How much can you afford to purchase?

Before you start looking for a new home, it is important that you become aware of how much you can afford to pay. This knowledge will allow you to spend your valuable time looking productively at homes that are within your predetermined price range, and that will fit your budget.

The easiest way to get pre-approved is to contact Terry and he will guide you to some excellent lenders and Mortgage Brokers. If you would like to examine your status on your own please complete the following calculations.

You can calculate a relatively accurate figure for yourself if you assemble the following information:

1. The CASH you have saved to be used for this home purchase called the down payment i.e. $10,000

2. Plus: The amount of BORROWED MONEY you are able to arrange from bank, say $150,000

3. Less: CLOSING COSTS and other last-minute costs associated with a your purchase $3,500

4. Equals: Maximum Purchase price **$156,500**

The Down Payment: Lending institutions will require you to make a down payment of at least 5% to 10% of the purchase price of the home. Lending policy may vary from time to time. There are a few lenders that may allow you to purchase with No Down Payment.

However, as a general rule, you should make your cash down payment as large as possible. The less money you borrow, the smaller your monthly payments. Your deposit will form part of your down payment.

The Borrowed Money: Almost everyone who purchases a home borrows some of the money needed to pay for it.

The easiest way to determine how much money you will be able to borrow as a mortgage loan is to consult with one or two lending institutions.

These lenders will apply standard calculations, based on your family's current income and debts, in order to decide the amount of money they will lend to you. They will ask for information about your finances and make a thorough credit check, in order to be sure you are able to repay a loan. For information on the current interest rates, contact Terry Marion.

How Much Can You Afford to Pay in Mortgage Payments?

Based on your income: Allow no more than 30% of your **gross** monthly income (before deductions) to make your monthly housing payments. This test of your ability to repay a mortgage loan is generally referred to as the Gross Debt Service Ratio.

Complete the following calculation to determine the approximate amount you will be able to spend for the mortgage payment, the property taxes and, where applicable, 50% of the condominium maintenance fees. Some lenders will require that this total maximum monthly payment also cover heating costs.

1. You're Gross Monthly Income i.e. $3,000

2. Spouse's Gross Monthly Income $3,000

3. Other Income (Monthly) $500

4. Total Monthly Income **$6,500**

Multiply the TOTAL line above by 30% to calculate your:
TOTAL MONTHLY MAXIMUM HOUSING PAYMENT

In this example, it would be **$1,950**

Based on your Other Financial Obligations:

If you have other monthly financial obligations, such as car or credit card payments, the lending institution will also apply the Total Debt Service Ratio test to determine the maximum mortgage loan for which you can qualify.

The total of your monthly housing payment added to your other monthly debt payments should not exceed 40% of your monthly gross income. The Gross Debt Service Ratio and the Total Debt Service Ratio tests protect both, you and the lender by ensuring that you do not take on more debt than you can reasonably afford to repay.

Many lending institutions will pre-qualify you for a specific size and type of mortgage loan before you begin searching for your new home. Taking the time to apply for a **pre-approved** mortgage will give you the security of knowing how much you can afford to spend.

Before concluding the loan agreement, most lending institutions will require an appraisal of your selected property. The appraised value is a professional opinion of the value of the home and may differ from the purchase price you are willing to pay. The appraised value may affect the final size of the loan.

Does all of this information sound confusing? Simply Contact Terry Marion

What is a mortgage?

Obtaining a loan to finance the purchase of your new home will probably require you to sign a document called a **mortgage**. This document will set out the terms and conditions for the loan and its repayment. If you fail to meet your debt obligations, the lender will have the right to claim your home to pay off what you still owe.

What types of mortgage loans are there?

All mortgage loans are of two basic types:
A conventional mortgage loan allows borrowing up to 75% of the purchase price or the appraised value of the property, whichever is less.

A high-ratio mortgage loan allows borrowing more than 75% of the purchase or the appraised value of the property, whichever is less. But the borrower must pay a mortgage default insurance premium (CMHC) to protect the lender if payments are not made. This premium can be as much as 3.75% of the loan amount.

What is an amortization period?

Typically, the size of a mortgage loan payment is calculated as if the loan payments were going to be paid over 20 or 25 years. This is called the amortization period. Each payment will repay the interest due up to the payment date, along with some of the principal owed. The longer the amortization period you choose, the lower the regular payment will be. Keep in mind that the faster you repay any money borrowed by choosing a shorter amortization period, the more you reduce the total cost of borrowing.

What is a term?

Most mortgage loan contracts only permit the regular payments to continue for a specified term that is shorter than the amortization period. The term can be as short as 6 months, or it can be 5 years or more.

At the end of the term, you are required to repay the full, unpaid balance. If you don’t have the cash required to pay the balance, it is necessary to refinance the loan.

Deciding on the length of term you want will depend partly on whether you think interest rates will go up or down. Keep in mind that the longer the term you choose the longer your monthly payment remains stable.

CAUTION: The lender is not obligated to renew your mortgage loan at the end of the term.

Can a mortgage loan be repaid at any time?

The answer to this question can be found in the prepayment clause of the mortgage document. Some mortgages, generally referred to as open mortgages, may be repaid at any time the borrower wishes. Other mortgages, generally referred to as closed mortgages, cannot be repaid until the end of the term or are subject to an interest penalty for early repayment. Ask you lender about this clause!

You may wish to look for a portable mortgage. Some lenders will arrange a mortgage loan that can be transferred to another property if you decide to move.

For assistance in buying a home please contact:

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