized Sales Tax

If you are purchasing a new home, you may be subject to 12% HST on the purchase price. You may qualify for a rebate and information may be found at the Canada Revenue Agency website.

Legal fees

In British Columbia only a lawyer or notary can transfer real estate ownership and act on your behalf during the completion of your purchase. Legal fees for this service range between \$500 for a refinance and up to \$1,000 for purchase.

Property Tax Adjustment

If the current owners have already paid the full year's property taxes to the municipality, you will have to reimburse them for your share of the year's taxes.

Inspection fee

A written, detailed inspection report documenting the status and condition of all the major components of a building – such as the roof, foundation, insulation, plumbing, heating, and electrical systems will cost you up to \$450.00

Moving expenses

Fees for a professional mover can range from \$75 - \$150 an hour for a truck and three movers. These costs may be 10% – 20% higher on the last few days of each month.

Appraisal fee

On conventional mortgages, financial institutions often require an appraisal of the property which provides an independent assessment of a property's value for approximately \$250-\$300. If you have acreage, price can be as high as \$600 depending on the property size.

Survey fee

For detached homes, lending institutions require a survey certificate to formally establish the boundaries of the property and to ensure that all buildings are within those boundaries. Typically, fees are \$350.00 (strata titled properties are exempt). If there is no Survey Certificate, lenders will request the lawyer or notary to obtain title insurance which is around the same cost.

Fire insurance

This insurance covers the replacement value of the structure of your home and its contents. Your lender will insist on this because your home is the security or collateral for your mortgage.

Other last minute costs

Don't forget to set aside some money for utility hook-ups, furniture, household items such as kitchen appliances, window coverings, paint, carpeting etc...

Property Purchase Tax Exemption For First Time Buyers

When buying real estate in British Columbia, the government imposes a Property Purchase Tax based on the greater of the purchase price or the fair market value of the property. The tax is calculated at 1% of the first \$200,000 and 2% of any remaining balance of the purchase price. You may qualify for a tax exemption if you, and the property you are purchasing, meet the following guidelines:

1. The maximum purchase price to qualify for the exemption in Greater Vancouver, Fraser Valley, and Capital Region Districts is \$425,000. A partial exemption is available for homes up to \$450,000.
2. Your down payment amount can be your choice.
3. Mortgage terms must be for one year or longer (can not be held by parents).
4. You may never have previously owned an interest in your principal residence anywhere in the world at any time. If only one client qualifies, then only their portion of the purchase will be eligible for the exemption.
5. Purchaser must be a Canadian Citizen or Landed Immigrant and have been a resident of British Columbia for at least 12 consecutive months immediately prior to purchase.
6. The purchasers must occupy the property as their principal residence within 92 days of completion, and reside in the home for a minimum of one year.
7. Under certain circumstances, the purchase of raw land or a building lot may qualify.

Examples

Purchase Price	SAVINGS
\$425,000	\$6,500
\$375,000	\$5,500
\$300,000	\$4,000
\$200,000	\$2,000

Closing Cost Worksheet

Deposit for purchase
(To be given to the Realtor upon subject removal) \$ _____

Legal Fees
(allow \$750 - \$1000 for purchase, \$500-\$600 for refinance) \$ _____

Property Transfer Tax
(1% of first \$200,000 and 2% of remainder)
First Time Home Buyers Exempt \$ _____

HST 12% (if applicable) \$ _____

Appraisal
(\$250-\$300) \$ _____

Home Inspection
(Range from \$300 - \$450) \$ _____

Homeowners Insurance \$ _____

Survey Certificate or Title Insurance
(\$350) \$ _____

Adjustments (property tax, interest..) \$ _____

Moving \$ _____

Utilities \$ _____

Total Closing Costs \$ _____

This worksheet is for a rough estimate only and all closing costs will be finalized with your lawyer / notary

Putting Together Your Real Estate Team

Mortgage Broker

Mortgage brokers are independent professionals who can help you sort through the maze of different options and features available in today's marketplace. They compare different lenders, do all the paperwork, and negotiate the best rate on your behalf so you don't have to. Best of all, there's no cost to you and you should receive full representation through the entire process.

Realtors

When a home is put on the market, the vendor (seller) is generally responsible for any real estate commissions associated with the sale. Therefore, there are many advantages to you in seeking the assistance of a qualified Realtor who has experience in the area you are house hunting. A good Realtor will make the home-buying process easier, helping you avoid common pitfalls and making sure you get the best value for your money.

Home Inspectors

A home inspection includes a check of all your building's major components; electrical, roof, foundation, insulation, plumbing and heating. Not only do inspectors catch things you may have missed, but they also provide a detailed, written inspection report.

Appraisers

An appraisal report provides you with an expert second opinion as to the property's conservative market value today, which may or may not match your purchase price. This is arranged by your Mortgage Consultant.

Lawyer / Notary

Hiring a lawyer is the best way to ensure that your legal interests are being protected when you buy your new home. Lawyers review any documentation, and clear title from the seller so that the property can be duly registered in your name. You can choose whoever you prefer or ask your Mortgage Consultant or Realtor for a referral.

Insurance Agents

Property or fire insurance is mandatory and covers the replacement cost of your building in the event of any damage or loss. Life, disability, and critical-illness insurance is offered by most lenders, but you are not required to purchase it. In both cases, individual coverage through an insurance broker who shops the market for you is more often less expensive, and offers better coverage for you and your loved ones.

Money Savings Tips...

- Use a Mortgage Professional. This will save you money as your bank may not have the best products or rates available in the market. A Mortgage Professional works for you and best of all at No Cost to You. Services of a Mortgage Professional are at no cost to the client as they get paid from the lenders. Mortgage Professionals also only need to check your credit once where as when you shop on your own, each institution is checking your credit report which could ultimately lower your score.
- Manage your credit well and prepare for your mortgage approval. The best interest rate offered to you will be strongly influenced by three factors: your income, your savings or net worth and your past credit history. Avoid consumer debt as much as possible, always pay your bills on time, and the less you inquire for credit the better
- Avoid changing jobs or making large purchases while shopping for a home. Ensure the information does not change from the time you were pre-approved to when you make your offer
- Any extra payments you make on your mortgage, go directly in your pocket, because every dollar you pay over and above your regular payment goes directly to principal. That means, whenever possible, a few hundred dollars here and there can quickly add up to a few thousand saved later on and years off the mortgage.



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Fax: 604-552-0259
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