

Thank you for your interest in a mortgage!

It can be an exciting time looking for a home, however, it can also be overwhelming. Please know we are here to help you navigate the financing side of purchasing a home.

There are 2 ways to purchase a home:

- 1. Conventionally:** This requires a 20% down payment. Banks & credit unions can only lend up to lower of 80% of the appraised or purchase price of a home – if you have less than 20% down it is considered a **high ratio** mortgage;
- 2. Hi-Ratio:** This requires a minimum down payment of 5%. Some restrictions apply.

With hi-ratio mortgages we need to have your application approved through either Sagen (private company: <https://www.sagen.ca/> Formally Genworth) or CMHC (government sponsored: <https://www.cmhc-schl.gc.ca/>) – their mandate is to get people into a home with less than 20% down. They charge a premium based on how much you borrow (this is an insurance policy that protects the credit union/bank in the event of default or foreclosure). It is a one-time only premium that gets added on to the mortgage – not out of pocket.

Stress testing

We are required to “stress test” all mortgages. The rate for the stress test is the greater of the contract interest rate + 2% or the Bank of Canada’s 5 year Qualifying Rate. Stress testing is a way for the credit union to review your ability to withstand increases to interest rates. With an insured mortgage through CMHC and Sagen they do require you to qualify at the stress test rate. As a provincially regulated credit union, we use this information in our decision along with your whole financial picture, there may alteration made to your down payment and interest rate in the event you are unable to pass the stress test.

Debt Servicing/Qualifying

There are two ratios we look at when qualifying a member for financing. These ratios are used to evaluate if the new mortgage is affordable based upon your gross income.

1. GDS: Gross Debt Service Calculation

This takes your monthly mortgage payment + property taxes + Strata/PAD fees/rent + Heat and compares it with your monthly income.

2. TDS: Total Debt Service

We look at your GDS + any other debt obligations you have and compare it to your monthly income.

Income

We will collect income documents for all applicants. We have a look at how long you have been employed or self-employed, industry and income amount to support your application.

Credit

Minimum beacon score is 625 (680 for insured mortgages). We will have a look at repayment history, how much credit you have available to you and how much is being used. We also review any comments on your credit history, such as a collection or bankruptcy.

Net worth

We will look at your overall net worth which is calculated as the value of your assets – the amount of your liabilities. Assets include House, Vehicles, Investments, Bank accounts etc. liabilities include the credit that is listed on your credit report and any personal liabilities you may have (child support, alimony, debt to family etc).

Interest Rates

Interest rates play a big part in the payment amount and typically the longer the term and amortization the higher the rate. They can be fixed rate - this means that your interest rate is guaranteed for the length of the term you choose or a variable interest rate which fluctuate with prime rate – prime rate is influenced by the policy interest rate set by the Bank of Canada and typically banks and credit unions follow.

Payments

Payment frequency can be weekly, biweekly semi-monthly or monthly, your choice, typically coordinated with your pay schedule.

CUMIS Creditor Insurance

Buying a home is one of the biggest investments and expenses you will make, you want to ensure it is protected in the event your income is reduced or eliminated due to illness, injury, job loss or death. One way to protect it is by adding CUMIS Creditor insurance. We are able to apply for life, disability, job loss and critical illness. Coverage is customizable to your needs, you can even customize coverage amount so you can still have limited coverage and be within your budget.

Costs

Keep in mind that the down payment is not the only cost involved in purchasing a home.

- Legal fees – approx. \$1500 – depending on complexity
- Property tax adjustment – this is based on the time of year you purchase the home & is pro-rated .This is paid in July and covers that year from Jan to Dec – so if you purchase a home in July you would then owe the seller for taxes they had already paid to the end of the year – July to December – 6 months
- Home Inspection – although not mandatory for mortgage purposes this is strongly suggested – spend \$500 now & potentially save thousands if issues come to light (i.e. plumbing or wiring)
- Appraisal – typically for insured mortgages through CMHC/Sagen does not require an appraisal unless they cannot support the purchase price of the property – if they do require one they pay for it. For conventional mortgages cost is around \$300-\$800 depending on area and complexity

- Miscellaneous – generally these are things like telephone, hydro, cable hook-ups, movers, appliances
- Title insurance – required by CMHC/Genworth in lieu of survey certificate - \$179 – we may also require depending on area and property being purchased
- Each time a home is sold the government charges Property transfer tax - this is based on 1% of the first \$200,000 of the purchase price & 2% for the amount over \$200,000 – ie on a purchase of \$500,000 the property transfer tax would be \$8000–**Check to see if you qualify for an exemption: [Property Tax Exemptions](#)**

When you're ready & you have been pre-approved for a mortgage the next step is finding a realtor you're comfortable with – **remember they are working for you!** They will help you along the way to give you tips & advice.

When you find a home they will draw up the purchase agreement which states the agreed upon sale/purchase amount, the agreed upon date when you will take possession of the property and usually includes 3 "subjects to" which are added for your protection - although there could be more!

The typical subjects are:

- Subject to financing – even if you are pre-approved – this is for a dollar amount – CMHC/Sagen and the credit union still has to approve the property/you as borrower(s)
- Subject to Insurability – you must be able to get house insurance – no insurance – no mortgage, even for land only purchases you must have liability insurance
- Subject to inspection – this is not mandatory for us, but strongly suggested

Once the offer is accepted you will be required to put down a deposit, this is negotiated with the seller and your realtor will discuss this with you. At the end of the day this amount is forwarded to your lawyer and put towards the down payment to the seller.



We have some great financial calculators on our website that may be of interest:

<https://www.firstcu.ca/knowledge-centre/calculators>