Tips for Mortgage Approval

Being prepared financially will certainly reduce last minute stress when you receive your Closing Notice. With stricter lending policies and stress tests now in place, mortgage pre approval and approval may take more time. The Closing Date is issued from the Vendor to the Buyer (once the project is ready for occupancy) is non-negotiable and cannot be delayed. The Vendor is of course not responsible for mortgage approval, rates, rate holds, resale of existing properties or any other personal financial matters of the Purchaser.

Experience has shown that in some recent cases, banks require additional individuals on title or as guarantors to the mortgage in order to be approved. As per the Purchase Agreement, any changes to individuals on the purchase agreement must be amended at least 45 days in advance of the estimated closing date, so speak to your lender today!

<u>Where to get a mortgage</u>

There are a number of different sources for mortgages.

Mortgage lenders

Mortgage lenders lend money directly to you.

Mortgages are available from several types of lenders, such as:

banks

mortgage companies

insurance companies

trust companies

loan companies

credit unions

Different lenders may have different interest rates and conditions for similar products. Talk to several lenders to make sure you're getting the best mortgage product for your needs.

Mortgage brokers

Mortgage brokers don't lend money directly to you. Mortgage brokers arrange transactions by finding a lender for you.

Some lenders only offer their products directly to borrowers, while some mortgage products are only available through brokers. Since brokers have access to a number of lenders, they may give you a wider range of mortgage products and terms to choose from.

Mortgage brokers don't all have access to the same lenders. This means the available mortgages vary from broker to broker. When you're considering a mortgage broker, ask which lenders they deal with.

Mortgage brokers generally don't charge fees for their services. Instead, they usually receive a commission from the lender when they arrange a transaction.

The pre-approval process

A pre-approval is when a potential mortgage lender looks at your finances to find out the maximum amount they will lend you and what interest rate they will charge you.

With a pre-approval, you can:

- know the maximum amount of a mortgage you could qualify for
- estimate your mortgage payments
- lock in an interest rate for 60 to 120 days, depending on the lender

The pre-approval amount is the maximum you may get. It does not guarantee that you'll get a mortgage loan for that amount. The approved mortgage amount will depend on the value of your home and the amount of your down payment. It may be a good idea to also look at properties in a lower price range so that you don't stretch your budget to its limit.

Remember that you'll also need money for:

- closing costs
- property tax, insurance and utilities
- moving costs
- ongoing maintenance costs
- Check your credit report

If you don't have a good credit score, the mortgage lender may:

- refuse to approve your mortgage
- decide to approve it for a lower amount or at a higher interest rate
- only consider your application if you have a large down payment
- require that someone co-sign with you on the mortgage

What to provide to your lender to get pre-approved

Before pre-approving you, a lender will look at your current assets (what you own), your income and your current level of debt.

You'll need to provide your lender or mortgage broker with the following:

- identification
- proof of employment
- proof you can pay for the down payment and closing costs

This document is for general reference only and not to be taken as legal advice. Please discuss with your mortgage lender or broker for terms and conditions of mortgage approval and other financing advice.

- information about your other assets, such as a car, cottage or boat
- information about your debts or financial obligations
- For proof of employment, your lender or mortgage broker may ask you to provide:
- proof of current salary or hourly pay rate (for example, a current pay stub and a letter from your employer)
- your position and length of time with the organization
- Notices of Assessment from the Canada Revenue Agency for the past two years, if you're self-employed
- For proof you can pay the down payment, your lender or mortgage broker may ask you to provide recent financial statements from bank accounts or investments.

Your debts or financial obligations may include:

- credit card balances and limits, including those on store credit cards
- child or spousal support amounts
- car loans or leases
- lines of credit
- student loans
- other loans

When getting pre-approved, ask your broker or lender the following:

- how long they guarantee the pre-approved rate
- will you automatically get the lowest rate if interest rates go down while you're pre-approved
- if the pre-approval can be extended

Qualifying interest rates for mortgages

To qualify for a mortgage loan at a bank, you will need to pass a “stress test”. You will need to prove you can afford payments at a qualifying interest rate which is typically higher than the actual rate in your mortgage contract.

Credit unions and other lenders that are not federally regulated may choose to use this mortgage stress test. They are not required to do so.

The qualifying interest rate your bank will use for the stress test depends on whether or not you need to get mortgage loan insurance.

If you need mortgage loan insurance, the bank must use the higher interest rate of either:

- the Bank of Canada’s conventional five-year mortgage rate
- the interest rate you negotiate with your lender

If you don’t need mortgage loan insurance, the bank must use the higher interest rate of either:

- the Bank of Canada’s conventional five-year mortgage rate
- the interest rate you negotiate with your lender plus 2%