THE HOME BUYING PROCESS

**PHASE 1: Determine home ownership needs**

• **How much can I afford to spend?**

• **What type of housing should I buy based on affordability?**

**PHASE 2: Locate and evaluate a home**

• **Where do I want to live?**

• **What aspects of the home need improvement?**

**PHASE 3: Price the property**

• **What is an appropriate market price?**

• **How much negotiation movement exists?**

**PHASE 4: Obtain financing**

• **How much down payment do I have?**

• **What are current mortgage rates?**

• **How much of a mortgage do I qualify for?**

• **What type of mortgage should I select?**

**PHASE 5: Close the purchase transaction**

• **What is the closing date?**

• **What funds and documents are needed for the closing?**

• **Do I understand everything before the final signing?**

MORTGAGE TERM EXPLANATION AND COMPARISON

**Conventional or high-ratio**

A conventional mortgage is a loan for no more than 80% of the

appraised value or purchase price of the property, whichever is less.

The remaining amount required for a purchase (20%) comes from your

resources and is referred to as the down payment. If you have to

borrow more than 80% of the money you need, you'll be applying for

what is called a high-ratio mortgage.

**Fixed-rate or variable-rate**

When you take out a fixed-rate mortgage, your interest rate will not

change throughout the entire term of your mortgage. As a result, you'll

always know exactly how much your payments will be and how much of

your mortgage will be paid off at the end of your term.

With a variable-rate mortgage, your rate will be set in relation to the

Prime interest rate (set by the Bank of Canada) at the beginning of

each month. In other words, it may vary from month to month.

Historically, variable-rate mortgages have tended to cost less than fixed rate

mortgages when interest rates are fairly stable. When rates

change, your payment amount remains the same. However, the amount

that is applied toward interest and principal will change. If interest rates

drop, more of your mortgage payment is applied to the principal balance

owing. This can help you pay off your mortgage faster. If interest

rates rise, more of the mortgage payment is applied to the interest.

**Short-term or long-term**

The term is the length of the current mortgage agreement. A mortgage

typically has a term of six months to 10 years. Usually, the shorter

the term, the lower the interest rate. A short-term mortgage is

usually for two years or less. A long-term mortgage is generally for

three years or more. The key to choosing between short and long

terms is to feel comfortable with your mortgage payments. After a

term expires, the balance of the principal owing on the mortgage can

be repaid, or a new mortgage agreement can be established at the

then-current interest rates.

Short-term mortgages are appropriate for buyers who believe interest

rates will drop at renewal time.

Long-term mortgages are suitable when current rates are reasonable

and borrowers want the security of budgeting for the future.

**Open or Closed**

Open mortgages can be paid off at any time without penalty and are

usually negotiated for very short terms. They are suited to homeowners

who are planning to sell in the near future or those who want the

flexibility to make large, lump-sum payments before maturity.

Closed mortgages are commitments for specific terms. If you want to

pay off the mortgage balance, you will need to wait until the maturity date or pay a penalty.