



MORTGAGE DAVE'S TOP 10 QUESTIONS about getting a mortgage

1 - What is the difference between a fixed rate and a variable rate?

A fixed rate is just that, a mortgage term where the interest rate is fixed for the term. Your payments never change. A variable rate is a rate that is tied to the prime rate, say prime-.75%. As prime goes up or down your payment would change slightly. The variable is historically a better deal than a fixed but it has more risk.

2 - What is the difference between a conventional mortgage and a high ratio mortgage?

A conventional mortgage is one where the down payment is equal to 20% or more of the purchase price; a loan to value of less than 80%; and does not normally require mortgage insurance. A high-ratio mortgage is one where the amount to be borrowed is greater than 80% of the purchase price or appraised value. High-ratio mortgages generally require mortgage loan insurance provided by either CMHC, a crown corporation or GE Capital, a private insurer.

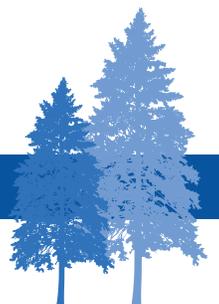
3 - What is mortgage insurance?

Mortgage loan insurance is provided by Canada Mortgage and Housing Corporation (CMHC), a crown corporation, and GE Capital Mortgage Insurance Company, an approved private corporation. This insurance is required by law to ensure lenders against defaults on mortgages with a loan to value ratio of more than 80%. The insurance premiums, ranging from .50% to 3.75% are paid by the borrower.

The mortgage loan insurance premium paid to CMHC or GE protects the lender in case of default in the event the mortgage is not repaid, and the bank has to take back the property. The benefit to the borrower is that they can purchase a home with less than 20% down, to as low as 0% down. The insurance premium is paid by the borrower and can be added directly into the mortgage amount. This is not the same as mortgage life insurance.

4 - What are my options for down payment?

You can still do 0% down but the rate is a little higher. You can put as little as 5% down and up to any amount. These funds can come from savings, RRSP (\$25,000 per person max), Sale of an existing home or a gift from an immediate family member. The tax deferred RRSP contribution can only be used once on your first real estate purchase.



MORTGAGE DAVE'S TOP 10 QUESTIONS

about getting a mortgage *cont'd*

5 - What does it cost to use a mortgage broker?

A Mortgage broker is paid by the lender for bringing them a client so my services are free. In special circumstances where you have poor credit or a special situation sometimes a private mortgage is the solution. Typically this is less than 5% of all deals and there is a fee for these types of mortgages.

6 - What is the first time home buyer transfer tax exception?

This is a one-time tax payable on the purchase of real estate. It is based on the purchase price and it is payable to the provincial government. The amount of the tax is 1% of the first \$200,000 and 2% of the balance. There is a full exemption from this tax for first time home buyers who meet all the qualifying conditions as follows:

- Never owned a principle residence anywhere in the world
- Resident of BC for the last 12 months
- Purchase price is not over \$425,000
- There is a partial tax exemption on homes valued between \$425,000 and \$450,000

7 - Do we have to open an account at the lending institution?

No you don't – you just provide a void cheque from whatever account you wish the payments to come out of. A credit union may require you to join the credit union but you do not have to change banks.

8 - What costs are involved?

The mortgage broker and realtor are free services to you in a purchase. You should budget around \$1000 for a lawyer, \$300 for appraisal, \$400 for property inspection. Property purchase tax if over exception limit. Also keep in mind you will need movers and you will have to transfer hydro, gas etc.

9 - Should you use a realtor?

Yes you should. The fees for a realtor are paid by the seller so you will get the years of experience with a realtor, they will work on your behalf to find a great home, they will negotiate for you and their services are free to you.

10 - If we are preapproved do we still need to write the offer subject to financing?

Yes you do. The banks approval is not just on you, it's on the property. A preapproval is just a general approval. With a real deal the bank will verify jobs and income as well as approve the property. I suggest 5 business days to remove this subject. Usually it can be removed in two days but always have some wiggle room.

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