THE FIRST TIME HOMEBUYER'S HANDBOOK

A Guide to Get You Moving

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INTRODUCTION

You've decided to buy a house, and you're ready to take the plunge. Then it hits: cold feet.

As mortgage brokers, we see this all the time. While first time homeowners get excited about making the move, they often don't know which direction to turn. Truth is, buying a home is a lot like getting married, and for a lot of folks that can be frightening.

The number one fear for most people is the monthly financial commitment, but we tell them that whether you're paying your own mortgage or paying someone else's by renting, you're paying either way.

Sometimes, when we have too much freedom of choice, it's hard to make big decisions, such as buying a home. If you don't know where to get good advice, don't have help to make and stick to a plan, and don't move forward you could end up waiting too long. Complacency can be expensive.

It seems that there is an ever-increasing number of people over 50 who have never bought a house. Recently, we helped a couple who had been renting for 17 years, paying $2000-$2500 a month for a house over that time. They were comfortable and liked the place, but were shocked when I told them that over the years they had paid around $500,000 in rent, and now they were having to look at a small starter condo rather than enjoying the investment they could have built over time.

It comes down to deciding if you are ok to settle with staying where you are, or how committed you are to moving out and moving up. If you go through the steps - do the research, make a budget and take it for a trial run, and find the right neighbourhood - you're going to alleviate most of your fears.

1. WHY DO YOU WANT TO OWN?

Often times, people have mixed reasons for wanting to buy a house. Sometimes, it's pressure from friends who currently own; other times, people want to gain more autonomy over their living space or give their children a stable home. Young clients, often in their early twenties, want to own real estate because they see it as a good long-term investment. On the other hand, it could be parents saying, "You're 42, living in the basement - it's time to move out!"
Whatever the reason, you'll want to start with a plan.

Sometimes people don't take the decision to buy a home seriously enough, but it's likely the biggest financial commitment you're going to make and you probably have a partner to consider as well. If you're making a purchase jointly with someone, whether it's a spouse or a friend, make sure that your ideas, values and priorities are in alignment. There's nothing worse than two people purchasing a house together and then one person wanting out. How do you separate it? It's much more challenging at that point.

Once you know why you want to buy a house - whether it's to have a family or build an investment - you're ready to look at budget.

2. SET A BUDGET

Budgets seem to be a difficult thing for most people. Out of all the people that roll through our door, less than 10 percent of them operate on a budget.

Clients often come into our office and are so focused on the rate and mortgage amount that when we ask them what their monthly budget is for housing, they say, "What do you mean?" What we mean by this is how much a month do you have to contribute not only to the rent or mortgage but absolutely everything. When you own a house, additional expenses like roof maintenance, appliances and yard work will come along, so make sure your budget allows for these sorts of things.

Here's a good starting point: If you're currently renting, look at your situation and ask yourself, "If I'm paying $3,000 in rent all-inclusive, is it realistic to start paying $3,500 for a mortgage plus utilities and maintenance costs?"

When you have considered how much of a jump up you can afford from your rent, you also need to ask yourself, "How will this impact all the other debt I'm carrying?" Maybe the focus should be to look at those debts first and work on paying them off before you take on a mortgage as well.

3. CHECK YOUR CREDIT

You've nailed down why you want to own a house and figured out a monthly budget that gives you a comfortable payment amount. Now it's time for something you might have never thought about before: your credit.

Let's face it; in today's day and age, credit is king. Your credit needs to be stellar in order to get the best terms, the best rate and the best offers. Yet so many people never check their credit.

You can go online to either Equifax.com or TransUnion.com to check out your credit report and score. Although they have many different types of services, the free stuff doesn't really tell you much. They're a business and want to make money, after all. The fee is small, and it's worth it to find out if your score is actually what you think it is. If you're willing to drop $30 on popcorn and a movie, you can certainly pay for your credit score.

Why You Should Check Your Credit Before House Hunting

Blemished or inaccurate credit can stop your mortgage journey right in its tracks, so it's a good idea to look at your credit report and score before you get your heart set on a particular home.

In the age of identity theft, you should be monitoring your credit on a regular basis. We encourage people to go online at least once a year to make sure nobody's using your credit for fraud, or that no other strange things are happening. If you check it in advance, you won't suddenly be surprised when you have an offer on a place and at the eleventh hour we have a problem. It's best that we deal with that sort of stuff up front.

Fraud aside, also keep in mind that the credit check you see isn't necessarily the same as what is pulled for a mortgage application. A client of ours recently paid for a service to help his father to boost his credit score. He called us up and said, "My dad's credit score is above 718!"

We responded, "That's fantastic, considering it was much lower before. Let’s have you fill in an application and consent form and we'll check it on our side."

We did our own check and the results came in below 600. The difference in the score reporting left him confused. While he had been doing his credit monitoring through TransUnion, we did our search with Equifax which doesn’t always report the same things and may need more time to gather the data into their algorithms. Typically, if your file's pretty straightforward you won't find much discrepancy, however, if you've had credit issues in the past you can see different reporting numbers. Sometimes, lenders can see information that the consumer can't see, and different lenders can focus on different things on the reports.

Overall, a credit report doesn’t give the whole picture, but it's a really good place to start and you need to stay on top of it as it matters to get best rates.

Yes, You Can Buy A House If You Have Bad Credit

If you have a low credit score or bruised credit, your dream of buying a home isn't necessarily over. Once we know your situation, we can help to figure out how to fix it.

There's a misconception that if you've gone through bankruptcy, you can never buy a house again. That's not true! Provided you got out of bankruptcy more than two years ago and you have two years of reestablished credit, you can potentially get into a new house with as little as five percent down. There are second chances. If you want to get into a house much sooner, a greater down payment will compensate for a bad credit score.

If you are already working on improving your credit, we can help guide and support your efforts. No matter what, it's certainly a good idea to get your credit score back on track.

Bad Credit Mortgage Options

In cases of bad credit mortgages, we sometimes do a two-step mortgage process. It's not a bad idea at times to look at a short-term mortgage with an alternative lender just to get you into the market, gain your footing, and get you reestablished. A few years down the road, we'll help you refinance that mortgage at a mainstream lender.

So what does an ‘alternative lender’ mean? If your credit hasn't been reestablished in full or you have bruised credit, there are lenders that provide 'equity lending'. Most alternative lenders want to see a minimum of 20 percent down, and provided you have it, you have a reasonable chance at getting a mortgage. Again, it will vary case to case, but we have helped lots of people in situations where someone has come out of a consumer proposal and achieved homeownership through equity lending.

Speaking of consumer proposals, we've even helped people in situations where someone refinanced an existing property and was able to pay a consumer proposal out of the refinance.

If you're purchasing a house with a partner and it's a situation where one of you has poor credit, most lenders will look at the primary income earner's credit first. If it's stellar credit, then it will be weighted more heavily and will likely result in a best rate mortgage. If the primary income earner has poor credit, then we'll look into other solutions for you. If you can qualify with the income of the person with the better credit, the other person can be left off the mortgage until they get their credit back on track, then come renewal time we'll add them back on to the mortgage.

So don’t fret! There are many options, and just because you've had bruised credit or gone through a bankruptcy doesn't mean there are no solutions for you.

4. MEET WITH A MORTGAGE BROKER

Once you've looked into your credit, the next step is to look at what you can afford to purchase. That’s where we come in.

Often, when people go to banks or brokers they're so focused on the rate. Once again, you need to look at the different options that are out there. What's the mortgage product you're getting? What are the terms? What are the restrictions? That's what we will help you figure out. It's our job to make sure you are informed you so you can make the best decisions.

Getting A Hard Pre-Approval

What we do is called a 'hard pre-approval'. We do our own due diligence in the areas of credit, income and debt servicing so that you can go house shopping with confidence.

We’ve noticed that people typically do what's called a 'soft pre-approval' or a pre-qualification. This means they will go online to an institution's website, punch in a few numbers, and the calculator will tell them they're qualified for XYZ amount. There's really no audit process and nobody checks or verifies anything. They simply filled out their own information.

The other classic thing that happens is someone will walk into a branch, quickly talk to an employee and have a conversation that looks something like this:

Home Buyer: "Hey, I'm interested in a mortgage."

Employee: "Well, how much do you make?"

Home Buyer: "I make this much."

Employee: "So, do you have any debts?"

Home Buyer: "Yeah, I have those."

Employee: "Well, great. You should be good for this much."

That isn't a good way to go, because nine times out of ten it's not accurate.

What I certainly see more often than not is folks who go and look at a house, get excited about it, tell the realtor they're pre-approved, and write up an offer. However, then they go to the bank and the bank says, "No, we can't do that because you have this situation," or "We didn't know that about your income," or "We didn't know you're declaring something different."

A hard pre-approval eliminates this disappointment completely. All it takes is an hour or so for meeting, after you bring in all of your documentation and have us go through it. Then, you'll be able to put in an offer on a house knowing full well that it can be taken seriously.

The Catch: Mortgage Insurance

Just because a mortgage broker pre-approves you doesn't mean your mortgage insurer will.

When you have less than 20 percent down payment, the lender has to go to the Canada Mortgage and Housing Corporation (CMHC), Sagen, or Canada Guaranty to obtain mortgage insurance. Unfortunately, mortgage insurers can’t pre-approve anyone, they need a live deal in place before they can look at you and the property.

Overall, if you have great credit, the property is in good shape, and everything else is in order, there's no reason why the insurer would say no. However, if you have had a previous foreclosure that they insured and paid out, the property has been red flagged by them already due to issues raised in an inspection, or things like that, it may not be slam dunk.

5.
TAKE YOUR BUDGET FOR A TEST DRIVE

Let’s use the same example from before: you're paying $3,000 a month in rent, and suddenly your mortgage payment is going to become $3,500. That's a significant jump. To ease the blow, pretend that you already have that mortgage payment, then take that extra money and put it into your savings.

This accomplishes two things:

1. It's going to build your confidence because you know you can handle a bigger payment.

2. It's going to allow you to increase your down payment, which never hurts.

Everyone Needs A Trial Run - Some More Than Others

A budget test drive is really important for folks who are getting a gifted down payment from a family member or another generous individual. If you haven't been able to save up this money on your own, and you're about to take what you've been paying in rent and increase it by 25% or more... well, that might be a recipe for disaster. If you're committed to doing a dry run of your budget, and stick with it, then your chances of success just went up.

Budget Achieved! Research Time

If you're one of those people who is super-confident and says, "I've got this budget thing down and I'm ready to go," well then you should take a step back and reevaluate the situation. In other words, do your due diligence on learning not only about the housing market, but also about mortgages and finances in general.

You don't have to become an expert, but maybe spare some hours to research all the different products available. Bottom line, it's your investment and it's your home. You're the one who will be getting and making the payment, so you should be sure of what you're entering into.

6. HOUSE, CONDO, TOWNHOUSE?

You've done the legwork and spent time researching, now you've got to figure out what kind of home you want to live in.

Should You Be A Landlord?

If you're looking at a home and are contemplating the purchase of an entire house, our team strongly encourages you to look at buying one with a suite. The question you have to ask yourself at that point is, are you willing to be a landlord?

As with most things in life, becoming a landlord comes with both pros and cons.

The biggest pro: Someone is going to be helping pay part of your mortgage.

These days, it's a significant portion. For example, with a 25-year amortization and today's rates, roughly 25 percent of every dollar is going to principal. So, if you have a $3,000 mortgage payment with around 25 percent going to principal (that's $750 of your debt being paid off monthly), and you have a tenant paying another $1,500, that's a huge boost towards you becoming mortgage-free. How can you go wrong with that?

The biggest con: You have to learn to live with someone else in your home.

They're not necessarily going to be sharing the same fridge as you, but they're certainly going to be under the same roof. Make sure that you're ready to have that responsibility.

Number One Tip For Being A Landlord

Don't be greedy. That's the biggest mistake that landlords make. If you try to get a hefty rent from someone, you may get transient folks coming in and out - a lot of turnover. Settle for a little less, find a good quality tenant, and you'll be better off in the long run.

You don't have to be a landlord forever. If you're planning to have kids later and need the extra space, that's perfectly fine. When you're ready to do so and you've got financial footing, you can always have the tenant move out so you can reclaim that space. There are tons of options, and as an added bonus a house with a suite is easier to sell.

If you're somebody who's not quite ready for that house yet, condos and townhouses can be great starter properties. Down the road, you can take the money you've saved up, buy a second property, and turn your first one into a rental.

No matter what you decide to do, once you're in the market you have the opportunity to take advantage of any rise in property values.

Buying Into A Strata

If you're buying a townhouse or a condo, take the time to check out the building or complex you're buying into, especially because you're going to be surrounded by neighbours. All strata corporations keep minutes of their meetings, and you can learn a lot about the condo or townhouse project just by reviewing them. Your realtor can provide you with a year's worth of these minutes, and most lenders we deal with require them to make sure there are no issues with the building, including lack of contingency funds (money for emergencies, maintenance and repairs).

We once had a situation where some folks were looking at a strata building. While they were excited by the super low strata fees in comparison to other properties, what we quickly discovered was that the strata council only had about $28,000 in their contingency fund for a building with almost 90 units. That was certainly concerning.

When it's an older building you definitely need to make sure there's lots of money in the contingency. On the other hand, if it's a brand new building you can get away with it because there's a new home warranty program on the building. You're not going to have much in the way of things breaking down, and a lot of the problems that could arise are covered.

New buildings, however, may not have the charm, they may not be in the right neighbourhood, and you'll find a lot of times that the units are smaller in size compared to older strata condos.

Another thing to be aware of is that at the end of 2013, it was mandated and legislated in BC that all strata had to have a depreciation report. When you're purchasing a strata unit, make sure you get a copy of that depreciation report because it's going to tell you the overall health of the building and where the money is going to be spent down the road. Instead of buyer beware, it's buyer informed.

Another thing with stratas is that there are often issues in the building with people getting along. Stratas are almost like mini-dictatorships or mini-fiefdoms. You get people with all kinds of personalities who are involved, so you want to make sure you're in a building where there's a good atmosphere and a good crowd. You don't want to hate the place you're living in because of your neighbours.

Go Neighbourhood Shopping

Choosing your neighbourhood is as important as choosing the house itself. You need to do your research and decide where you want to be.

If you're planning on having a family down the road, find out where the good schools are located. If you're somebody who doesn't like to drive, where are the bus routes? The point is, do as much of that homework as possible so you're not having to resell the house in a year or so.

Let's face it: no one wants to pay the realtor commission for selling, and transfer tax for buying - which you would pay in full now that you would no longer be a first time home buyer - not to mention the moving costs and any other associated costs, all over again.

Something else we encourage people to do is to look at the surrounding houses in your future neighbourhood. If you're a person who works graveyards and daytime sleep is important to you, and the person next door has five noisy dogs, you may not enjoy living there after the first couple of nights. Be sure about the places you consider living.

There is no harm in knocking on the adjacent neighbour's door and saying, "Hey, how do you like this neighbourhood?" Find out what they think, and they may even give you some insight into the house.

We once dealt with a gentleman who was buying a house, and he happened to be present for the building inspection. While the inspection was happening, the neighbour was outside and they started chatting. It was the middle of summer, and while they were talking, the neighbour said to him, "Oh, you're buying this house?"

"Absolutely," he answered.

"Do you know if they fixed the drain problem?" asked the neighbour.

"What drain problem?" he replied.

"Oh, when there's heavy rain in the fall and spring, the basement floods."

There was a property condition disclosure statement and sadly, all it reported was minor leaking. Since it was summer, the prospective buyer never would have noticed the problem until it was too late, but because he took the time to chat with the neighbour, he was able to find out much more about the true state of the house.

7. HOW MUCH IS THIS GOING TO COST?

Once you've decided on the type of property you want, you need to sit down and add it all up. Purchasing a home isn't as simple as signing on the dotted line, and you need to know what all of this is going to cost. In addition to the expected costs of movers, lawyer fees, setup fees for wifi, etc., there are some other things you need to factor in.

Property Transfer Tax

If you're a first time buyer in British Columbia and you're purchasing a property for $500,000 or less, there's no property transfer tax. If your new home is between $500,001 and $524,999, there is a graduated exemption amount. That's a huge break! However, if you do not qualify for the first time home buyer exemption, you'll be paying one percent on the first $200,000 and two percent of the value greater than $200,000 up to $2,000,000. So, on a $525,000 property, you're suddenly looking at $8,500 property transfer tax.

Appraisal Fees

Whenever a property has less than 20 percent down payment and is CMHC or government insured, the insurer will usually pay for the appraisal. However, when you have more than 20 percent down, a lender is more than likely going to ask for an appraisal, and that's a cost you're going to have to bear.

Home Inspection

When people shop for cars, they often pop the hood, tinker around and pretend they know what they're inspecting. Let me tell you, most people do the exact same thing with houses, but generally don't know what to look for. Find yourself a good building inspector; invest the money that it's going to cost because it's assurance for peace of mind.

Bills, Bills, Bills

If your budget is really tight, it's a good idea to ask your realtor to get you copies of the various bills for the property. This is especially useful if the property has already been lived in for a while. You can get copies of hydro bills, gas bills, water bills or anything else that relates to the property. If numbers are meaningful to you - and they should be to everybody - don't hesitate to ask your realtor for this information.

The information you receive is going to tell you a lot about what you'll need to spend. We all know hydro isn't getting any cheaper and utilities are only going to go up as time goes on. By looking at past bills, you'll find out how energy efficient the house is, how much heat loss is happening, and how much you'd be spending a month. After all, there's no point in buying a house that's nice in the summer when the bills are low, then when winter hits the heat goes off the charts. Past bills will also give you a general idea of how much you should be budgeting for future ones. Your realtor is on your side and will help you find the numbers you need.

It's extremely important to make sure you have enough money, not only for the buying part, but also for the ownership part. There are a lot of costs associated with maintaining a house, and it all goes back to budgeting.

8. YOUR FIRST HOME DOESN'T HAVE TO BE PERFECT

If you're a first time buyer, of course you're going to want to find the perfect home. However, based on our experience the first house is almost always not going to be such, and unless you're a multi-millionaire who's going to spend two million dollars on a winter shack, that's totally okay.

For most folks, their first home is a starter home and that's the way you need to look at it. The upside is that you get to personalize it and fix it up in a way that suits your style, and most people don't realize that there's a really good program to help you do just that.

The Purchase Plus Improvements Program

Let's say you found a house for $700,000 and after walking through it, you discover it needs a new kitchen and bathroom. However, you only have the minimum down payment: $45,000 in this case, which isn't going to cover the extra work. Well, this program allows you to easily fund it.

The Purchase Plus Improvements Program is a seamless process if you're looking for $40,000 or less.

First, you need to get quotes upfront from your contractors for the work to be done, and then present those quotes to your lender. Your lender will forward them to the insurer, and both of them need to okay all of the work. From the time you actually take possession of the house, you have anywhere from a few months to a year to get the work completed. Once the work is complete, the money is released and you pay your contractors.

The best part is if you're going in with the minimum down including the added improvements amount for that renovation cost, too. So, on a $40,000 renovation, you come up with $4,000 and the lender will cover the other $36,000. It's an easy way to get your dream house. Well, maybe not your dream house, but pretty darn close.

One of the reasons that you would want to do this upfront is because under our current mortgage rules, when you buy a house you're allowed to come in with five percent down. However, when you refinance the house, you can only refinance up to 80 percent of its value, and that means you're going to be waiting for quite a while before you will build up enough equity to pull out money for a renovation. So, if you're going to be paying for it regardless you might as well enjoy the house!

The biggest win with the Purchase Plus Improvements Program is if you find a house that needs a suite. Even if you don't have the money, you can become a landlord instantaneously and have additional cash flow.

As your mortgage broker, we can work with you on this program and share our connections. We have certain builders, contractors and renovators who don't necessarily need the renovation money upfront. These individuals understand the program quite well, and will be able to float you throughout the process.

9. THE DOWN PAYMENT

A lot of people are confused about how much cash they need for a down payment. In Canada, the minimum down payment required is five percent of the first $500,000 of the purchase price, and ten percent of anything above that up to $999,999.

If you live in BC in any urban, populated area, you may be looking at a purchase price of $1,000,000+ and then you will need a minimum of 20 percent down. The higher the price, the greater percentage a lender is likely to ask for as most lenders scale property values - they have different amounts required for differently valued tiers of property above $1,000,000.

Even if you've owned a home before, the same minimum down payment rules apply. The only time they would be different is if the purchase is a rental (minimum 20 percent down), or if you're self-employed and stating a higher income than your tax filing to qualify (minimum 10 percent down).

But where does that money come from?

Your Savings

Doing a trial run of your budget is a great way to bulk up your savings account.

Gifts

If your family wants to give you money to use for your down payment that's perfectly fine, even if it is the entire down payment!

In this situation, you don't necessarily need anything out of your own pocket, but I can't stress enough how important it is to be able to afford the mortgage payments. There's no point in someone giving you this amazing gift if suddenly you'll find yourself in foreclosure because you can't afford the payments. That would be an unfortunate situation.

Flex Equity

Flex equity allows you to borrow the down payment through a variety of sources including a line of credit, a credit card, a personal loan, or even your employer! As long as your debt service ratios work, and by that that I mean you can carry the payment for the debt in addition to your mortgage, the lender and the insurer will allow it.

As a broker, I have access to lots of different lenders. Not all of my lenders will use this program, but the insurers will allow it, so it's certainly a legitimate way of purchasing a house. However, with this program more than any other program, your budget is of the utmost importance. You're going to be making multiple payments so you need to make sure it'll work for you.

So who does this make sense for? Would I want to buy a house with 100 percent borrowed money? Maybe. Let's say, for example, you're a grad student and your earning power is about to start ramping up. However, you don't want to pay rent for the next few years until you save up a down payment. If you're paying rent, it's all gone, but if it's your own mortgage, at least you have a shot at building equity by the end of the year.

If that makes financial sense, then this program is for you. To qualify you must have stellar credit, strong cash flow and a good debt service ratio. These are all things our team, as your mortgage specialists, can help figure out.

Vendor Take Backs

Sometimes you'll run across a property that a seller is willing to finance; this is called a vendor take back. In this type of situation, the seller is willing to help with a portion of the down payment. In the end, you'll end up with two mortgages on the property.

Vendor take backs are a little more complicated but are something we delve into on a case-by-case basis. They're a really unique product and are a good solution for folks who don't necessarily have the money to fully qualify for another program.

Let's say you can't qualify for the flex equity program because the payments are too high, the term is too short, your credit is a bit rough, or you're self-employed. This vendor financing helps mitigate some of those problems.

The challenge with vendor take backs, however, is finding sellers who actually want to do this. If you do find someone who's willing to take it on, the key point to remember is that you're going to have two mortgage payments. With that second mortgage payment, you can't refinance more than 80 percent, and when you're paying it off it's more than likely going to come out of your own pocket.

If you're interested in something like this or have been presented with an opportunity, we can give you a more in-depth analysis for your situation.

Down Payments For Self-Employed

Self-employed folks are always worried that they're going to need at least 20 percent down to get a mortgage, but that's not necessarily the case. Typically, with most self-employed people, if they have fully provable income, we can do it with as little as five percent down.

Now if the self-employed folks are not showing their entire income on their tax return there are still programs that will allow those with good credit and at least a 10 percent down payment to be eligible for a mortgage.

Down Payments And Recent Immigrants

If you're new to the country, you still have options with regard to purchasing a house. Even if you're a new immigrant, provided you have recognized landing status, a work visa, and/or you are working in this country, you can get in with as little as five percent down. Plus, you don't necessarily need to have full Canadian credit either; we have a few options that allow us to work around your potential lack of credit.

Down Payments And Rental Properties

If you're an investor who wants to buy a rental property, you're probably wondering how much money you need to put down. Nowadays, if you're a Canadian resident, you will need a minimum of 20 percent down payment.

If you are not a Canadian resident, you will not only need to have a larger down payment, but also account for the Foreign Buyer Tax in some regions.

10. GOVERNMENT INCENTIVES & PROGRAMS

There are many government programs at both the national and provincial levels that aim to help folks buy their first home in Canada. Some of these assist with your down payment, while others help to manage the ongoing cash flow of carrying a mortgage.

It's always worth checking whether you qualify for these incentives, and considering your options with a mortgage professional.

RRSPs And The Home Buyers' Plan

With the Home Buyers' Plan, the federal government will allow you to use up to $35,000 of your RRSPs, tax free. That's $35,000 for each person purchasing the property.

So if you and your partner are buying a house together you have $70,000 that you can pull out of your RRSPs. You don't have to take the full amount, and your down payment can be a combination of cash on hand and your RRSP.

The First-Time Home Buyer Incentive

While it doesn't directly contribute to your down payment, the federal government's First-Time Home Buyer Incentive will help you reduce your monthly payments.

By obtaining the incentive, you may not have to save as much of a down payment to be able to afford the payments associated with the mortgage.

The First-Time Home Buyer Incentive is a shared-equity mortgage with the Government of Canada. It offers a second mortgage, interest-free, with no payments for 25 years or until the property is sold or refinanced, whichever comes first. Because the government has a shared investment in the property, it shares both the upside and downside of the value. When you repay the incentive, it will be based on the property's fair market value at that time. For example, if you receive a 5% incentive for your purchase, you would repay 5% of the property value at the time of repayment, up to a maximum gain or loss of 8% per annum (not compounded) on the Incentive amount from the date of advance to the time of repayment.

11. WORDS TO KNOW WHEN BUYING A HOME

The more you know about your mortgage, the better. This is a huge financial commitment after all, and it's important that you educate yourself so you can make an informed decision about what mortgage product is right for you.

That said, here are some commonly used terms that every homebuyer should know:

Amortization

Amortization is the overall total life of this debt (how long it would take to pay it off with the current rate and payment).

Just imagine if you were to buy a $300,000 home and had to pay back $60,000 a year ($5,000 a month without interest) - it would be pretty hard to sell a house. That's why we have an amortization period.

If your mortgage is insured, in other words you have less than 20 percent down, the maximum amortization period you can have is 25 years.

However, when you have more than 20 percent down, that rule changes as we have some lenders that will allow you to go up to 30 years, and with more than 25 percent down some alternative lenders will allow you 35 years or offer interest-only options.

The thing is, the longer you amortize the debt, the more interest you pay on it. There has to be a really compelling reason to take a longer amortization. It could be that you want your debt service ratios in line, or that it makes more financial sense because you can use your cash flow can do something more productive.

Let's say, for example, you have other debt. If we go with a longer amortization and pay off that debt with your surplus cash, as soon as that debt is gone we can leverage back and start paying down your mortgage more quickly.

Or, you may have room in your RRSPs. You could contribute to them, take the refund the government sends you, and apply it to your mortgage. You may also have some other investment opportunities, or it could be that you own a business that generates far more than what you're paying for a mortgage cost.

So, these are all things that you need to take into consideration when you're thinking about amortization and trying to find the right fit. A good thing with taking a longer amortization is that with all of our mortgage lenders, you have the option of using the pre-payment privilege - a very generous mortgage pay down option. Even if you take a longer amortization, you can choose to put extra payments directly towards the principal which will help you pay off the mortgage faster and you pay less in interest.

Term

In Canada, there are two things that happen with every mortgage. There's an amortization, as discussed above, and a term, which is the length of your mortgage contract. Often, people mix up what the term and amortization mean. You can get a range of mortgage terms, the longest being ten years and the average five years.

Qualifying Rate

All mortgage applications now have to qualify at the higher of either the benchmark rate or 2% above the contract rate. This is essentially a stress test. The government has mandated that if you qualify under this rate and your debt to income ratios are in line with their guidelines, you are eligible for a mortgage.

Variable Mortgage

Variable mortgages are interesting because the rates can change. They're tied into the Bank of Canada rate, which is a rate the bank reviews and posts on a regular basis.

Is a variable rate mortgage right for you? First, you have to be the type of person who can handle a potential increase, and second, you have to be the type of person who won't get panicked or stressed out when rates go up. The bottom line is, you have to be able to sleep at night and be comfortable with the product you've chosen.

Over the long haul, variable rate mortgages can be quite beneficial to you if the prime rate goes down again and you are paying less than if you had a fixed mortgage. You should know that with a variable rate mortgage, you do have the option of locking in. So, if you did have a sudden panic attack, you do have that option.

Fixed Rate Mortgage

In a fixed rate mortgage, the rate doesn't change throughout the term of the mortgage.

Mortgage Renewal

At the end of your mortgage term, you will need to renegotiate the mortgage commitment. That means it's time to look at your best options going forward. We will be in touch with you at least 6 months from the end of your term and help you decide a best plan of action. You don't have to stick with the same product, or even the same lender. We will shop around to see if there's a better mortgage option with terms and conditions that suit your needs.

At our brokerage, we stay in touch with you and hold an annual review to find out what's happening in your world and to see if anything has changed financially. We'll go over all the options and let you know what's happening with the rates. Even if your mortgage isn't yet up for renewal, it's a good idea to poke your head out there once in a while and see what's going on, because at some point a renewal is going to be coming.

Home Equity Line of Credit (HELOC)

Another mortgage product that you'll often hear about is a Home Equity Line of Credit, or HELOC. A lot of people assume this is just a line of credit, but for simplicity's sake, it's actually another mortgage. It's just done a little differently.

For this mortgage, the rate is described as 'prime plus', which means they take the prime rate and add a percentage on for the rate you pay. The advantage of this product is that it can be paid off at any time and you can pull money back out at your leisure. There are no restrictions, no penalties, and you get to decide what you're going to do with the money, and when you want to do it. It's sort of like having a credit card - a credit card with a $300,000 dollar limit, but a credit card nonetheless. You can pay down as little or as much as you like, and as long as you're paying the minimum interest, the bank is beyond thrilled to have you on board.

Under the rules that exist today, you cannot have a line of credit for greater than 65 percent of the value of your property, and not more than 80 percent combined with other mortgage products that you hold.

Mortgage Insurance (Type One)

Another thing that first time buyers, or any buyer for that matter, should be cognizant of is mortgage insurance.

We do get a lot of people griping who ask why they have to pay it.

It's simple. If this insurance didn't exist, lenders would not lend to people with less than 20% down. It's too risky.

Mortgage insurance is essentially a guarantee to the lender that if you can't pay your mortgage and default on the loan, the lender will still get paid back. For example, let's say you get this amazing property and everything seems perfect. You and your partner are getting along, you're all settled in, it's Thrillsville. Then, a few years down the road, you guys stop liking each other, one of you stops making the mortgage payments, and suddenly the house goes into foreclosure.

At the time you bought it, the condo was $500,000. You put five percent down (essentially $25,000) so you got a mortgage for $475,000, plus the CMHC fees. Let's say you still owe $450,000.

Your foreclosed house finally sells for $400,000. There's a huge loss, but the bank doesn't have to worry because CMHC will pay them for it. The reason the bank agreed to lend you money in the first place was because the insurance gave them the security they were looking for in case you defaulted.

Mortgage Insurance (Type Two)

This time we're not talking about the mortgage insurance through CMHC or Sagen, but rather the kind of insurance that's actually insuring your mortgage if something happens to you. Every institution, broker, and bank will offer this service to you and it's always a good idea to double check prices and compare the various options for this product.

Most Canadians already feel they're over-insured, but this type of insurance is a good idea because your mortgage is probably your single biggest liability. If something were to happen to you, your partner, or both of you, you want to make sure that no one has to deal with that additional stress.

In that respect, you have life insurance and you can also have disability coverage. Disability insurance allows you to have the payments made if something were to happen to you and you couldn't work.

Life insurance may cover your outstanding principal if you die, become critically ill, or suffer an accident. Your bank, mortgage insurance company, or broker can tell you a lot more about this sort of thing. It's certainly something to be aware of.

Accelerated Weekly Or Bi-Weekly Payment

A lot of folks will typically take the monthly mortgage payment option, which is fine. However, if you really want to tackle this mortgage faster and save interest, it's wise to go with what is called an accelerated bi-weekly or weekly payment option.

It's not rocket science, and in fact, it's quite simple. Under the accelerated bi-weekly program, you're making 13 monthly mortgage payments over the year versus 12. We all know that anybody who's getting paid bi-weekly gets paid every two weeks, so if you make 26 mortgage payments and divide it by two, that's 13 months. That extra mortgage payment definitely has an impact at reducing the principal more quickly. You should try to put extra money against your mortgage whenever possible!

Most mortgage lenders are very generous with allowing you to put extra money against your mortgage. As long as the increments are a minimum of one hundred dollars, most will allow you to pay extra money directly to the principal amount. Most mortgage lenders nowadays allow you to double up payments or make lump sum payments up to a certain percentage of the original mortgage balance. You'll want to check if these lump sum payments are restricted to an anniversary date or if they can happen any time throughout the mortgage term.

Skipping A Payment

A lot of lenders now allow you to skip a payment if you need some breathing room, or even multiple payments if you face exceptional circumstances. While this may seem convenient, the drawback of this is that when you skip a payment, that payment is added to your outstanding principal. So, if you skipped the payment early on in your mortgage and never made up for it, you're paying additional interest over the term of the mortgage for it.

Skipping a payment is something that you really want to think long and hard about before doing because in the end you're going to be paying for that sort of privilege. Lenders are out to collect interest and they really don't mind if you have more principal outstanding.

Matrimonial Separation Program

This is not a mortgage term, per se, but it's another product that a lot of folks aren't aware of. With the divorce rate of around 50 percent, we know every house purchase isn't going to have a happy ending. There are going to be times when it ends in separation.

Under our current refinance rules, we're only allowed to borrow up to 80 percent of the value of a property. However, there is an exception called the Matrimonial Separation Program. If you find yourself in the position where you are separating and one of you would like to buy the other one out of the property, this program allows you to borrow up to 95 percent and essentially start over as though it were a purchase.

It's a great solution for two people that now need to go their separate ways. Keep in mind that despite the name of the program, this doesn't only apply to a married or common-law couple; this option can be used by family members or business partners who may have purchased a property together but now one needs to buy out the other. Contact us and we will run through the ins and outs of it, specific to your situation.

All of this information should help ease your fear of the unknown and hopefully assist you in committing to the process. However, if you've still got questions, contact someone such as myself who can help answer them.

Only you can decide if owning a home is right for you. However, if you're willing to invest the time into doing some research, you're going to feel more confident about taking that big step, when the time is right!

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Kam Brar has been involved in various forms of lending for over 25 years and has been a mortgage broker for 12 of those years. During those 12 years both he personally and his team collectively have been involved in the funding of over 1,700 mortgages with a dollar value of over $625,000,000 while never losing sight of what's most important: the clients.

While assisting countless individuals with obtaining financing, at the same time, work isn't everything in Kam's life, and he doesn't think it should be in anyone else's either. Finding a balance between family, faith, friends and self, at the end of the day Kam loves what he does, and proudly says, "It's well work the effort!"

At Auxilium Mortgage, Kam has gathered a team of experts to help you with your mortgage needs. As an independent, locally owned and operated mortgage brokerage, we are not accountable to a national or head office, but instead, accountable to you, the client! While our team is here to assist and educate you, above all we want to ensure that you receive the mortgage that's right for you.