

*Financing Guide
For Renters & First
Time Home Buyers*



SPECIAL REPORT

7 Costly Financing Mistakes Most First Time Home Buyers Make And How To Avoid Them

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“How Can I Get Into A Home Of My Own Even If I Don’t Have A Penny For A Down Payment?”

Dear Aspiring Home Owner:

My name is Bernadette P. Laxamana, and I am President and Managing Broker of Verico M&B Mortgage Solutions. For most people, buying a home is the largest investment they will ever make. Unfortunately, many people choose to rent and pay someone else’s mortgage, simply because they do not think they can buy a home of their own. For some, this might be the case, but for many others, home ownership may be right around the corner.

Today, there are many different options to help you purchase your first home. By learning the secrets outlined in this report you can...

- **Avoid making costly financial mistakes** and paying unnecessary interest
- Avoid throwing your **money out the door on rent**
- Learn how your **rent payment can be your mortgage payment**
- Enjoy the **pride and satisfaction** of owning a home of your own

Almost every first time home buyer I have consulted is guilty of at least one of the 7 costly mistakes that I had to correct immediately, before I could improve their financial situation. You are probably making at least one of these same 7 mistakes so this special report is designed to help you avoid unnecessary financial pitfalls when financing your home.

Mistake # 1:
“Overextending Yourself”

When you are applying for a mortgage, you must be able to qualify for the payments. In other words, you need enough income to be able to support your mortgage payments, property taxes, heat (in most cases), and all your current debts. There are two important debt servicing ratios used for qualifying purposes. The **Gross Debt Service (GDS)** ratio only allows you to commit up to 35% of you're gross household income toward the mortgage payment (includes the mortgage insurance premium, property taxes and heat). For condos, this includes 50% of strata fees and for mobiles on pads, it includes site rental. The **Total Debt Service (TDS)** ratio only allows you to commit up to 42% of gross household income towards housing obligations and all other debts. If your credit score is 680 or higher your TDS should not be more than 44% and so does your GDS.

“Having a payment that you're comfortable with will give you the PEACE OF MIND to make home ownership so much more rewarding!”

If your income does not allow you to qualify, there are other options, such as **having a co-signer, looking into a consolidation loan for your debts, or trying an alternative lender**. There are a few specialized lenders out there that allow for higher ratios when qualifying for a mortgage, but the rates will be somewhat higher. When qualifying for a mortgage, make sure you are

comfortable with the payments. If you want to keep your payments the same as what you are currently paying in rent, then only purchase a home with a value that will keep you at that level, even if you can qualify for more. Having a payment that you're comfortable with will give you peace of mind and make home ownership that much more rewarding.

Mistake # 2:
“Not Counting The Cost of Bad Credit”

When applying for any kind of loan, having **good credit is very important**. This is especially true for mortgages. You may have a good stable job, down payment and plenty of income to qualify, but if you have poor credit, it becomes more challenging for approval.

Having poor credit, not only makes it harder to qualify for your mortgage, it also increases your monthly payments. If you do end up qualifying with credit issues then you have to be prepared to pay a higher interest rate. The difference between the best rates and those available to clients with credit issues can be very significant. This makes for more interest paid over the term of the mortgage, as well as higher payments. In some cases, the only option would be a *private mortgage with high interest rates and fees attached*. These types of mortgages are only for a short term (usually 1 year) with the goal of getting your credit back on track and switching to a conventional mortgage at the end of that term. **Even though having poor credit may be more costly than good credit initially, you can still get into home ownership and start building your net worth (instead of throwing your money away in rent).**

If you want to qualify for the best rates, make sure that you...

- Make all **payments on time**
- Avoid having your **credit checked too often.**

How good your credit rating or “scores” are *depends on several factors* such as: **current credit balances** (try to keep the balances as low as possible or pay off each month), **amount of credit available** (having too much is not the best), **late payments** (how many, how late, how recent, type of account) and **recent inquiries about your credit**. To keep a good standing, make sure to make all your payments on time and try to avoid and unnecessary inquiries into your credit. Try to avoid multiple “hits” to your credit, as this will only lower your score. In other words, *before you get a mortgage, don't go out shopping for a new car or furniture and have sales people all over town running credit checks on you.* If you want to have the highest scores possible, which will allow you to qualify for the best rates, make sure all payments are made on time and avoid having your credit checked too often.

Mistake # 3:
“Not Knowing Your Down Payment Options”

There are a number of different options available for you to get into your first home.

If you decide to put 5% down or more, there are a number of places this money can come from. You can **use your own savings or investments such as RRSPs** (first time homebuyer privilege). **You can get a gift from a family,**

friend, or any party that is not tied to the purchase. You can borrow it from a personal loan, line of credit or credit cards as long as the ratios are in line and you qualify. The mortgage insurance premium would be 3.15%. If you choose to save for your down payment, then the standard premiums would apply for high ratio mortgages depending on how much you have saved (**However, these premiums can be added to the mortgage amount**).

If you know how much you want to spend on a home or what you can afford, then you will have a good idea of how much you need to save for the down payment. For example, if you want to purchase a home for \$150,000, then you must have \$7,500 available for your down payment (don't forget 1.5% of the purchase price for closing costs on top of that). Simply find a method that works for you and start putting away what you feel you can afford, and if you come across more money (such as income tax return) then you can add that amount as well.

Mistake # 4:
“Not Budgeting For Closing Costs”

When you are ready to purchase your first home it is important to be aware that it will cost you some money to complete the deal. There is nothing worse than going through the process and finding out that the costs of completing the transaction are higher than you thought. As mentioned earlier, you will have to ***prove to the lender that you have 1.5% of the purchase price available*** for closing costs. Even though it may not cost you this much, it is a requirement for approval. If you choose the no money down route or put less than 25% down, you will have to pay a mortgage insurance premium, but this can be added to the

mortgage amount. However, you will be charged a \$165.00 fee for **mortgage insurance**, which will be deducted from the mortgage proceeds at closing.

“Knowing what to expect up front will allow you to prepare and save for the costs incurred when buying!”

If you happen to have 20% down or more, then you will most likely have to pay for **an appraisal**, which runs around \$250-\$300. Most people have a **home inspection** done to make sure there are no problems with the house. This fee will run you approximately \$300.00. If there is no valid survey available then you can pay for one or opt for **title insurance**, which is a little bit cheaper. The cost for this is approx. \$200-\$300. Another cost and usually the most expensive for first-time buyers is the **legal fees**. Expect this to run you approximately \$850-\$1000.

You must also be aware that once you own a home you have to pay the **property taxes**. Lenders may collect them and have them added to your payments, but this is for the following year. However, you have to have money available for the current year’s tax portion that you own the home. Before you get your mortgage loan, you will have to have **house insurance** in place. You can opt to pay this monthly, which may cost you approximately \$40/ month. Can you imagine not knowing that you had to pay these costs till closing? It would not make for a very pleasant buying experience, would it?

Mistake # 5:
“Not Getting Pre-Approved”

This is a very important step before you even starting to look for a home. Many people get excited about buying a home and want to start looking around as soon as possible. You may even hook up with a real estate agent and start considering different properties, but you need to know what you can afford before you get started. **There is nothing worse than finding a home you want and not being able to afford it.** Of course now you will have to look at lower priced homes and your enthusiasm fall like a rock because you are still thinking about all of those nicer homes.

“Getting pre-approved not only helps you know what you can afford, but it also can save you a significant amount of interest!”

Getting pre-approved not **only helps you know what you can afford, but it also can save you a significant amount of interest.** Most pre-approvals are good for 90-120 day rate hold. This means that you can hold the rate you have been pre-approved for this long. If the rates happen to go up and you end up buying a home in this time frame, then you are *guaranteed the rate you were originally pre-approved for*, not the higher rate at the time. Also, if rates happen to fall in this period, you will get the lower rate.

Getting pre-approved is a fast and easy process with **no cost and no obligation.** Although having a written pre-approval holds the rate for you, it is not guaranteeing you the mortgage. Once you have found a property and make an offer, the deal becomes live and will be sent in for approval. **Final approval is based on satisfying special requirements like employment verification,**

down payment (if you have one) etc., so always make sure to put subject to financing in the mortgage contract just in case.

Make sure you deal with a professional who *specializes in residential mortgages*. The mortgage industry is extremely complicated with hundreds of options and choices. **Using an expert can make the difference between getting into a home or your choice or having to rent forever and paying off someone else's mortgage!**

Mistake # 6:
“Not Choosing The Right Mortgage Product”

When it comes down to getting a mortgage, there are a number of products available for you to choose from. Choosing the product that is the best for your situation is very important. This can often be a very tough decision to make. You will definitely want to make sure you are going to be getting the best interest rate on the market, but there are other factors to consider as well.

One of the decisions you will have to make is to decide if you **want a variable or fixed rate product**. Variable rate mortgages are very popular because they give you the lowest interest rate at the time. Most variable rate mortgages are well below prime rate, but some such as line of credit mortgages are at prime. The interest rate depends on the prime rate at the time and when this rate changes, so does your payment (in most cases). You have the option to choose an open mortgage or a closed one. Usually the rate is better with a closed variable mortgage, but **with an open product, there are no penalties for**

early payout. Most variable products are for a 5 year term (except the line of credit) and if you pay the mortgage out before this time, you will have to pay a penalty (unless it is open). The good thing about this product is that if prime rate starts to climb, you have the option to lock in to a fixed rate product at any time without penalty. However, when you want to lock in, some lenders will give you the best fixed rate at the time, but others require you to negotiate the rate.

If you are not interested in the variable rate mortgage, you can opt to choose a **fixed rate product**. If this is the case, you will have to choose a term, and most lenders range from 6 months to 10 years, but some go higher. The advantage of a fixed rate product is that your **payment will never change over the life of the term you choose even if interest rates go up**. This will give you a peace of mind in knowing what your payments will be for that period. Most lenders will allow you to take this mortgage with you (upon qualification) if you sell your home and buy another (called porting a mortgage). However, if you decide to get out of your mortgage before the term is up, you will have to pay a penalty.

Mistake # 7:
**“Not Getting Multiple Lenders
To Compete For Your Business”**

One of the **biggest mistakes** people make when getting a mortgage is going to their bank and taking the rate the bank gives them. Even though the bank often gives a discount off the posted rate, most of the time it is **not the best rate available**. People think that because they are getting a discount that that is the best rate going. In most cases, the rates given by the banks are not the best on the market. That's why **most sophisticated consumers hire a specialized mortgage broker, who has access to many different lenders with the best rates available.**

For instance, **which scenario do you think will give you the best deal?**
OPTION 1- with one lender who says they are offering you the best product, or
OPTION 2- have a number of lenders to choose from who are all competing against each other to get your business? It's obvious answer. Having multiple lenders to choose from will not only **guarantee you the most competitive rate**, it will also allow you to find **the best product for your needs, which will give you the peace of mind in knowing you are getting what you want!**

Why do I offer this report free of charge?

I am offering these helpful tips free of charge because I want to be your mortgage advisor. I offer more than simply a loan: I'll personally advise you on how to use and apply the principles contained in this report. Worried that you can't remember all of what is contained here? Call me. I want to earn your business. We currently have over 40 creative programs to fit your needs. Please contact us at **(604) 436-4600** to set up your **FREE No-Obligation consultation** where we will meet to tailor a program to fit your needs and comfort levels for monthly payment and investment.

Sincerely,

A handwritten signature in black ink that reads "Laxamana". The signature is written in a cursive, flowing style with a large initial 'L'.

Bernadette P. Laxamana, MBA, AMP
President/Managing Broker
Verico M & B Mortgage Solutions, Inc.