MORTGAGES BY Candice
shining a light on your financial future

TMG

5 Crucial Steps

Before Applying for Mortgage Pre-approval

Whether you think you're ready to get into your first Calgary starter home or if you're looking to relocate someplace a little calmer like Okotoks, before applying for mortgage pre-approval take these steps into consideration. By carefully implementing home buying plans you can save yourself a lot of time, effort, and most importantly, money.

There are a lot of factors that go into how lenders will determine your home loan, and some affect your terms and rates more than others. Mortgage planning services from Mortgages By Candice will ensure you are well aware of how what you do BEFORE applying for pre-approval can positively or negatively affect you in the long run when it comes to your home loan. Get these details in order to be able to qualify for the mortgage you want, when you want.

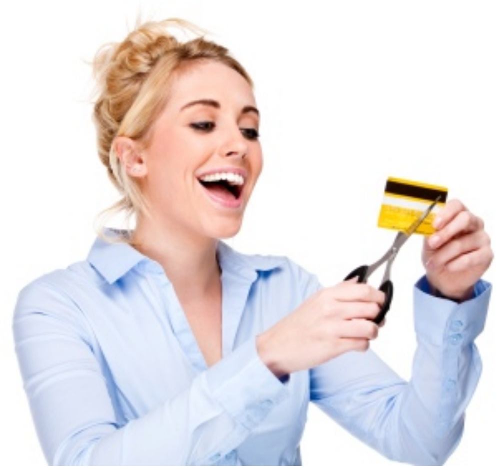
By working with a mortgage broker such as Mortgages By Candice through pre-approval you will benefit from the number of options available through the lenders we partner with. We are able to select and customize your home loan to fit in with your lifestyle and ambitions.

1. Pay Off as Much Debt As Possible

Just about everyone carries some amount of debt these days, and it's nothing to be ashamed of. Lenders expect that clients will have some sort of loan or credit payment due monthly, but most prefer that their clients carry no more than 42 per cent of their total income in debt. That means that if you have a monthly income of $4,000, then you should only be paying $1,520 towards loans.

If you're thinking you're in good shape because you only have to make $1,000 in payments each month, the bank won't necessarily congratulate you. They won't look at the "extra" $520 as a surplus, but rather as you only have $520 a month to put towards a mortgage.

If you are free from debt, you have more of your monthly income to make mortgage payments, and banks consider you as overall far less of a risk. Really commit to chipping away at that debt as much as you can before applying for a mortgage, and keep saving for that down payment at the same time if possible. If you are at a point where to pay off your debt you will need to spend some of your down payment, that is not always a bad decision. Speak with Mortgages By Candice before taking this step, however. We will help to ensure you make the right choice.



2. Figure Out Your Gross and Total Debt Service Numbers

As mentioned, the general rule of thumb for lenders is that their clients' current monthly payments (including credit cards, lines of credit, car loans, property tax, utilities, etc.) should not amount to more than 42 per cent of their income. This number is referred to as your Total Debt Service (TDS) ratio, and if yours is over 42 per cent you should look at ways to reduce your debt before house hunting.

Another calculation banks make to qualify you for your home loan is your Gross Debt Service (GDS) ratio. For this number, add up all of your monthly property-related bills including such as utilities and property taxes. Then divide that number by your monthly income and multiply by 100. The basic rule for this ratio is that it not amount to more than 35 per cent of your gross family income.

3. Pull Your Credit Score

When applying for a loan your credit score is one of the factors lenders use when determining your potential interest rate. Lenders look at how you have managed your credit in the past to predict your future actions. A credit record that shows good judgment and reflects stability - in addition to the ability to repay a loan – is what they want to see.

If you are planning to apply for a mortgage or make a large purchase, check your credit score about three months in advance. This will give you time to make sure your report does not have errors and possibly take steps toward repairing your credit score before beginning the pre-approval process. You can check your credit rating on your own using resources such as Equifax and TransUnion Canada. There is a cost, so ensure you keep track of the report you are provided.

Scores are between 300 and 850 and reflect how much you owe, how long you have had credit, your payment record, the types of credit you have, and how often you have applied for new credit. Scores may vary between reporting agencies, so consumers should check both. Consumers with higher scores are perceived as being a lower risk for a lender. To qualify for the lowest interest rate on a prime loan, you should have a score over 680.

If you have not scored as well as you would like, you there are many methods of improving your credit before going through the mortgage pre-approval process.

- Establish a long credit history. Some consumers have low credit scores simply because they have never used credit before. Begin by getting a basic credit card and make small purchases, and then pay off the entire balance each month.
- Make your payments on time. Late payments reduce your score. This applies primarily to credit cards and loans, but some cell phone companies also report late payments.
- Keep credit card balances low. You improve your credit score by staying under 75 per cent of your limit. It is actually better to have a lower balance on several credit cards than a higher balance on one.
- Only apply for credit you need. A store credit card might sound like a good way to get a discount, but applying for multiple cards over a short period of time can make you appear irresponsible or overextended.

Most people are also not aware that each time a separate lender requests your credit information your credit score can be negatively impacted. By using a mortgage broker your credit will only be checked once. Mortgages By Candice's multiple lending partners then enable you to access the best possible terms, prepayment privileges and interest rates in today's marketplace — something single lenders cannot provide.

4. Save Your Down Payment

Mortgages are defined as either conventional or non-conventional. A conventional mortgage means that you are able to provide 20 per cent or more of your loan at pre-approval. They are called "conventional", even though not very many people can actually afford this type of loan, because they do not require loan insurance (also called loan default insurance). Conventional loans are also referred to as "low-ratio" loans.

By far the vast majority of the population has non-conventional mortgages, which are mortgages that were provided with only five per cent or more of the loan as a down payment, but less than 20 per cent. Non-conventional mortgages are also commonly called "high-ratio" loans, and must be insured. Coverage is provided through three national sources: Canadian Mortgage & Housing Corporation (CMHC), Genworth & Canada Guaranty.

Loan Default Insurance rates start at 0.5 per cent and vary according to the down payment and authorization. These fees usually can be added directly to your mortgages payments.

According to a May 2013 estimate from Genworth, the national average purchase price for a first-time buyer is around $295,000. That means buyers would need to save $14,750 for the minimum 5 per cent down payment. Don't forget about closing costs, too. They can reach as much as 3 per cent of the purchase price of a home, or in this case, another $10,000.

It is tough to save these days but it can be done. Make sure to put any extra cash you may come across (such as tax refunds and bonuses) directly into the bank, and make sure to capitalize on a tax-free savings account.

Another option is to make use of the federal government's Home Buyers' Plan (HBP), which allows Canadians to use up to $20,000 of their RRSP savings for their home's down payment. Partners may combine their resources. Your RRSP must then be repaid within 15 years.

As well, gifts from parents and loved ones get a lot of people started as home owners. If the amount can be proven to have been given to you, and it's in your bank account, then most lenders will accept gifted money. Sometimes the generous donor may be asked to sign a gift letter to say that the funds were not a loan, and are not expected to be paid back.

5. Get Your Documentation Together

Be prepared to provide the following information to your broker or lender prior to beginning your pre-approval process, and be diligent about clearly discussing your long-term life goals and strategies. The type of mortgage that is best for you will vary according to your plans for the future.

- Social Insurance Number
- Current address. If less than three years were spent at this residence a previous address will be required.
- Current and previous employment information (if current employment is less than three years).
- Verifiable income such as a pay stub or bank statement.
- Value of all assets not including the home, such as vehicles, RRSPs and savings accounts.
- Recent mortgage statements.
- Recent credit card statements.
- Recent loan statements, including lines of credit, car loans and student loans.

- Estimated value of your home.
- Housing expenses (utilities, property taxes etc.)

There are many options in mortgages. Fixed rate vs. variable. Closed vs. open. And drilled down, variables matter too. Property owner vs. new buyer. And savings vs. credit.

Mortgages are flexible, and have some attributes that appeal to some, and others that appeal to the rest. Mortgage brokers and planners like Mortgages By Candice find the best of both worlds. Contact us for more information!