



FIRST TIME HOMEBUYERS

Canada Mortgage and Housing Corporation (CMHC) and Genworth have made it easier than ever to own the home of your dreams.

Program Highlights

- | | |
|---|---|
| <input type="checkbox"/> Minimum down payment | 5% of the appraised value or purchase price of the property, whichever is less |
| <input type="checkbox"/> Gross Debt Service Ratio | 32% |
| <input type="checkbox"/> Total Debt Service Ratio | 44% |
| <input type="checkbox"/> Loan Qualification | 3 year posted interest rate |
| <input type="checkbox"/> Insurance Premium | 2.75% of the mortgage amount (Premium may be added to the mortgage amount or paid separately) |
| <input type="checkbox"/> Credit History | In good standing |

Borrowers are required to demonstrate, at the time of application, their ability to cover closing costs equal to at least 1.5% of the purchase price. If closing costs are to be borrowed, the loan repayment is included in TDS, based upon a 12-month amortization schedule, for TDS calculation purposes.

If the down payment requirement is being met by way of financial gift (from an immediate relative of the borrower and confirmed as such in a letter form from the donor), the funds must be in the borrower's possession no later than 15 days prior to closing date.

Down payment must be from client's own resources or an outright gift – not borrowed.

The program is open to all purchasers regardless of whether they have previously owned a home or not.



PREQUALIFICATION / PREAPPROVAL

Having the right documents in place will speed up the prequalification / preapproval process...

Here's a list of what we need to start the approval process:

- Employer letter(s) on company letterhead outlining your name and confirming your position, gross annual income, and number of years employed with the company. (You will also need a current pay stub)
- Self-employed. We need two of the following: (Two years financial statements, tax returns (include Notice with Statement of Business Activities, articles of incorporation, business registration or G.S.T number.
- Social Insurance Number(s)
- Banking information: institution's name, address, type of accounts, account numbers
- Assets and their value (e.g. Cash amounts, stocks, bonds, RRSPs, car).
- Liabilities (e.g Car loan, credit card balances)
- Last 3 years history of residences and employers

Please let me know if you have had any past credit problems.

Write down a list of questions you would like to have answered.



MORTGAGE OPTIONS

There are a number of mortgage options for you to choose from...

❑ ***Conventional***

Regulations under The Bank Act prohibit lenders from lending in excess of 80% of the purchase price or the appraised value of a property without obtaining High Ratio Insurance. A loan for up to 80% of the purchase price or appraised value of a property is called a conventional mortgage.

❑ ***High Ratio***

A loan greater than 80% but less than 95% of the purchase price or appraised value of the property, whichever is less, is called a high ratio mortgage.

❑ ***CMHC and Genworth***

High ratio mortgages must be insured through CMHC (Canada Mortgage and Housing Corporation) or Genworth. These insurers guarantee the risk of lending to homebuyers who need a high ratio mortgage. The borrower on behalf of the lender pays an insurance premium to CMHC or Genworth to protect the lender in the event that the mortgage is not paid. This is not life, disability or job loss insurance.

The insurance premium is calculated as a percentage of the mortgage amount, depending on the loan to value and may be added to the mortgage amount or paid separately. The premiums, which can change without notice, are as follows:

<u>Loan to Value</u>	<u>Premium</u>
0-65%	0.50%
65-75%	0.65%
75-80%	1.00%
80-85%	1.75%
85-90%	2.00%
90-95%	2.75%

❑ ***Mortgage Money Sources:***

There are many financial institutions in the mortgage industry in Canada, including, Chartered Banks, Loan Corporations, Trust Companies, Credit Unions, Finance Companies, Pension Funds, Life Insurance Companies, Private Individuals.



RRSP HOME BUYER PROGRAM

You can withdraw RRSP money 'tax free' as part of your down payment...

Highlights:

- ❑ Each purchaser may borrow up to \$20,000 from their RRSP to use as a down payment.
- ❑ Available to first time homebuyers only – those who have not owned in the last five years or never owned.
- ❑ Repayment of the funds to your RRSP must be made within a 15-year period, 15 annual installments is the usual practice.
- ❑ If the amount is not repaid in a year, that year's repayment amount will be added to your income and taxed Example:

\$15,000 is borrowed for a down payment on December 31, 2008. The first \$1,000 becomes due but is not paid. The borrower must declare the \$1,000 as income in 2009.

- ❑ The home must be located in Canada and is to be used as your principal residence.
- ❑ This program may be used with the CMHC / Genworth 5% First Time Buyers program.
- ❑ The program has been extended indefinitely.



DOWN PAYMENT

“One” thing, which may delay the closing your home, it is satisfactory verification of your down payment. CMHC, Genworth and Financial Institutions will as you, on or before issuing a lending commitment to provide “Confirmation of Down Payment” from Non-borrowed funds in one or more of the following forms.

❑ ***Down Payment from the Sale of an Existing Property***

You will be required to provide copies of the unconditional “Purchase and Sale Agreement” on your existing property and the statement of “Mortgage Balance” on any mortgages presently held against the property. The difference between the sale price and the mortgages owing will verify the funds available for your down payment.

❑ ***Gifted Down Payment***

All or part of the minimum down payment may be provided by way of a financial gift, as long **all** of the following conditions are met:

- a) The donor is an immediate relative of the borrower,
- b) The Approved Lender has verified that the money is a genuine gift and
- c) The Approved Lender has verified that the funds are in the borrower’s possession prior to the time of the application to CMHC or Genworth for mortgage loan insurance.

The Approved Lender will verify the authenticity of the gift by obtaining a written confirmation signed by the donor and the borrower, which must state the following:

- a) The money is a genuine gift from the donor and does not ever have to be repaid
- b) Any third party having any interest, either direct or indirect in the sale of the subject property, is providing none of the financial gift.

The Approved Lender is not required to forward this confirmation to CMHC or Genworth but is expected to retain the information.

❑ ***Down Payment from Your Own Resources***

You must supply verification satisfactory to CMHC or Genworth and the lender, of accumulated savings from non-borrowed funds. This may be a copy of your bank statement or your bankbook confirming a balance equivalent to your down payment, including the amount of deposit confirming the savings of said amount for a period of not less than 3 months.

Should a substantial deposit have been recently made, the source of such funds, i.e. Bonds, Stocks, GIC’s or RSP receipts will also be required.

To avoid any delay in funding your transaction, we recommend that you provide a form of the above noted confirmation at least 14 days prior to your closing date.



CLOSING THE DEAL

There are costs involved in every real estate transaction and to avoid any surprises on closing, here is a list of what to expect in the way of costs.

❑ ***The Deposit***

Part of your down payment a deposit is due upon acceptance of your offer.

❑ ***Home Inspection***

Prepared by a qualified inspector to assess the property for defects and poor maintenance.

❑ ***Appraisal***

Prepared by an appraiser chosen by the lender, by CMHC or Genworth if the mortgage is insured.

❑ ***Legal Fee/Disbursements***

Your lawyer, solicitor or notary will quote his or her approximate fee for closing the purchase of your home, registering the mortgage(s) and miscellaneous disbursements, which could include registration fees, courier costs, telephone and photocopying, etc. Make sure to always ask for a detailed estimate.

❑ ***Land Transfer Tax / Property Transfer Tax***

See the chart enclosed in this package to calculate the Land Transfer / Property Transfer Tax, which is due on closing and reflected in the “Statement of Adjustments” which your lawyer prepares prior to closing day.

❑ ***Interest Adjustment***

Monthly mortgage payments are due on the first of the month. Unless the closing date is the first of the month, you must prepay the amount of the interest accruing up to the 1st day of the following month, the Interest Adjustment Date (IAD).

❑ ***CMHC, Genworth***

If CMHC or Genworth insures your mortgage, the insurance premium will usually be added to the mortgage or you can choose to pay it separately. In Ontario and Quebec, the premium is subject to PST, which must be paid on closing.

❑ ***Prepaid Expenses***

If the Vendor has prepaid any expenses such as utilities, water and sewage taxes, heating oil or taxes, they must be reimbursed and this will be reflected in the Statement of Adjustments.

❑ ***Property Tax Holdback***

If the lender is collecting and paying property taxes on your behalf you may be required to pay the lender an amount to ensure sufficient funds are available to pay the next installment of property taxes.



CLOSING COSTS

- ❑ **LEGAL FEES**
- ❑ **INTERES ADJUSTMENT** (estimate) Paid on the 1st of the next month, if you choose monthly payments. Slight adjustments are made for weekly or bi-weekly payments
- ❑ **TAX ADJUSMENT** (estimate) You pay taxes on July 1st the previous 6 months and the next 6 months to come. Depending on when you close, the vendor may have paid some or all of the taxes. Your lawyer or notary will make an adjustment for taxes, as you will owe taxes from when you take possession to the end of the year.
- ❑ **SURVEY CERTIFICATE** (not required on strata units)
Some lending institutions may require a survey certificate. Please ask your realtor if this is available from the previous owner.
- ❑ **LAND TRANSFER TAX** first time buyers are exempt. Verify with a lawyer because it may be capped up to an amount based on the purchase price.
- ❑ **C.M.H.C or GENWORTH** (high ratio application fee)
- ❑ **OTHER COSTS** (estimate) Home insurance, Mortgage insurance (included is a quote from Mortgage Protection Plan), moving expenses, etc.
- ❑ **DOWN PAYMENT**



TYPES OF MORTGAGES

Arranging to pay for that home is one of the most important financial decisions you will ever make...

- ❑ ***Term of a Mortgage***
The actual length of time money is loaned at the contractual rate of interest. Terms range from three months to twenty-five years. Usually, the longer the term the higher the rate.
- ❑ ***Open Mortgage***
Lets you repay the total amount of your mortgage at any time, without penalty. Ideal if you plan to sell your home in the near future.
- ❑ ***Closed Mortgage***
Usually has the lowest fixed rate available. A good choice if you need the security of fixed weekly, bi-weekly or monthly payments for the term of your mortgage. A fixed mortgage lacks the flexibility of being paid out at any time without an interest penalty, which can range from 3 months interest to an interest rate differential calculated by the lending institution upon payout.
- ❑ ***Convertible Mortgage***
A short term mortgage, usually six or twelve months, which lets you switch into a longer term at any time without penalty.
- ❑ ***Variable Mortgage***
A mortgage for which the rate of interest may change monthly or quarterly, depending on money market conditions. Depending on the specific features of the product; the regular payments can stay the same for the term or may be adjusted monthly or quarterly. The amount applied towards the principal changes according to the change (if any) in the interest rate. It can also be referred to as a floating rate mortgage or an adjustable rate mortgage.
- ❑ ***First Mortgage***
Mortgage given first priority at the Registry / Land Titles office. Can be conventional or high ratio. They give you the best rate of interest.
- ❑ ***Second Mortgage***
A higher interest rate loan that provides you with additional financing if the first mortgage does not meet your total financial requirements.



GLOSSARY

Agreement of Purchase and Sale: A contract by which one party agrees to sell and another agrees to purchase.

Amortization: Number of years it takes to repay the mortgage and can be from 5 – 35 years.

Appraisal: Process by which the mortgage lending value of a property is determined.

Bridge Financing: Interim financing to bridge between the closing date on the purchase of the new home and the closing date on the sale of the current home.

Broker: A financial intermediary between the mortgagor and the mortgagee, who is licensed to carry out such a transaction.

Building Permit: A certificate that must be obtained from the municipality by the property owner or contractor before a building can be erected or renovated.

Closing Date: The date of which the sale of the property becomes final and the new owner takes possession.

Commitment: A notice from a mortgage lender to a prospective borrower that the lender will advance the mortgage funds of a specified amount under certain conditions.

Condition: A condition in a contract that calls for the happening of some event or performance of some act before the agreement becomes binding.

Conditional Offer: An offer to purchase subject to specified conditions. These conditions could be the arranging of a mortgage or the selling of a present home. Usually a time limit in which the specified conditions must be met is stipulated.

Conventional Mortgage: A mortgage loan of up to a maximum of 80% of the lending value of the property for which a lender does not require loan insurance.

Debt Service Ratio: The percentage of the borrower's income that will be used for monthly payments.

Default: Non-payment of installments due under the terms of the mortgage.

Deposit: Payment of money or other valuables in consideration as a pledge for fulfillment of the contract.

Discharge: The removal of all mortgages and financial encumbrances on the property.



High Ratio Mortgage: Loan that exceeds 80% of the property's lending value and is insured through a mortgage insurance plan.

Holdback: An amount of money withheld by the lender during the progress of construction of a house to ensure that construction is satisfactory at every stage. The amount of hold-back is generally equivalent to the estimated cost to complete construction.

Mortgage Insurance Premium: A premium that is added to the mortgage and paid by the borrower over the life of the mortgage. The mortgage insurance insures the lender against loss in case of default on the part of the borrower.

Mortgagee: The entity that lends the money.

Mortgagor: The entity that borrows the money.

Offer to Purchase: A written contract setting forth the terms under which a buyer agrees to purchase a property. Upon acceptance by the seller, it forms a contract, which will form the basis for the final document to be prepared by a lawyer or notary. It includes the legal and/or municipal description (this may consist of lot numbers as well as street address), purchase price, closing date, mortgage and terms of repayment and lists specific items included as part of the sale.

P & I & T: Principal, Interest and Taxes due on a mortgage.

P & I: Principal and Interest due on a mortgage.

Penalty: A sum of money paid to a lender for the privilege of prepaying a mortgage in part or in full.

Power of Sale: The right of a mortgagee to force the sale of the property without judicial proceedings should default occur.

Prepayment Options: The right to prepay a specified amount of the principal balance. Penalty interest may be incurred on prepayment options.

Prepayment: Full or partial payment of all or part of the principal separate from the regular payments called for under a mortgage payment.

Principal: The amount owing to the lender at any time.

Rate (Interest): The return the lender receives for loaning you the money for the mortgage.

Real Estate: Includes real property, leasehold and business whether with or without premises, fixtures, stock in trade, good of chattels in connection with the operation of the business.



Rollover Mortgage: A mortgage loan where the interest rate is established for a specific term. At the end of this term, the mortgage is said to “roll-over” and the borrower and lender may agree to extend the loan. If satisfactory terms cannot be agreed upon, the lender is entitled to be repaid in full. In this case, the borrower may seek alternative financing.

Sales Representative: A licensed employee of a Real Estate Broker authorized to trade in real estate.

Survey: The accurate mathematical measurement of land and building there on.

Term: The length of time, which you pay a specific interest rate on your mortgage loan. At the end of the term you may repay the balance of the loan or re-negotiate at current rates and conditions.

Title: Evidence of ownership.

Vendor Take Back: Where the seller of a property provides some or the entire mortgage financing in order to sell the property.

Zoning Laws: Municipal laws restricting the use of land for special purposes.



IT PAYS TO BE INFORMED

Revenue Canada's Home Buyers' Plan

Allows you to use your RRSP savings to buy or build a home, up to \$20,000 per person or \$40,000 per couple. To participate in the Home Buyers' Plan, you have to be considered a first-time homebuyer at the time you withdraw an amount from your RRSP(s) under the Home Buyers' Plan. You are considered a first-time homebuyer if at any time during the last 5 years, before your withdrawal, you did not own a home while you occupied it as your principal place of residence, if your spouse owned a home and occupied it as his or her principal place of residence at any time during the last 5 years and at any time during the period that your spouse owned a home and occupied it as his or her principal place of residence, you were married and also occupied that home, you will not qualify as a first time home buyer. For more information, contact Revenue Canada at their Internet site www.revcn.ca or the Reference Canada line at 1-800-667-3355 can provide you with the number for the nearest Revenue Canada office in your area.