A guide to getting your first mortgage

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Mortgage Excellence

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Chapter One:
The Importance of Pre-Approval

Imagine this. You and your partner step into an open house and you instantly get that magical, tingly rush of excitement. You stop walking and look around, pointing out something new every ten seconds.

"A cathedral ceiling! Look at the loft! No way—there's a mini library with a moon-shaped window up there."

You wander past the hallway to see a kitchen that would make your mother-in-law jealous.

Perfect.

Ten minutes later you've fallen for the place and you hear your partner in the distance saying, "I've never seen a bathroom so elegant in my life. Hun, where are you? Let's talk numbers!"

You start the process of putting in an offer, only to realize the house is way out of your budget. The flutter of excitement breaks like tempered glass.

That hurts.

You later learn that if you had gotten a pre-approval before you started shopping for houses, you could have avoided this awful feeling.

Getting a pre-approval means finding out the amount of money you'll be able to borrow for your mortgage. Knowing it ahead of time let's you narrow down the market so the experience is positive and realistic.

This way, you won't end up falling in love with a house you can't afford. Plus, it's much less stressful this way. We'll admit one thing though, getting a pre approval is not the most enjoyable or exciting part of the home buying experience— but it will save you time, money, and sanity. This ebook will tell you everything you need to know. We're glad to have you here!

Why Get A Pre-Approval?

A realtor can direct you in house shopping; however, many of the decisions you make depend on one thing: the amount of mortgage you qualify for.

A comprehensive pre-approval will determine two factors in your home purchase:

what **price** you can afford and **how to plan** for it.

The pre-approval amount helps determine which neighbourhoods you can shop in, what size of house you can afford, and what age of house is reasonable.

You may be challenged physically, mentally, and emotionally when shopping for a house. You pick the neighbourhood you want to live in and the style of house, then spend hours browsing online. As you start looking around, you get emotionally vested in all the decisions. The last thing you want to do is find out that all of your time and effort were wasted because you can't purchase the house you just found.

So many people go through this; we call it premature evaluation. It leaves a sour feeling of disappointment that can ruin your desire to start shopping again.

Plus, an adequate pre-approval can help you determine what important glitches there might be in your buying process. Sometimes small details identified in the pre-approval can make a huge difference in the way banks see you as a client.

Chapter Two:
Here's What The Banks Need To Know

Today you can log on to a real estate website and use an online calculator to estimate your price range. However, the amount you're comfortable paying might not equal the amount you can borrow. Banks need to know a lot more than just your monthly income— we'll come back to that later.

Many people look at a monthly payment, run their budget, and determine whether they think they can handle it or not. This is fine if the monthly payment amount is approved by a bank, but if it's higher than what they can loan you, it can lead to false hope.

CONSIDER THIS EXAMPLE...

You pay $1500 per month for rent, so the bank will surely approve you for a $1500 per month mortgage payment, right? Not quite. If it were that easy, us brokers would be out of a job.

Many banks prefer that you only spend **35% of your gross (before tax) income** on your mortgage payment (principal), property taxes, and heat. If you have great credit, they might allow this to be as high as 39%. Another number they look at is your total debts, which includes principle, interest, taxes and heat, plus any other debts you have (like car payments). This **total debts percentage should be 42%** but they may allow up to 44% for people with great credit.

If that $1500 payment doesn't jive with their rules, then it doesn't matter whether you feel like you can handle it or not; they aren't going to allow you to borrow that much money.

Yes, it seems harsh but that's just how it works. The job of the pre-approval is to show how you can fit within the rules. The following calculation can help you estimate how much mortgage the bank thinks you can handle, monthly.

Step 1: Take the number of your total monthly contractual debts. These are your credit cards, loan payments, and lines of credit. Then divide that amount by your gross (before tax) monthly income. Your result should be a number less than 1.

$800 / $6000 = 0.13

Step 2: Now subtract that number from 0.37.

0.37-0.13 = 0.24

Step 3: Once you have that number, multiply it by your gross monthly income and you will get a close estimate of the payment that a bank thinks you can handle.

$6000 x 0.24 = $1440

If this person had $800 a month in contractual debts and $6000 per month in gross income, they could afford a $1440 monthly mortgage payment.

You can use this payment number in online calculators and see how it translates over to a house price; but remember, this is only an estimate. Your mortgage professional (hi, that's me) will have the exact number you can qualify for.

What Else Is Involved?

So now we've dealt with income. Great.

Keep in mind there are many other factors that determine how much you can borrow. Lenders will also consider:

- the **amount** of your down payment
- the **source** of your down payment
- your **job type** and **length of employment**
- your **credit rating**

At this point, a simple online calculator is no longer useful. In addition to providing personal information, you should have had a detailed conversation with your mortgage professional about where you work, how long you've worked there, your wage, if you have a down payment, and where the down payment is coming from.

You'll also be asked for permission to access your credit— nobody can confidently pre-approve you without seeing your credit score. Additionally, you will need to provide a number of documents after initially speaking with a mortgage professional, including a job letter, a pay stub, Notice of Assessments or T4s, and proof of your down payment.

These are the questions and documents that most influence the process. When getting pre-approved, the three big topics that any professional should be paying attention to are: **credit, income, and down payment.** These are deal-makers or deal-killers.

> Think about it this way. If you're in the mall but forgot your wallet in the car, yet you happen to have a mall-wide gift card in your pocket— you're going to want to know how much is on that gift card. Can you afford a snack from the food court or a necklace from the jewellers? You wouldn't go shopping unless you know how much money you have. Buying a house is no different.

We offer a large portion of the process online, and it's been a real time-saver for all parties involved. For a full walk-through of our online process, **see Chapter Five: Application Walk-Through.**

The Importance of Knowing Your Credit Score

Knowing your credit score is one of the most important factors when it comes to the pre-approval. However, it can sometimes be difficult to find complete versions of this information without the help of a mortgage professional. You'd think a bank would be the best source of information, but even a bank loan officer can produce incomplete data. A half answer or incomplete report can give you either a false sense of hope or a whole bunch of frustration. Many people are declined when they should be approved and vice versa.

> The credit score is the first key to all of this. If your credit score is not good, then the bank does not care how much money you make – your credit score tells them you don't pay anyone back.

The rules for mortgages change based on your score. If you are between 620 and 679, then you can be approved, but the box that the bank wants to fit you in is pretty firm. If you are at 680 or higher, then sometimes they will let you stretch the numbers a little because your score is exceptional.

This is why it is crucial to know your score and understand the full credit bureau. Some banks and lenders don't get all the details, so if they say that you have a negative on your credit bureau that you can't explain, then get a second opinion. Professionals who pull your credit should be able to tell you what any problems are, when they happened, and walk you through the bureau. Accuracy is the key to a pre-approval. You don't want them to tell you what you want to hear; instead, you want an honest answer so you can proceed intelligently and correctly.

Sometimes, a bill is reported to collections without a person even knowing it – perhaps an old utility or cell phone bill. Collection companies won't typically call you over a $100 charge. Meanwhile, you're thinking you have spotless credit because you pay all the other bills on time. This blemish on your record might result in you getting turned down for the mortgage when the remedy is almost instant and would have been easy to take care of a long time ago.

Your credit report can be obtained by working with a mortgage professional or contacting and requesting it directly from the credit agencies Equifax Canada or Transunion. Whether you have bad credit, unforeseen credit issues, or no credit at all, working with a pro can help you remedy these issues quickly.

Do Your Paperwork First

It hurts to say this, but paperwork is very important here. Getting documents out of the way before you begin looking for a home is the best option if you want to save time, money, and headaches.

We cannot stress enough how much more accurate your mortgage professional is when they see your paperwork first. If you've ever received a pre-approval without having to provide proof of information, you should get a second opinion. Verbal pre-approvals are a recipe for disaster.

Asking a financial institution for money to buy a house can be nerve-racking. Shopping for a house is way more fun. So take care of the business end first so you can enjoy shopping without getting disappointed.

More On Paperwork

We don't blame you if you're tempted to skip this section. We'll keep it short.

Here's Why We Need So Much Paperwork

In 2008, the housing market crashed, which was caused by many factors that we don't have room to explain in this book. In summary, loans ended up not being paid because people were allowed to buy homes they couldn't afford. The market took a huge hit as lenders ended up holding mortgages with no payments coming in.

As a result, the banks have now become cautious when offering mortgages to hopeful homeowners. You'll have to provide an excessive amount of paperwork; but it's worth it. You'll have higher chances of approval and it makes it easier for us (your brokers) to get you any deals or special rates that pop up. We work in the background; you'll only notice a beautiful low rate and an excellent product in the end.

If you can cover three major aspects of a mortgage application with satisfactory paperwork, you'll be good to go.

Here are some examples of each:

THE "BIG THREE" IN DOCUMENTATION:

1. **Income verification** (employment letter, pay stub, and two most recent years of income tax statements)
2. **Down payment confirmation** (most recent three months of bank statements showing the accumulation of savings in the bank account)
3. **Credit score and history** (payments are made on time, there's no over-borrowing on credit, and the credit history is clean)

You can also fall back on your lawyer, accountant, and the CRA. These three sources will have most of the paperwork needed to make your approval happen, and you can ask them to resend the documents if you need to.

When gathering paperwork, make sure you contact us with any questions about what's needed. If you're unsure, we always recommend sending the document anyways.

Don't be afraid of the outcome of a pre-approval.

Clients are often surprised by what they can afford and it's never too early to start. Getting a pre-approval well in advance of purchasing can help you discover small problems before they become big.

Some people will have to pay off debt before they purchase, or they may need to fix credit problems they didn't know about. With a pre-approval, you have time to work on these things and can get the right advice. If you need to save more money, then you have time. It is far better to get a pre-approval early than to realize you were too late.

Chapter Three:
Know Yourself Better Than The Banks

The next step in the pre-approval process focuses on you, the buyer.

In the time before you apply for a mortgage, you need to create your game plan to ensure that you know yourself better than the banks do. When it comes to a pre-approval, the mortgage professional's job is to let you know what your parameters are, and it's your job to discuss how you want to fit within those parameters.

Get In The Right Mind-Frame

Try not to get too carried away in the process. It can be tempting to forget about the details as you imagine your unborn child's third birthday party in the spare room (complete with a ball-pit and cake-smash). Stay focused— you can do the party planning after the house is secured. The point of no-return is coming up; things get serious after the pre-approval.

Keep your emotions in check. We recommend you take some time with a pen and paper and respond to these vital questions before applying for a mortgage:

- Why am I so excited about this?
- What is the purpose of the purchase?
- What do I feel I can afford with my current salary?
- What are the cost differentials between renting and owning a home?
- When do I want to buy?

It is imperative that you understand all the differences between renting a house or apartment and owning a home. What you pay for rent will not be the same as what you pay for a house payment.

Even if you can find a house for the same price as your current rent, you have to consider all the other costs associated with home ownership such as utilities, house insurance, property taxes, closing costs, updating, maintenance, and repairs. Working through a budget can help you decide on a financial comfort level before you start. If something breaks down in your house, there's no landlord to call anymore (that's you, now). Understand the obligations and costs of buying a home.

First-Time Buying Can Be Scary

There are several important factors for first-time home buyers to consider, like:

- Will the home be a rental property?
- Will the home be for a growing family?
- Will the home need renovations?
- Will your current income cover the cost/expenses?
- Will you be inviting the in-laws to move in? You better have a hobby hideout if so.

It is essential that you clarify your goals before you approach a bank. Knowing exactly what you're looking for will save you time and frustration and help avoid confusion. Are you looking for a fixer-upper home? Are you looking for a home that you can stay in for ten years? Are you going to be moving in two years?

Two topics can help you make decisions:

1) Longevity

2) Resale

If you plan to stay long term, then resale is not as important. If you are not staying long term, then you want to consider resale more than longevity. Ask yourself, what are the market trends in your neighbourhood? Some trends include style upgrades within the home or renovations. If you have to sell within a few years, then your home is more likely to move quickly if you have considered selling it upon purchasing it.

Thinking through these topics in advance helps both the realtor and mortgage professional get you what you want for the best possible price. It's fine to ask friends and family for advice, but remember to lean heavily on the professionals you hire. Your mortgage professional and realtor do this for a living, and they talk about prices, processes, rates, and homes all day, every day. They love to help, assist and guide in order to make your buying experience fun and enjoyable.

This Time It's Personal

Buying a house is personal. People have their own reasons for buying a house and we all have different tastes. Each home comes with a lifestyle and you get to choose that lifestyle. Having said this, being "house poor" isn't fun for anyone.

Pick a home with a price that empowers your lifestyle and doesn't cramp it. Yeah, you could have an indoor pool; but can you still take yearly vacations with that mortgage? Margaritas are better at the beach, anyway.

Knowing your own personal wants and needs will ensure that you don't get carried away in the process and make emotional decisions. Now is not the time to try to keep up with your well-off cousins and their weirdly expensive taste in cutlery. Buy a home you love, but make sure you can still afford to do the activities you love, too.

Key Areas To Understand Before You Shop

A few key areas need to be addressed prior to shopping for a home. Knowing the details surrounding these considerations will increase your chances of getting your dream home.

Down Payments

With down payment being a major component in obtaining a mortgage, recent rule changes have altered the options available. Your mortgage professional should understand this. The pros can handle the nuances of the system and they can help you get your down payment figured out before it's too late. For example, they can borrow a down payment from a loan or line or credit to help you. **The minimum down payment for a home that you're going to live in is 5%.**

The down payment can come in different forms depending on your situation: a gift from your family, an inheritance, the sale of a vehicle, savings, RRSPs, a borrowed down payment, etc.

Having said this, you have to prove that your down payment came from a legitimate source. Cash under the mattress does not work for the bank; by law, they have to confirm the money is yours via their guidelines. Unfortunately, some folks don't realize this important fact until it's too late, causing avoidable delays in the process. If you had a recent large cash deposit, the money has to be in your account for 90 days before they consider it legitimate. The only way around the 90-day rule is to show where it came from, such as a vehicle sale, etc.

Co-Signers

A co-signer is a family member who is needed to bring overall strength to your mortgage application to guarantee mortgage approval. It's fairly common for a first-time buyer to need a co-signer. There are several reasons why you might need a co-signer:

- **Your credit might not be strong enough on your own.** This can occur due to lack of credit, which means you just started borrowing, or you might have made some mistakes when it came to paying back your debts.
- **You just switched careers and the bank won't accept your new income.** Sometimes if you switch careers and start working in a different industry, then the bank wants you to pay your dues and show stability. Therefore, they might want a co-signer to stay on the file until you've been in a certain type of work for more than a year.
- **You are carrying too much debt.** If you have too much debt on your own and you can't get approved, then you have the option to obtain a co-signer that can provide additional income to help you qualify. In this case, you have to be very cautious to make sure you're not purchasing something that you cannot afford. If you cannot qualify on your own, then the rules are set up to recommend that you purchase something with a slightly lower payment. You can still move forward in this case, but just make sure you are entirely comfortable and can qualify in the future.
- **You are self-employed and not claiming as much income as you actually make.** When you are in commission sales, piece work, or self-employed income, you often have good cash flow, but once you write off your expenses and take advantage of accounting benefits, your income may not look so hot. In the bank's eyes, you don't qualify but you are personally comfortable with the payment. In this case, you can get a co-signer to help you qualify.

The co-signer need not stay on long-term. Many lenders will let you take a co-signer off the mortgage and title in as little as one year. They will never guarantee this, of course, but if 12 months pass and your situation improves, allowing you to qualify on your own, most lenders will take the co-signer off of the mortgage and title of the property. They do this just for the cost of the title change, which can cost $200-$400. If you need a co-signer, check with your mortgage professional about the current options, as rules do change. Most lenders want to see an immediate family member (grandparent, parent, sibling, child) be the co-signer, but on occasion some lenders will make exceptions.

Rate Holds

A rate hold allows you to shop with security for between 90 and 120 days. During the hold, the mortgage rate from the pre-approval is protected from going up. The great thing about a pre-approved rate hold is that if the rate goes down, they will drop the rate; and if it goes up, they will leave it where it is.

To enjoy smooth sailing during the home-buying process, you need to get pre approved. However, making sure that this pre-approval is accurate, legitimate, and comprehensive is important. Working with industry professionals is the wisest choice and their services are free.

Chapter Four:
Professional Roles

Professionals know their roles and stay within them; it's essential that you understand role boundaries. **The average home purchase involves five main parties: the buyer, the bank, the mortgage specialist, the realtor, and the lawyer.** Understanding what each of these parties does will help you purchase your home without conflict.

Mortgage Specialists

These professionals know the pre-approval process like Ron Burgundy knows news (probably better, actually). With a vast understanding of lenders and the associated rules, these pros can explain everything to you in a way that's easy to understand.

You can go to these experts for questions about what documents you need and for valuable opinions on what you should and shouldn't do, concerning your home purchase and financial future. Independent mortgage specialists truly work for you.

They go through all of your information and determine what can increase your odds of approval, and how to increase the speed of the process. They get paid when you're happy and get a mortgage; so you always have someone on your side. If they see something that the bank shouldn't do or ask for, then they will fight it on your behalf. If they see a better rate, they go get it. This is by far the most efficient way to obtain a mortgage at no cost to you. The lender who gives you a mortgage pays them for their work. It's a win for everyone.

Realtors

Realtors are experts as well. They will take you through the process of shopping and negotiating. A good realtor knows where good deals are and stays on top of the market. The realtor makes sure you don't overpay for a house. A reputable realtor will take care of:

- Neighbourhoods
- Property Negotiations
- Contracts
- Conditions
- Inspections
- Buyer/seller requests

Lawyers

Your lawyer makes sure you legally own your house and you are protected. They deal with the money switching hands, collecting your down payment, witnessing your signatures for the bank, putting your name on the title, and anything else required by the lender. They also manage property taxes and set that up correctly between you, the bank, and the city. This can vary from province to province as some provinces will let you use a notary. Check with your mortgage professional to determine specific provincial requirements.

Keeping the Lines Sharp

When working with a team, it's important to know everyone's roles and allow them to stick to what they do.

When it comes to a mortgage, always check and confirm everything about the mortgage with your mortgage specialist. Your realtor and lawyer shouldn't meddle with the mortgage since they're not the ones dealing with rule changes and speaking back and forth to your lender. When talking about the law, listen to the lawyer; when talking about real estate, listen to the realtor. If the lines get blurred and you ask information that doesn't apply to their specific role, it can get stressful.

In addition, you may hear a lot of unsolicited advice from your family and friends— advice that may be difficult to ignore. But keep this in mind: unless your friend is an expert in the field, do not let them meddle in your decision-making. Your best bet is to find a team of knowledgeable professionals you can trust. Gather expert advice, then make your own informed decision.

Chapter Five:
Application Walk-Through

Ready to start the pre-approval? The beauty of our system is that you can do a lot of it online. That means there's less meetings to plan around your kids' hockey schedules, those busy little buggers.

Get Ready With The Basics

Step One

Fill out our short form. Get your basic documentation in hand so the application can flow quickly and smoothly.

You'll need your driver's license, social insurance number, date of birth, and your current mailing address in hand. You can also go one step further by making sure that you have the last three years of mailing addresses ready; that information is required if you've recently moved. We use this data to build a basic customer profile and to pull your credit history and score.

What You'll Need For the Short Form

- A photo of your Drivers license
- Social Insurance Number
- Current mailing address

GET STARTED

Step Two

Next we get into the heart of the application: **income, down payment, assets, and liabilities** (a.k.a. debt).

After filling out the short form, you'll receive an email from me with more information, along with another form that asks for specific details. Once you answer these follow-up questions, we'll know enough about your situation and can request only the paperwork that applies to you. That's the basic application process. From there, our team will dig deep and find the best product, lender, and rate for you.

COMMON DOCUMENTS WE REQUEST

- An employment letter
- A pay stub
- Notice of Assessments or T4s (two most recent years of income tax statements)
- Proof of down payment (most recent three months of bank statements showing the accumulation of savings in your account)

WHAT TO ASK FOR ON YOUR EMPLOYMENT LETTER

- Your employment start date
- Your hourly wage or salary
- If you're in a probationary period or not
- The amount of working hours you're guaranteed per week
- Your employer's title, contact information, and signature

We love pre-approvals and we know these are exciting moments for you, the potential buyer. It's also exciting for us, as we know we have the ability to make a dream happen.

We are experts in this area. We will make sure that you get basic pre-approval at the very minimum, along with a game plan and answers to those questions you have been pondering for weeks. Remember, we are here to help!

Please Be Honest

You probably already know this, but please be honest on your application. You don't need to try to impress me (though I appreciate the gesture, I'm blushing!). If you don't give us the proper number, we'll find out your actual income or how much you have in your bank account, regardless. There's no need to exaggerate or inflate numbers and goals. We're here to serve you in your current situation, but we need your help to make it happen accurately.

We also have more knowledge of products available than the banks do; if we know everything upfront we can help you navigate how to get approved much more smoothly.

Chapter Six: Timelines

Now that you have an idea of the application process, it's time to draw a mental picture of your mortgage timeline: before, during, and after. Here's what you can expect for a mortgage timeline.

Before the approval stage:

The application itself does not take much time, as we mentioned in the previous chapter. Basic information is taken down in a couple minutes online, in ten minutes over the phone, or in 30 to 60 minutes during a face-to-face meeting.

The 60-minute slots are usually required for chit-chatters or those with lots of good, genuine questions. During the "before" stage, you can expect to gather paperwork. This can take a day or a week depending on your document management skills.

Average time: *three to five business days.*

During the approval stage:

Once you have made an offer on a home with your pre-approval in mind, you will now be looking to get your full approval from the banks we work with.

If all the paperwork has been delivered up front, then this portion of the timeline will take approximately three to four days. We have seen completion in less than 24 hours many times, and it's always our goal. This timeline depends on having the correct paperwork as we have requested. It also depends on the speed of the banks and whether an appraisal is needed to verify the home's value. The goal is always as soon as possible.

Average time: *four to five business days.*

After you have been approved:

Congratulations! You just got yourself a mortgage, which now allows the doors of home ownership to open. This stage is fairly stress-free as the hard part is over. You're simply waiting for the lawyer, realtor, and lender to organize your file for completion. Lawyers gather your information for registration of your name on the title as well as for the mortgage lender/bank. They will contact you to set up the final signing and go through any last conditions and questions.

Average time: *five days.*

Add up these times and you can see that the average transaction will take three weeks from start to finish. This allows time for us and all the professionals to perform our duties and work our magic.

It can happen faster or slower than this, but at least you know what to expect if everything lines up perfectly. Keep in mind that after your pre-approval "before" stage, it may take weeks or months to find a home you love. This variable is hard to control, but it still needs to be mentioned to manage your expectations of a mortgage timeline.

You've put in the hard work; now you deserve to be taken seriously when shopping for a home. As long as you choose a property that's priced within your pre-approval amount, you'll be approved for that house without any qualms. But of course, there are some stipulations:

1. **If the lender or insurer does not like the property, then there is nothing that anyone can do about it.** They have a right to decline any mortgage. But keep in mind that they are not declining you personally; they are simply declining the property. This could end up being a blessing in disguise, as you do not want to purchase a house for more than it is worth or has problems you may be unaware of.

2. Any change in the application will remove the guarantee. **Financing something new during the process will change some of your vital application information, which could result in you losing your pre-approval for a specific property or price range.** It's important to hold off on buying anything that requires financing (like a car or a boat) if you can; and if you must, it's essential that you update your pre-approval application. Knowing where you stand during the pre-approval application process will help you figure out what needs to be done to give you the keys to your dream house.

How Long Can Pre-Approvals Last?

Pre-approvals are only valid as long as your financial position stays the same and there have been no mortgage rule changes that affect your approval. To explain why, let's do a quick walk through the process.

The information gathered in a pre-approval is reviewed by the lenders and considered at that time.

A rate hold is then put in place for a period of time. If an offer is made on a home and your mortgage is submitted for full approval during the rate hold period, then it's submitted at that rate.

Your pre-approval status remains as long as your financial position doesn't change and the government regulations stay the same.

Rate Hold Duration

As we mentioned before, a rate hold locks in your rate or payment on the mortgage loan. As mentioned before, a rate hold will last anywhere from 90 to 120 days. Each rate hold differs based on the lenders involved; but your pre-approval professional should have all the information you need.

The good news is that you are not tied to the lenders that have provided the rate hold, and your mortgage broker will continue to look for the best rate and the best mortgage available for you.

Pre-Approval Duration

Essentially, a pre-approval never goes bad. Once you have been pre-approved for a mortgage, you are free to progress as you see fit. However, **it's vital that you understand how time plays a huge role in the accuracy of your initial pre-approval.**

You will need to be proactive when it comes to updating your information. This will ensure that your broker keeps all information current. Because of this, most pre-approval experts suggest that you brush up your application information every 90 to 120 days. This will ensure that you always get the best deal and the most up-to date opportunities. Give your mortgage professional a call every 90 to 120 days to give them an update, even if they haven't reached out to you.

Although your pre-approval never expires, your rate hold will. These changes could mean differences in what you end up being able to purchase. If rates increase after you have been pre approved, your updated rate hold will lock in those payments you've calculated. If your rate hold is outdated, then you might become subject to increased rates and payments.

Chapter Seven:
Affordability Versus Qualification

When the time comes to choose a house, you'll want to be 100% sure you've made the right decision. Factoring in your income, your job stability, your goals, and your family needs is important here.

However, it is imperative that you understand the difference between the amount you qualified for and the amount you can actually afford.

As with any expert pre-approval, you will be given two different figures to consider when the smoke clears.

- the **max mortgage amount** that you can get with your current income level and financial situation, and
- the **amount you're comfortable with** based on your budget and lifestyle.

Finding that happy medium will help you to live a life as a homeowner without becoming "house poor" and stressed out. Remember these differences in definition:

QUALIFICATION: the banks dictate	**AFFORDABILITY:** the purchaser dictates

To be satisfied with your home purchase, make sure you don't overshoot the goal when it comes time to make an offer. Stay excited about your home by being responsible with your funds and insightful about your financial future.

The Costs of Owning A Home

Home buyers are often surprised by how much owning a home really costs. We've mentioned the term "house poor" earlier in this book. Becoming house poor results from failing to factor in all the costs of home ownership; people end up spending so much on their home each month that they have little money left to live well. Let's look at some of the costs you should consider when budgeting for your home.

Common Factors that Affect Cost

It's wise to research some common costs of your new home. It doesn't matter who you are or how you got your loan; you will be responsible for timely payments of the following:

- **Mortgage payments** (average cost: $1300/month)
- **Property taxes** (average cost: $200/month)
- **Utilities** (average cost: $300/month)
- **Homeowners' insurance** (average cost: $70/month)
- **Maintenance and upkeep** (average cost: $100/month)
- **Life insurance** (average cost: $50/month)

Average home ownership cost: *$2090/month*

Factoring these costs into the equation will help you to better understand the actual costs of home ownership. We're not trying to talk you out of owning a home; it's a great investment and source of personal satisfaction. A mortgage broker should help you make the best financial decisions for your situation.

Chapter Eight:
What Not to Do

If you've made it this far on your pre-approval, congratulations! Be patient and careful now; material changes in your personal finances or employment could greatly affect your pre approval.

There are **seven** major actions that should be avoided at all costs during this process:

1. **Don't increase your debt.** Remember that your pre-approval is based on a percentage of your gross income going to debt. Any increase in borrowing means you have less income available to put towards the mortgage. These changes include an increase in a credit card, line of credit, or home equity line of credit. The purchase of a new vehicle or a new term loan counts too. If you need to borrow, talk to your mortgage broker and let them help you find the best way to structure it.

2. **Don't change the course.** Stay steady with your vision as a homeowner and don't let anything deter you. Life is full of ups and downs, but your pre-approval experts work hard to give you as many advantages as they can. Sometimes the pre-approval process takes a while, and since life is ever-changing, it is inevitable that your financial situation will change somewhat over the course of the deal. This is another good reason to have an open line of communication with your pre-approval specialist. If a lot of time has passed and your employment or borrowing has changed in any way, make sure you update your mortgage broker to keep your pre-approval accurate.

3. **Avoid additional credit bureau pulls.** One of the advantages of using a mortgage broker is that they apply on your behalf to many lenders and only access your credit file once. Every time a utility company, cell phone company, or other credit supplier pulls your credit, it's counted as a small negative on your credit record. This can be a big deal for self-employed people since suppliers will often pull credit to set up accounts.

4. **Don't miss payments . . . for anything.** Each time you miss a payment on a credit card, utility bill, cell phone bill, or just about anything else, it is promptly reported to your credit bureaus. If a credit score is above 680, then there are a number of options that open up to you. The scores are calculated in a way that each missed payment can have a large impact on the options and programs available to you.

5. **Don't go bankrupt.** This should be a given, but some people have decided to file for bankruptcy during the pre-approval process. Obviously, this completely ruins any work that you or your professional has done. If life leads down a path to bankruptcy, do not have your home foreclosed on. Having a home included in your bankruptcy will void any potential of getting a mortgage for the next six years, even if you reestablish your credit score.

6. **Don't change your employment.** Switching up the employment and income information on your pre-approval application at the last minute can affect your application. This doesn't mean that you should pass up that great promotion or job opportunity while you're purchasing a home. Just make sure that you bring it up to your professional so they can discuss the effect it will have on your application.

Chapter Nine:
No Such Thing As A Decline

The typical mortgage pre-approval process is full of surprises – various ups can be encouraging and various downs can be discouraging. Don't be discouraged if something goes wrong. Home buyers could face several common problems; just remember that these problems are not insurmountable and your effort is worth it in the end.

If you encounter one or more of the following hurdles on your application, please know that it is not uncommon, and you can work through it.

- **Credit issues** (a collection from years ago you forgot about)
- **Income verification** (a salary job with a portion paid as commission)
- **Income strength** (a new job with a probationary period)
- **Down payment problems** (a recent deposit from a friend who owed money)
- **Affordability concerns** (too much reliance on overtime income, which varies year to year)

You get pre-approved to find out where you currently stand; it's a starting point that allows us to prepare for when we submit your file to a lender. Our job is to help you overcome these obstacles and to find you a game plan that works.

Setting Up A Game Plan

If your mortgage broker identifies concerns for you to work through, ask them to help you develop a game plan to get yourself to a position where you can buy a home.

We won't lie to you — it's a lot of work. It requires focus and time, but with a plan you can work through it and get into a home. Most of the concerns we identified above can be worked through in a year or less with the right attention from you.

Chapter Ten:
The Extra Benefits of a Pre-Approval

Doing a little hard work now will save you from having to do a lot later. Remember that the pre-approval is designed to save you time and money. The pre-approval guarantee allows you to get fully prepared. By providing all the information up front, you save yourself massive amounts of work after you've made an offer (when things can get rushed and stressful).

Pre-Approvals Speak a Professional Language

Many of the professionals that you will work with during the pre-approval process will be commissions-based salespeople. The more confidence you and your application brings them, the harder they will work for you. A strong pre-approval allows them to make recommendations with confidence and provide you with the best service possible.

With a guaranteed pre-approval, the seller and the seller's realtor will be more willing to negotiate. After all, you'll be coming from a place of financial and organizational power. A good pre-approval speaks a language that professionals understand; and this work will eventually save you time and money.

No More Running Around

A pre-approval allows you and your realtors to zero in on the houses that are right for you and your needs. With potentially hundreds of homes on the market, knowing the purchase price you can handle eliminates hours of shopping.

Planning for the Long Haul

Completing a pre-approval forces you to think more critically about long-term decisions. It creates a virtual bird's-eye view of your finances and it makes it easier for you to choose the house that's right for you. It eliminates as many costly surprises as possible.

There should be no surprises about lawyer fees, closing costs, taxes, or anything else. In essence, going through the work associated with an accurate pre-approval will help prepare you to enter the market of buying a home.

Conclusion:
We Help You Stress Less

Phew, that was a lot of information. If you're still with me, you deserve a medal. A nice, shiny one.

If you happened to skip to the conclusion without reading the rest because it says the words "Stress Less," I don't blame you; take your time and go back when you're ready. Since you're here, let's talk about the emotional side of buying a home.

Once in a Lifetime Opportunity

Buying a home is not an everyday, common purchase (unless you're Taylor Swift... seriously, she has some kind of real-estate empire going on).

You're not just deciding where to eat, what shoes to wear, or what toy to buy for your fluffy companion Mr.Scruffles (all of them, spoil that good boy). Purchasing a home has a huge impact on your future, so it's not surprising that most home buyers have varying emotions throughout the deal.

With this in mind, it's important to consider the counsel you receive from your advisors. Your mortgage broker will have many suggestions to help you along the way. They know the legalities of getting your mortgage and can help you understand the best ways to get your mortgage settled. Use this wonderful resource to help you regulate the many emotions you'll face.

Ask All The Questions

You should always feel comfortable asking questions, even if you need to write them out on an index card for the meeting (we would be really excited if you did this, actually).

If we're being honest, us mortgage brokers love answering questions; it's satisfying to help a client understand the process. You're not expected to know everything the pros do, even if you read this whole ebook. A good mortgage professional won't make you feel foolish for asking (and re-asking) plenty of questions.

This is the most important purchase you will ever make, and it comes with a big bill. Because of the magnitude of this purchase do not apologize or hold back any questions. If you need something clarified, just ask.

That is what the professionals are for. They get paid if they keep your business, so make them earn it. Don't feel bad; they will be compensated.

You Have the Final Say

We love working with our clients during the pre-approval stage and in every other aspect of the mortgage process. We love helping out, and we do all we can to get you into a home you love.

If there's one thing we want all our clients to remember it's that **you have the final say.**

You'll be presented with many options and suggestions; however, you should make the final decision. There's hundreds of mortgage products and lenders out there. It's worth your time and money to work with mortgage professionals who will educate you, get you pre-approved, and help you make a decision you can feel great about.

That's it. You made it to the end of this book.

Whenever you feel ready to get started with your pre-approval fill out **this short form** online. If you have any questions or just want to chat, feel free to give me a call.