

How to Apply for a Mortgage in 10 Steps

Applying for a home mortgage is more simple than you've been led to believe, here is a step-by-step breakdown of how you can find the right lender and start your journey to homeownership.

1) Securing a Down Payment on a Home

Your down payment will affect the type of mortgage you will be able to afford. A larger down payment will grant you a larger choice of lenders, interest rates, and overall packages that can be offered to you by said lenders. By committing to a bigger down payment you minimize the size of your loan. This leads to lower monthly payments, lower insurance premiums, owning your home in a shorter amount of time, and a lower overall cost due to not paying additional interest.

Thankfully, only 5% of a home's total value is required for a down payment (EX: 5% of a home valued at \$200,000 would be \$10,000, therefore the minimum down payment is \$10,000). However, any down payment that is less than 20% of a home's total value will require mortgage default insurance. Decide which avenue is most appropriate for your current financial and employment situation.

Research the real estate market in your area for at least 6 months before entering the market. This period will help you gauge the type of home you can afford, the general price of homes in the area you intend to live in, and if the price of homes is rising or falling in that area.

Your down payment size, credit score, employment situation, and income all impact the type of packages lenders will offer you. Be sure to have all your "ducks in a row" before entering the market.

2) Finding a lender

Banks are not the only organizations that will loan you money, there are a ton of options to choose from when looking for the right institution to finance your home. Look up mortgage companies, insurance companies, trust companies, loan companies, credit unions, and caisses populaires in your area to find the right fit. Each institution will have different interest rates and conditions for their products, it's important to research thoroughly before jumping into the biggest financial commitment of your life.

3) Navigating the "Pre-Approval" Process

Research to find out exactly how much of a mortgage you can afford. Fox Business recommends that homebuyers should allot 28% of their gross income for mortgage-related payments. (For example, on a \$40,000 a year salary, with the recommendation of housing costing 28% of a person's gross income, the average person could afford a \$933.33 monthly mortgage). Following your research, contact your lender to lock in an interest rate for at least 60-120 days.

Remember, your pre-approval amount should be the maximum you may get and doesn't guarantee the actual mortgage loan you will receive. The actual loan you will be approved for will depend on your down payment and the value of your home. Keep in mind, additional funds will be needed for closing costs, moving costs, and on-going maintenance.

4) Providing Documentation - Checking Your Credit Report

Having good credit is crucial to securing a mortgage with a reasonable interest rate. If your credit is less than adequate (an average credit score in Canada is around 650), lenders can lower the overall amount you can get approved for. Additionally, they can raise the interest rate on your mortgage, increase the down payment required to receive said mortgage, require a co-signer in order to be approved, or even downright refuse to approve your mortgage altogether. You can order credit reports from your financial institution or use websites such as annualcreditreport.com. The higher your credit score, the lower the mortgage rate your lender will be able to offer you.

5) Providing Documentation – Proof of Identity, Employment, and Canadian Revenue Notice of Assessment

On top of a credit report, your lender will ask for additional documentation such as proof of identification, employment, and salary in order for you to prove that you will be able to make the payments and closing costs once approved. Additionally, you will be asked to provide a Notice of Assessment from the Canadian Revenue Agency (CRA) in order for your institution of choice to get an accurate assessment of your assets and debts. Ensure you have all of this documentation on-hand at your appointment in order to expedite the approval process.

6) Choosing a Mortgage

There are three large considerations to make when choosing a mortgage for your home: amortization periods, fixed and variable rates, and mortgage term.

Amortization Period: The amortization period is the total length of time you anticipate it will take you to pay off your mortgage. The standard amortization period is 25 years but your mortgage professional can offer different packages, longer or shorter, to fit your situation. A shorter amortization period will ensure less money is paid in interest rates but will increase the principal amount you will pay month-to-month. The reverse is true with a longer amortization period; the principal payments will be lower but you will pay more in interest by the end of your mortgage.

Fixed/Variable Rates: Choosing between a fixed and variable mortgage rate will affect the interest payments on your loan month-to-month. A fixed-rate mortgage will set a consistent interest rate for your payments month-to-month. A variable interest rate will shift month-to-month depending on your relationship to the "prime rate". The "prime rate" is the rate institutions offer their most creditworthy customers. The better your credit, the better your relationship to the prime rate will be. According to RateHub.com, 66% of mortgages are fixed-rate, while 29% of mortgages are variables, with 4% being a

combination of the two. Discuss your specific living situation with your mortgage professional in order to decide which route is right for you.

Mortgage Term: A "Mortgage Term" is the length of time in which the parameters of a mortgage have legal effect. If your mortgage expires with any sort of balance remaining on it, the remaining balance will need to be renewed, refinanced, or paid in full. According to First Foundation, Canada carries short mortgage terms so the terms are often renewed by most mortgage borrowers. While this may sound similar to the "amortization period" mentioned above, the difference is that the amortization period reflects the total amount of time it will take you as a mortgagor to pay off the loan based on the monthly payments while the mortgage term is a much longer timeline that gives both parties an option to assess the mortgage after a previously specified period of time.

Discuss these three principle categories with your mortgage professional in order to construct a plan that is affordable and reflects your lifestyle.

7) Completing the Mortgage Application

Filling out the Mortgage Application is much easier than you think. You can fill one out online or have a lender from your chosen institution fill it out over the phone. In the second case, make sure you have all of your personal and financial information on hand to expedite the process. Your application will cover information about your employment, finances, assets, debts, property, and the loan itself.

NOTE: if you plan on submitting multiple applications and comparing offers, ensure you submit all applications within a 45-day window to ensure you avoid any negative repercussions on your credit score.

The lenders will then ask permission to access information about your credit. Within three days you will receive a Loan Estimate disclosing the structure of your loan. This is where submitting multiple applications is helpful, multiple applications across various institutions means you will have range of options to choose from.

8) Loan Estimates and Offers

Having a choice is always better than being at the mercy of a single lender. Review all of your offers to find the best choice while keeping in mind that this will probably be the single largest investment you will make, so think long-term. Nerdwallet.com recommends homebuyers to look at the:

- Total cost in five years
- Principal paid in five years
- Annual Percentage Rate
- Percent paid in interest

Pick an institution that is trustworthy, reliable, and provides prompt service. You will be dealing with this organization for 20+ years so you will grow to know them very well. Select the best offer that comes from a trustworthy source and prepare to wait while the lender processes the loan.

9) Processing the Loan

At this point, your application is reviewed by your financier and is audited for veracity. Your lender will contact the CRA, your workplace, and other institutions to ensure you are who you say you are. All you have to do is wait for the process to workout itself out and prepare to close the deal.

10) Closing the deal

After processing the loan, your lender will give you the go-ahead to close the deal on your purchase. They will send you a “Closing Disclosure” three days prior to your scheduled closing date. It will break down the structure of the loan and the final costs you will incur from the mortgage. If you approve of the details of the loan, the only thing left you have to do is do the final closing paperwork saying you’re going through with the borrow. From there you will officially have the money you need to get your home and begin paying it off!

Summary

Acquiring a mortgage is possible for homebuyers of all income-brackets as long as you commit to doing proper research, ensure to follow through with frugal financial habits, consult informed professionals, and stick to a plan. Use a variety of online tools and personal consultation to ensure you’re informed about your purchase before you commit to it. You don’t want to regret your decision because you didn’t read the fine print.

Congratulations on your loan!

For more information about mortgages and mortgage lending check out these links:

Canada.ca – Choosing a mortgage that is right for you

<https://www.canada.ca/en/financial-consumer-agency/services/mortgages/choose-mortgage.html>

Wealthsimple.com – What is a mortgage?

<https://www.wealthsimple.com/en-ca/learn/what-is-mortgage>

Canadianmortgagetrends.ca – Mortgage Tips & Advice

<https://www.canadianmortgagetrends.com/category/mortgage-tips-advice/>

Nerdwallet.com – How to apply for a mortgage

<https://www.nerdwallet.com/blog/mortgages/how-to-apply-for-a-mortgage/>