

Financing your Home

Tips for Financing your New Home

Making your new home a reality takes time, discipline and planning but in the long run it can be a rewarding experience. Here are some tips for financing your new home.

1. Understand your credit rating.
 - Your credit rating is a major determinant that lenders use to decide whether or not to loan money to you. Your credit rating also is a major determinant of the interest rate you will pay. It's simple – a higher credit rating equals lower interest rates and a lower mortgage payment.
 - i. Consistently pay all your bills on time.
 - ii. If you missed a payment, pay it as soon as possible.
 - iii. Keep balances on your revolving credit (i.e. credit cards, lines of credit, store credit cards, etc.) low.
 - iv. Take out new credit only when required.
 - v. Establish your credit history by using a credit card wisely and paying it off each month.
 - vi. If you are having trouble, contact a local credit counseling agency through your United Way.
 - The Government of Canada offers a free publication “Understanding Your Credit Report and Credit Score” available by calling 1-866-461-FCAC (3222) or visiting:
<http://www.fcac-acfc.gc.ca/eng/publications/creditreportscore/CreditReportScoreTOC-eng.asp>
2. Check your credit report and correct any errors.
 - Ordering a copy of your credit report is free and, by law, agencies must provide a copy if you ask. It is free if you follow the specified instructions – if you order a copy online and want it instantly, a fee will be charged.
 - Correct any errors but be aware that bankruptcies or collection agreements stay on your file for 7 years and cannot be taken off.
3. Determine your downpayment.
 - Most lenders now require a minimum downpayment of 5%. Cashback mortgages and 100% financing options are still available though better credit ratings are required and you will also generally pay higher fees and interest rates.
4. Choose a variable or fixed interest rate.
 - Variable rate mortgages generally have lower interest rates but you are subject to fluctuations in interest rates. Compare both payments. Determine if you want a known payment or if you can afford to be subjected to sudden increases in your payment.

5. Know your total cost of ownership.
 - The mortgage payment is only one bill that must be paid on time. Other costs include property taxes (often your lender will require that you make the payment to them directly), utilities (heat, electricity, water), insurance, maintenance and repairs.
 - If you were able to obtain a pre-approved mortgage, you may be surprised that a lender could offer you a larger mortgage than you are comfortable with. Know your monthly after-tax income and know all your expenses and only move forward within your comfort levels.
6. Get pre-approved.
 - Visit a mortgage broker and ask them to pre-approve you for a mortgage. You can also visit your banker but then you are only dealing with one lender and will have to negotiate your interest rate. A mortgage broker can scan many lenders and make them compete for your business.
7. Get the best interest rate.
 - A mortgage broker can make lenders automatically compete for your business and get you the best rate possible.
 - If you are dealing directly with a bank, always ask for a lower rate.
8. Know your amortization period.
 - The standard amortization period is 25 years but can vary between 5 and 35 years (the higher the years the lower your payment will be but it also means you'll pay more interest and will be making payments for a longer period of time).
9. Know your potential penalty and other costs.
 - If you have to move and/or sell your house, know upfront what penalties and fees you will have to pay to break your mortgage contract.
10. Know your closing costs.
 - Make sure you leave enough money in your short-term budget to cover closing costs such as:
 - i. Legal fees
 - ii. Land transfer tax (in Ontario, if you are a first-time home buyer, this is waived and is waived pro rata, if one spouse is a first-time buyer and one is not)
 - iii. Moving costs
 - iv. Utility hook-up fees and deposits
 - v. Property tax adjustments at closing
 - vi. Prepaid property taxes (some lenders require you to prepay some property taxes immediately)
 - vii. House insurance
 - viii. PST/HST on mortgage insurance (this is insurance that you may have to pay to protect the lender)
 - ix. Mortgage insurance (usually this fee can be rolled into your mortgage)