



Mortgage Loan Agreement

PRAGMATIC STEPS NEEDED TO BUY FIRST HOME TODAY

This month marks the start of the first year for home buyers under the federal changes to mortgage lending: in a way buyers now are in the same situation as buyers of 30 years ago before high-ratio mortgage insurance and long amortizations. Buyers, especially first-time buyers who require government-backed mortgage insurance, must take pragmatic steps toward a home purchase.

First, the amortization period has been reduced to a maximum of 25 years, as was common until a decade ago. This means that, to qualify for a mortgage, buyers must prove they can make the slightly higher payments required for a 25 year, versus a 30 or even 35 year, mortgage. There is a payoff, in that a homeowner will pay thousands of dollars less in interest payments with a shorter amortization.

Second, the maximum gross debt service ratio to qualify for an insured mortgage is now 39 per cent, down from 41 per cent, and the maximum total debt

service ratio is 44 per cent. This means that, before you apply for a mortgage, make sure that your other debt obligations (like student loans, credit cards or car loan payments) will not skew your debt service ratio above the maximum threshold.

Third, the 5 per cent downpayment is still available, but it is wise to save longer and put down more. This is because you will not only save on the mortgage insurance premium but you will also spend less in interest payments over the life of the mortgage.

Fourth, check your credit score: a score of at least 600 is often required now to qualify for insured mortgages.

Fifth, buy a property for less than \$1 million. This may sound obvious, but \$1 million is the typical house price in some Metro neighbourhoods. But, under the mortgage rules, such purchases require a minimum 20 per cent downpayment, or \$200,000. If you buy a \$900,000 home, the minimum downpayment required for mortgage insurance is \$45,000.

Sixth, take advantage of the current buyers' market in the Lower Mainland. Sales through MLS are down about 25 per cent from a year ago and prices have basically flatlined and mortgage rates are lower than 30 years ago. Get pre-approved for a mortgage and contact a local Realtor. You can still buy under the stricter mortgage rules by applying pragmatic, old school principals.

Finally, remember that if you do not need a government-backed insured mortgage (you will put 20 per cent down or more) you will not be affected by the new mortgage rules.

“**Tighter mortgage rules require a more pragmatic approach to home buying.**”