

**Some ways to help you**

# **Finance or Purchase Your Home**

**Home Finance Tips – Saving Money**

**By**

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## Things that will help you buy your first home.

### A. Use the RRSP First Time Home buyer withdrawal program to get the maximum down payment.

See links:

<http://www.cra-arc.gc.ca/tx/ndvdl/tpcs/rrsp-reer/hbp-rap/menu-eng.html>

You can further use this to compound the amount of the down payment if you can buy the RRSP early. Then file the return before Feb 15<sup>th</sup>, get the refund and deposit it before Feb 28<sup>th</sup> of the same year. This will compound the refund and as long as the funds are not removed within 90 days of the second deposit you will be ok. Keep this in mind when planning your offer and closing date.

### B. Get pre-approved for your Mortgage - be sure to read the fine print. Some companies use catchy rates to lure people in but the fine print shows you that the interest is not calculated in the conventional way. Some companies also do cash back which also costs you extra in the long run.

### C. Down Payment - an amount of money you put towards the purchase of your home. The amount of down payment you have saved influences the mortgage amount you need. A down payment of 20% or more will determine whether your mortgage needs mortgage default insurance, which is very costly as you will require an additional 2.75% of the mortgage amount if your down payment is less than 20% of your purchase price. This means your mortgage is high-ratio and needs mortgage default insurance. If your down payment is 20% of the purchase price or more, your mortgage is conventional and generally doesn't need mortgage default insurance. Other circumstances, however, may cause you to need mortgage default insurance. The minimum down payment of a home purchase is 5% from non-borrowed funds.

In some cases you can get some of the required down payment from a family member but there is a specific form to have the donor fill out to prove it is a gift and not a loan.  
(See attached Sample Letter)

**D. Mortgage Default Insurance-** Mortgage Default Insurance pays the lender if the borrower defaults on making their payments. This insurance is required by law for high ratio mortgages (those for an amount greater than 80% of the value of the property) and may be required under other circumstances. Mortgage default insurance can be obtained from Canada Mortgage and Housing Corporation (CMHC), Genworth Financial Canada, TransUnion Credit and Canada Guaranty. For more information, you can visit their web sites at: [www.cmhc.ca](http://www.cmhc.ca) or [www.genworth.ca](http://www.genworth.ca) or [http://www.transunion.ca/ca/home\\_en.page](http://www.transunion.ca/ca/home_en.page) or [www.canadaquaranty.ca](http://www.canadaquaranty.ca)

## **-Terminology-**

### **Understanding GDS and TDS**

#### **GDS RATIO (Gross Debt Service Ratio):**

To determine affordability, your mortgage agent will look at your Gross Debt Service Ratio The percentage of gross annual income required to cover payments associated with housing. Payments include mortgage principal, interest, property taxes and sometimes include secondary financing, heating, condominium fees or pad rent. The maximum GDS ratio is 42%.

#### **TDS RATIO (Total debt service ratio):**

The percentage of gross annual income required to cover payments associated with housing and all other debts and obligations, such as car loans and credit cards. The maximum TDS ratio is 44% and this includes items covered under GDS plus all other financing obligations.

## How Much Will it Cost to Break your Mortgage?

In general, lenders use the greater of the two values below (3 Month's Interest, or Interest Rate Differential (IRD)). Here's how much you should expect to pay:

3 Months Interest - Based on your current mortgage balance and your current mortgage interest rate, we have calculated how much 3 months interest would be.

IRD - The difference between your original interest rate and the current interest rate charged if the lender was loaning the funds out today for the rest of the term.

## Canada's Economic Action Plan Offers Incentives for Homeownership

Buying your first home is one of the largest investments of your life. Canada's Economic Action Plan introduces the First-Time Home Buyers' (FTHB) Tax Credit and the expansion of the Home Buyers' Plan (HBP) to provide you with additional benefits and help you realize your dream of homeownership.

### First-Time Home Buyers' (FTHB) Tax Credit

The costs associated with purchasing a home, such as legal fees, disbursements and land transfer taxes, can be a particular burden for first-time homebuyers who must pay these costs, as well as save money for a down payment. To assist first-time homebuyers with the costs associated with the purchase of a home, the Government of Canada introduced a FTHB Tax Credit in 2009 — a **\$5,000** non-refundable income tax credit amount on a qualifying home acquired after January 27, 2009. For an [eligible individual](#), the credit will provide up to \$750 in federal tax relief starting in 2009.

### Expansion of the Home Buyers' Plan (HBP)

To provide first-time homebuyers with greater access to their RRSP savings to purchase or build a home, the Government of Canada has increased the Home Buyers' Plan withdrawal limit to \$25,000 from \$20,000 per person for withdrawals made after January 27, 2009.

To obtain more information on the First-Time Home Buyers' Tax Credit and the Home Buyers' Plan, call 1-800-O-Canada or visit the Canada Revenue Agency website at [www.cra.gc.ca](http://www.cra.gc.ca).

## Looking for More Homebuying Information?

When it comes to buying your home, nothing is more valuable than peace of mind. That's why for more than 60 years, CMHC has shared a wealth of knowledge and housing expertise to contribute to a positive homeownership experience for Canadians. Browse through our wealth of [homebuying](#) information. You'll find everything you need, from [homebuying videos](#), to [mortgage calculators](#), to home [hunting worksheets](#).

CMHC also provides [mortgage loan insurance](#) that enables you to buy a home with a minimum down payment of 5% — with interest rates comparable to those with a 20% down payment. Obtain a 10% premium refund and extend the amortization period without a premium surcharge when using CMHC-insured financing to purchase an eligible [energy-efficient home](#).

## What are the changes in the Canada mortgage rules?

One of the key changes to the new Canada mortgage rules that became effective on 18th March 2011 is as follows.

- The first change introduced in the Canada mortgage rules includes shorter periods of amortization. For government-insured mortgages, the maximum amortization period has been reduced to 30 years from the earlier period of 35 years.

This rule is for those Canadian home buyers who make a down payment lower than 20 percent of the total home value. And with the new ruling for Canada mortgages coming into effect, mortgages for greater than 30 years will not be able to qualify for insurance. This also means a full-stop on getting mortgages extending for a period greater than three decades.

## Useful Links

**CMHC info:** <http://www.cmhc.ca/en/co/buho/index.cfm>

**Great information tool plus a good Mortgage Payment Calculator:**

<http://www.ratehub.ca/mortgage-payment-calculator>

**Info from Service Canada on Buying a Home:**

[http://www.servicecanada.gc.ca/eng/lifeevents/buying\\_a\\_home.shtml](http://www.servicecanada.gc.ca/eng/lifeevents/buying_a_home.shtml)

**Public Legal Education has some useful links as well:**

Planning on Buying a Home:

[http://www.legal-info-legale.nb.ca/en/planning\\_for\\_buying\\_a\\_house](http://www.legal-info-legale.nb.ca/en/planning_for_buying_a_house)

Preparing the Offer to Purchase:

[http://www.legal-info-legale.nb.ca/en/preparing\\_the\\_offer\\_to\\_purchase](http://www.legal-info-legale.nb.ca/en/preparing_the_offer_to_purchase)

What is a Mortgage:

<http://www.legal-info-legale.nb.ca/en/mortgages>

**Manulife One:** <http://www.manulifeone.ca>

**Manulife Bank:** <http://www.manulifebank.ca>

**Fredericton Banking Consultant** Colin Smith, E-mail [colin\\_smith@manulife.com](mailto:colin_smith@manulife.com)

**Mortgage Brokers web site:** <http://www.mortgagegroup.com>

**Fredericton Consultant** Carolanne Young, E-mail [carolann.young@mortgagegrp.com](mailto:carolann.young@mortgagegrp.com)

References information was collected at the following sights:

CMHC Website.

CRA Website.

Manulife Financial Website

Public Legal Education Website.

Raye Hub Website

Service Canada Website.

The Mortgage Group Website.

## Down payment

**Down payment confirmation must be supplied on all new purchases.**

### **Acceptable Down payment**

- Cash assets by way of investment or bank account statements (name and date(recent) must appear on documentation supplied)
- RRSP ....recent statements required names and date must also appear
- Sale of existing property...**Firm** Sale agreement required Deposit made with offer.....Must be indicated on offer
- Gift from an immediate family member.....confirmation of funds from the donor together with attached letter (Funds must be given to the Purchasers 15 days prior to advance)

Here is a copy of an acceptable gift letter:

Mortgages provided through various institutions, be sure to shop around to get the best rates & terms.

**GIFT LETTER**

To: \_\_\_\_\_  
( Lending Institution)

Date: \_\_\_\_\_

Re: Purchase of: (insert property address)

\_\_\_\_\_  
\_\_\_\_\_

Re: Mortgage Application by: (insert Borrower's name(s))

\_\_\_\_\_  
\_\_\_\_\_

**I/WE HEREBY CONFIRM THE FOLLOWING:**

- I/We am/are providing a financial gift in the amount of \$\_\_\_\_\_ to my/our \_\_\_\_\_  
(amount of gift) (relationship to borrower)  
to be used as part or all of the down payment on the purchase of the above property.
- The above noted financial gift is non-repayable.
- No part of the above noted financial gift is being provided by a third party having any interest (direct or indirect) in the sale of the above property.
- The financial gift was/will be given to the borrower on \_\_\_\_\_ .  
(insert date gift was provided)

I/We hereby acknowledge that this information is to be used for mortgage approval purposes only and may be shared with CMHC for NHA mortgage loan insurance purposes.

If you require any further information, please contact me/us at \_\_\_\_\_ .  
(insert area code/phone number)

\_\_\_\_\_  
(Signature of Gifter)

\_\_\_\_\_  
(Print name of Gifter)

\_\_\_\_\_  
(Signature of Gifter)

\_\_\_\_\_  
(Print Name of Gifter)

\*\*\*\*\*

I/We hereby acknowledge receipt of the above noted financial gift and confirm that the above noted statements are accurate and true.

\_\_\_\_\_  
(Signature of Borrower)

\_\_\_\_\_  
(Signature of Borrower)