Home Financing Made Easy
Part Two

By Bruce Smith

Buying a home could possibly be the biggest investment you'll ever make. Your ability to position yourself for the best mortgage will help you pay down this investment early and assist you in becoming mortgage free. In Part Two of "Home Financing Made Easy," we cover the topic of "Improving My Ability to Obtain a Mortgage."

If you've missed Part One click here.

Improving My Ability to Obtain a Mortgage
Preparation is often the key to maximizing your leverage when seeking mortgage financing. Lenders focus on three main criteria when evaluating an application; **credit, collateral,** and **cashflow.** We'll share some of the secrets that will help you when dealing with lenders.

1. Credit
Your personal credit score will determine your ability to obtain the best rates in the marketplace. Quite simply, the higher your score is, the lower your interest rate will be. Your score is determined by a number of factors, including your payment history, amount of your credit balances compared to the limits, length of credit history, number of inquiries on your report, and types of credit in use.

Payment history
Each time you are late or miss a payment, it is noted in your report and is detrimental to your score. It is better to make a token payment if you do not have the funds to pay off the balance or make the minimum payment due. The last two years of your credit history will be given greater consideration.

Amount of your credit balances compared to the limits
If you are planning on shopping for a mortgage, your best strategy is to pay off all outstanding credit balances and not use your credit for about 45 days prior to your search. This will provide enough time for your balances to clear the system. If you cannot pay off the outstanding balances your next best strategy is to pay them down to at least 60% of the credit limit.

Length of your credit history
The longer you have demonstrated the ability to manage your credit, the higher your score.

Number of inquiries on your report
Frequent requests for credit are often an indication of problems in terms of need or in terms of being turned down by previous lenders. One of the advantages of using a mortgage broker to assist in financing, beyond

superior rates, is that a broker will only pull your credit report once.

Types of credit in use
Credit lines that are unused are of no value. The more you demonstrate the ability to manage your debt the better your score

In Canada, credit scoring is handled by two credit reporting agencies. To obtain a free copy of your credit history by mail, contact the credit bureaus below by phone or online. If you wish to download your credit report online a $15.00 - $25.00 fee will apply.

Equifax – 1-800-465-7166 www.equifax.ca

Trans Union – 1-866-525-0262 www.transunion.ca

2. Collateral

Collateral is a term for the amount of down payment that you are prepared to offer on a property. A 25% down payment of the purchase price eliminates the need for your mortgage to be insured by CHMC or Genworth as required by most lenders.

3. Cash Flow

Cash flow is commonly referred to as income. Lenders typically require that your housing payments are no more than 32% of your income. A second ratio lenders consider is your total debt service ratio. Additional debt such as credit cards, lines of credit, car payments, and child support payments, etc. are added to your mortgage debt. All your debt payments combined, are to be no more than 40% of your income.

There are many types of acceptable income but generally you will be reporting either employment income or self employed income. If you are an employee, you should have worked with your current employer for a minimum of three months and be able to produce an employment letter and a current pay stub to verify employment. Lenders look to verify salary, position, and length of employment. When planning to purchase a first home it is not the time to be switching jobs. Lenders like to see steady employment.

If you are self employed, lenders look for a three year history. Notices of assessments are the preferred choice to verify employment income as it provides the lender with your income and verifies that your income taxes are current. If you are self employed and unable to verify income, there are mortgage products accessible to you as well, but you will pay a premium rate or you will require a higher down payment.

Read Part Three: Information Required at the Time of Application

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