

Qualifying For Homeownership:

Understanding Costs and Mortgages

A mortgage loan is typically the largest amount of money a person will ever borrow.

What is a Mortgage Loan?

A mortgage is a loan for which your house is the collateral (primary guarantee for the loan).

The lender (bank, credit union, government agency, First Nation, etc.) loans you a large amount of money, typically 90 percent or more of the value of the home.

You must pay back this mortgage loan with interest over a set period of time, commonly 20 to 25 years.

Who are Mortgage Lenders?

Banks are traditional mortgage lenders, and are most commonly used by mortgage applicants.

Credit unions, government agencies and First Nations organizations also offer mortgages to qualified applicants.

These lenders (especially First Nations organizations) often have specified mortgage programs for First Nation applicants, which provide greater mortgage accessibility (ex: lower down payment requirement, lower interest rate, lower credit score requirement, etc.).

Components of a Mortgage Loan

- **Down Payment** – Cash sum you pay upfront that reduces the amount of money you have to borrow.
- **Principal** - The total amount of money you are borrowing from the lender (after your down payment).
- **Interest** - The money the lender charges you for the loan. A percentage of the total amount of money you are borrowing.
- **Insurance** - Most lenders require the purchase of hazard & life insurance.

Mortgage Terms and Conditions

Mortgage Timeline

Mortgage term: The length of time that the options and interest rate you choose are in effect. Can range from 6 months to 10 years. When the term is up, you can renegotiate your mortgage and choose the same or different options.

Amortization period: The length of time you agree to take to pay off your mortgage (usually 25 years).

Payment schedule: How often you make your mortgage payments. It can be weekly, every two weeks or once a month.

Types of interest rates

Fixed rate—The rate remains the same for the term of the mortgage.

Variable rate—The interest rate fluctuates with market rates.

Protected (or capped) variable rate—The rate fluctuates but will not rise over a pre-set maximum rate.

Types of Mortgages

Open Mortgage

Lets you pay off your mortgage in full or in part at any time without penalties.

Closed Mortgage

Offers limited (or no) option to pay off your mortgage early in full or in part, but usually offers a lower interest rate.

Conventional Mortgage

A loan that is equal to or less than 80% of the lending value of a home. Requires down payment of at least 20%.

High-Ratio Mortgage

A loan that is over 80% of the lending value of a home. The down payment is less than 20% and will likely require mortgage loan insurance.

Costs of Homeownership

The real cost of home ownership is a combination of :

Initial costs

down payment, lawyer, realtor

Ongoing monthly costs

mortgage payments and monthly bills (utilities) property taxes (monthly installments)

Future Costs

future investments that will preserve the value of the home and protect your investment (ex: repairing the roof)

Initial Costs of Homeownership

- **Down payment**
- **Legal or notary fees and Insurance Costs**
 - Land transfer tax
 - Prepaid property tax and utilities bills
 - Mortgage loan insurance tax.
- **Survey/ Certificate of location**
 - Appraisal fee
 - Home inspection
- **Moving costs**
 - Settling in expenses
 - Potential renovations, repairs
 - Appliances

Ongoing Costs of Homeownership

- Mortgage payment
- Utilities (gas, hydro, Internet, cable, phone)
- Insurance
- Minor Repairs
- Lawn / land maintenance

Future Costs of Homeownership

When buying a house the following elements should all be taken into consideration before signing the contract.

- These are the items that will have to be maintained, and although they can be costly, they are necessary in preserving the value of a home and protecting the investment.

Roof

Windows

Foundation

Furnace

Well and septic

Electrical

Plumbing

- It is important to assess when these items will need repairs or replacement and have a sense of the costs associated to them to save up for these costs

How much can you afford?

Affordability Rule 1

- Your monthly housing costs should be no more than 32% of your average gross monthly income. This percentage is known as your gross debt-to-income or gross debt service (GDS) ratio.
- Housing costs include:
 - your monthly mortgage payment (principal and interest)
 - property taxes
 - heating expenses

How much can you afford?

Affordability Rule 2

- Your monthly debt load should be no more than 40% of your average gross monthly income. This percentage is known as your total debt-to-income or total debt service (TDS) ratio.
- Your monthly debt load includes:
 - housing costs (amount calculated in rule 1)
 - cable, phone, internet costs
 - car loans or leases
 - credit card payments
 - line of credit payments

Income	Gross	Net
Monthly	\$ 5 000	\$ 3 833

Affordability rules to qualify	Monthly
GDS (Gross debt servicing) 32% of gross income Mortgage and interest, property taxes, heating and other home fees (if applicable)	\$ 1 600
TDS (Total debt servicing) 40% of gross income GDS plus other debt	\$ 2 000

Purchase price	\$230 000
Down payment of 5%	\$ 11 500
Monthly mortgage payment	\$ 1 150
Property taxes	\$ 200
Heating	<u>\$ 150</u>
Total (GDS)	\$ 1 500
Other debts	<u>\$ 400</u>
Total (TDS)	\$ 1 900

Household budget

MONTHLY INCOME

Income	NET (after taxes and deductions)	GROSS (before taxes and deductions)
Your average monthly salary	\$	\$
Your co-borrower's average monthly salary (if applicable)	\$	\$
Other household non-employment income (for example, from investments, etc.)	\$	\$
Total household monthly income	\$ A	\$ B

MONTHLY EXPENSES

Include every possible expense you can think of.

Housing	PRESENT Average monthly cost	FUTURE Average monthly cost
Rent or mortgage (principal and interest)	\$	\$
Condo fees	\$	\$
Property taxes	\$	\$
Heating	\$	\$
Other:	\$	\$
Total housing	\$	\$ C

Loans and debts	PRESENT Average monthly cost	FUTURE Average monthly cost
Loans	\$	\$
Vehicle loan or lease payments	\$	\$
Unsecured lines of credit	\$	\$
Secured lines of credit	\$	\$
Credit card payments	\$	\$
Other:	\$	\$
Total loans and debts	\$	\$ D

Household	PRESENT Average monthly cost	FUTURE Average monthly cost
Groceries	\$	\$
Child and elderly care	\$	\$
Child support and alimony	\$	\$

Income	Gross	Net
Monthly	\$ 5 000	\$ 3 833

When it comes to calculating the budget, we must use **the net income**.

Mortgage Loan Criteria

1. Down Payment/Equity
2. Income/Employment
3. Credit Score
4. Property Value
5. Supporting Documentation

1- Down Payment / Equity:

What is the amount of your down payment? The more you have personally invested into the loan as a mortgage applicant, the lower the risk (chance that you default) for mortgage lenders.

How did you obtain the funds? (through savings, borrowed money, money from family, sold personal possessions, etc.).

2- Income / Employment

Lenders are looking for the answers to these questions:

- *How do you earn money?*
- *How much do you earn?*
- *Is your income reliable?*

If you have too much debt relative to your income, then mortgage lenders are obligated by law to reduce the size of a mortgage they will approve, and they also have the right to refuse your mortgage application altogether.

3- Credit Score

Mortgage lenders want to see and evaluate your credit history.

Your credit score will demonstrate whether you can pay back your loans on time.

If you have had credit difficulties in the past, lenders want to see if you have made an effort to clear things up or if any credit issues have yet to be resolved.

4- Property Value

Mortgage lenders want to know exactly what you are building or buying, its construction quality/physical condition, its appraised value and the precise location.

If you do not or cannot repay your mortgage the lender or the local Band Council may have to take possession of the house (foreclose on it).

The property acts as the mortgage lender's collateral and gives them security of repayment.

Supporting Documentation

Proof of identity and residency (driver's license, social security number)

Ownership documentation for personal assets

If self-employed, notices of assessment from the Canada Revenue Agency for the past two years

Documentation for homes on reserve lands

- Proof of land allotment (certificate of possession)
- Ministerial loan guarantee from iSC.
- Mortgage loan guarantee documentation approved by the First Nation's band council.
- Documentation related to any housing grants or subsidies approved by the band council.
- Band Council Resolution (BCR) listing all housing program approvals for the mortgage applicant.

Thank You !

Questions ? Comments?

(contact information)