

# **A GUIDE TO FINANCING FOR** **FIRST TIME HOMEBUYERS**

*Prepared for you by:*



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# *MY SERVICE PLEDGE*



*As your mortgage counselor, I pledge:*

- *To show you that I care about your needs. I know that financing a home can be one of the greatest causes of stress for a family and I will do everything that I can to make the process as easy and as pleasant as possible.*
- *To communicate with you about your application. I know the frustration caused by the silence when you are waiting to hear about your mortgage financing. As your mortgage specialist, I will keep in touch with you so you are always up to date on the process of financing your home.*
- *To display honesty and integrity in all of my dealings with you. As a mortgage counselor, I live by a code of ethics and professional standards. These standards make a simple statement: you have a right to nothing but fair and honest service.*
- *To do everything in my power to secure for you the best mortgage available and to provide satisfying results.*

*I look forward to working with you!*

# CMHC Changes

## For All Home Buyers

- *The maximum Gross Debt Service (GDSR) ratio, including heating costs and taxes is 32%. What this means is, you are only allowed to spend 32% of your total GROSS monthly income on your mortgage payment, property taxes, and heating. For example, if you are earning \$60,000 per year in your household, you are allowed to spend up to \$19,200 (32% of \$60,000) annually on your mortgage payment, property taxes and heating. Heating is calculated at \$75.00 per month (\$900 annually) so you will be left with \$1525.00 ( $\$19,200 - \$900 = \$18,300 / 12$ ) to spend monthly on your mortgage and property taxes.*
- *The maximum Total Debt Service (TDSR) Ratio is 40%. What this means is you are allowed to spend no more than 40% of your total GROSS monthly income on your mortgage payment, property taxes, heating, loans/credit cards. Again, if you are making \$60,000 per year, you are allowed to spend no more than \$24,000 annually on your mortgage, property tax, heating and loans.*
- *Borrowers are required to demonstrate, at the time of their application, their ability to cover closing costs (legal fees, survey/title insurance, etc) equal to at least 1.5% of the purchase price.*
- *Where the minimum equity requirement (down payment) is being met by way of a financial gift (parents etc.), the funds must be in the possession of the borrower, prior to the time of application to CMHC.*
- *There are no longer any minimum down payment requirements, however, in order to obtain the most favorable interest rates, and at least 5% should be put down on the property.*

# *Qualification Requirements*

- *Letter of employment to confirm position, start date, and income. This must be prepared on the company's letterhead and signed by a person in a position of authority.*
- *T4 and current paystubs*
- *If you are self-employed, or on commission, lenders require 3 years of T1 Generals, Financial Statements and confirmation you have no personal Income Tax owing. This requirement will be waived if you are applying under the various "stated income programs". Essentially, under these programs, lenders are prepared to rely on your good credit and equity position to qualify you for your mortgage without your having to prove your income.*
- *Proof of down payment (in the case of a purchase)- Bank Statements – RSP Statements etc.*
- *If the down payment is gifted (i.e. if a close relative is giving you the down payment as a non-repayable gift) proof of the deposit of funds into your account prior to closing.*

*These conditions will vary with each individual application, but this represents a strong overview of the documentation the average buyer will have to supply.*

# Qualification Requirements

*Total your gross family income consisting of:*

- *Your gross annual personal income:  
(Before taxes and deductions)* \$ \_\_\_\_\_
- *Your spouse's annual personal income:* \$ \_\_\_\_\_
- *Other income (rentals investments etc)* \$ \_\_\_\_\_
- *Total Income* \$ \_\_\_\_\_





*Apply the GDS Ratios (32%):*

- *Total Income (above) divided by 12 =* \$ \_\_\_\_\_
- *Monthly income multiplied by .32 (GDSR)* \$ \_\_\_\_\_
- *Subtract \$250.00 for taxes and heat* \$ \_\_\_\_\_ *\$250.00* \_\_\_\_\_
- *Allowable monthly mortgage payment* \$ \_\_\_\_\_

*Apply the TDS Ratio (40%):*

- *Monthly Income multiplied by .40 (TDSR)* \$ \_\_\_\_\_
- *Subtract all monthly loan/credit card payments* \$ \_\_\_\_\_
- *Subtract monthly mortgage payment + \$250.00* \$ \_\_\_\_\_
- *Total - this amount cannot be negative* \$ \_\_\_\_\_

# **RRSP HOME BUYERS PLAN FOR FIRST TIME HOMEBUYERS**

|   |   |
|---|---|
|    | <p><i>Maximum \$20,000 tax free withdrawal for each participant from his/her RSP</i></p>  |
|   | <p><i>Must be a first time buyer – not owned a home that has been occupied as a principal residence within the last 5 years. Must intend to occupy the home as your principal residence within the next 12 months</i></p> |
|  | <p><i>Minimum repayment schedule is 15 equal annual installments paid back to your RSP. This schedule can be accelerated</i></p>  |
|  | <p><i>The funds to be withdrawn from your RSP must have been contributed to your RSP for at least 90 days prior to the withdrawal</i></p>   |

# *Property Transfer Tax Exemption for First Time Homebuyers*

- *No Property Transfer Tax for First Time Homebuyers (Normally 1% tax on the first \$200,000 and 2% tax on the balance over \$200,000*
- *To qualify, a buyer must not have owned an interest in a principal residence anywhere.*
- *Purchases must be Canadian Citizens or permanent residents and have resided in BC for a minimum of 12 months.*
- *Maximum purchase price is \$325,000 for Greater Vancouver and Central Fraser Valley. Other areas of BC are limited to \$265,000.*
- *Mortgage financing must be 70% or greater of the purchase price.*
- *Property must be owner occupied principal residence. No rental or investment properties.*

*On February 15, 2005, the Minister of Finance announced an amendment to the threshold and mortgage pay down requirements of the First Time Homebuyer Program.*

## *Threshold Requirement*

*Effective February 16, 2005 the fair market value threshold for properties in the Capital Regional District, Greater Vancouver Regional District, and Fraser Valley Regional District is increased to \$325,000 from \$275,000. The fair market threshold for properties located outside these regional districts is increased to \$265,000 from \$225,000.*

## *Mortgage Pay Down Requirement*

*The mortgage pay down limits are also increased as of February 16, 2005. In the Capital Regional District, , Greater Vancouver Regional District, and Fraser Valley Regional District the pay down limit is increased to the greater of \$13,000 and the amount that would reduce the mortgage to 70% of the fair market value of the property. For pro properties located outside these regional districts the pay down limit is increased to the greater of \$10,600 and the amount that would reduce the mortgage to 70% of the fair market value of the property.*

# *Insurance Premiums*

*For those borrowers with less than 25% cash down, mortgage loan insurance premiums will be added to the mortgage amount. Under the Bank Act, all mortgages that exceed 75% of the purchase price must be insured by either CMHC or Genworth Financial.*

*The following chart outlines the premiums that are charged by the insurance companies and added to your mortgage.*

## *Premium as a % of the Mortgage*

|                  |              |
|------------------|--------------|
| <i>Up to 80%</i> | <i>1.00%</i> |
| <i>Up to 85%</i> | <i>1.75%</i> |
| <i>Up to 90%</i> | <i>2.00%</i> |
| <i>Up to 95%</i> | <i>3.25%</i> |

*There are distinct financial advantages to maximizing the amount you put down on the purchase of your home.*

*Here are two examples:*

| <i>Example 1</i>      |                  | <i>Example 2</i>      |                  |
|-----------------------|------------------|-----------------------|------------------|
| <i>Price</i>          | <i>\$200,000</i> | <i>Price</i>          | <i>\$200,000</i> |
| <i>5% Down</i>        | <i>\$10,000</i>  | <i>10% Down</i>       | <i>\$20,000</i>  |
| <i>Mortgage</i>       | <i>\$190,000</i> | <i>Mortgage</i>       | <i>\$180,000</i> |
| <i>3.25% Premium</i>  | <i>\$6,175</i>   | <i>2.00% Premium</i>  | <i>\$3,600</i>   |
| <i>Total Mortgage</i> | <i>\$196,175</i> | <i>Total Mortgage</i> | <i>\$183,600</i> |

# *Closing Costs*

*Additional Costs involved when financing the purchase of a home, over and above the minimum down payment include:*

| <i>Description</i>                           | <i>Amount</i>     |
|--|-------------------|
| <i>CMHC/Genworth Application Fee</i>         | <i>\$165.00</i>   |
| <i>Appraisal Fee (Conventional)</i>          | <i>\$215.00</i>   |
| <i>Survey Fee or Title Insurance</i>         | <i>\$250.00</i>   |
| <i>Home Inspection</i>                       | <i>\$250.00</i>   |
| <i>Legal Fees</i>                            | <i>\$750.00</i>   |
| <i>Total</i>                                 | <i>\$1,665.00</i> |
| <i>Tax Adjustment (if applicable)</i>        |                   |
| <i>Interest Adjustment (if applicable)</i>   |                   |
| <i>Property Transfer Tax (if applicable)</i> |                   |