

MONEYCARE

Understand mortgage plans before you buy that house

By John Switzer, CA

Getting a mortgage for a house purchase is a fairly simple and hassle-free matter these days. But you owe it to yourself to understand something about the mortgage process before getting yourself into a purchase situation.

More and more house buyers today are getting what's known as a "pre-approved" mortgage before they even start looking for a place. This way they know exactly how much mortgage they qualify for -- and therefore how much they can afford to pay for their new home. Which all makes a great deal of sense.



The first thing to realize is that you're going to need a lawyer. So you may as well get one right at the start. At this stage it's not going to cost you anything. (That comes later).

There are several reasons why you need a lawyer. First is that he or she will represent your interests in the final closing of the deal. Also, the mortgage lender will insist. Before putting up any mortgage money, the lender naturally wants to know if there are any encumbrances (such as unpaid mortgages or other liens) against the property you propose to buy. A lawyer will provide the necessary report.

This report (which ideally should show "clear title" to the property) basically assures the lender that he has first claim.

The lender may also require you to get a survey of the property before making any commitment. Where at all possible, get this survey from the vendor. (You should make this condition in your offer). If you have to get the survey yourself, you'll find it's quite a costly document -- running to \$500 or \$600 or more.

The next thing the lender will require is an appraisal of the property. The mortgage company generally arranges this itself -- charging the cost (about \$200) back to you. However, this is usually built into the overall fee structure and simply becomes part of your mortgage. So you don't have to pay up front.

Although it's unlikely, you could be asked to provide your own appraisal, in which case you'll need the services of an appraiser.

An appraisal is necessary to assure the lender that there's an adequate asset-to-loan ratio. Typically, a lender will advance up to 75 per cent of the appraised value (not the asking price) of the property. This is why it's so important.

Then there's the income qualification. Here the lender works according to a ratio -- generally about 30 per cent of your gross income. For example, if your total gross income is, say \$60,000, then you'd qualify for a mortgage that could be serviced with \$18,000 a year, or \$1,500 a month. Enough to handle a mortgage of about \$150,000.

For CA's advice on TV -- see your Wealth, available on broadcast channels in Ontario and on satellite across Canada, or see Money in the Bank, on your community cable channel.

Money care is general financial advice by Canada's chartered accountants. John Switzer is with National Trust.

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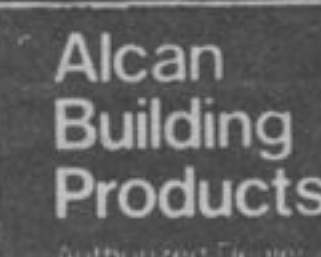
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