



\$49.00

# Top 20 Mortgage Mistakes

Home Buyers Make  
(and how to avoid them)

HERE ARE VITAL TIPS  
AND STRATEGIES  
ON HOW TO MAKE  
THE MOST OF YOUR  
INVESTMENT WHEN  
YOU PREPARE TO  
SELL YOUR HOME.  
READ THIS REPORT  
AND MAXIMIZE  
YOUR RETURN ON  
INVESTMENT.

Valuable Ideas to Help You Get the Most Out of Your Home Sale

A Special Report Prepared By

**fl**  **owers\***  
\*Broker TEAM

**ROYAL LEPAGE** **100**  
YEARS  
Meadowtowne Realty, Brokerage  
Independently Owned and Operated

## Top 20 Mortgage Mistakes Home Buyers Make (and How to Avoid Them)

**Buying a home is the biggest investment most of us will ever make. Unfortunately, it's also the greatest opportunity to make a bad decision that could end up costing thousands of dollars.**

**In fact, top producing mortgage brokers from across the nation will tell you they see the same common mistakes come up time and time again. Avoiding these wrong moves can help to ensure a relatively pain-free lending experience.**

### Mortgage Mistake #1

### Not finding a qualified mortgage professional to work for you

**M**ost mortgage professionals have access to over 40 different major banks and mortgage companies, and can provide a wide variety of options that your financial institution may not offer. They work for you, not the lender, so they can provide an unbiased opinion on the options that they can offer to you. Buying a home will likely be one of the largest purchases you will ever make, so make sure that you have a professional working for you to help you in determining the options that best meet your personal needs.

The mortgage professional that you work with should hold an Accredited Mortgage Professional (AMP) designation. An AMP is Canada's national designation for mortgage professionals as established through The Canadian Association of Accredited Mortgage Professionals (CAAMP). An AMP is a professional who must adhere to a strict Code of Ethics and is required to complete mandatory professional development activities on a yearly basis.

If your Mortgage Specialist or Personal Banker does not have an AMP designation, they may have little or no mortgage financing experience, so ask the question.

#### ***Insider Secret:***

*Using a Mortgage Professional opens up a wide variety of options that your present financial institution may not be able to offer.*

## Mortgage Mistake #2

## Not improving your credit score when you have the opportunity to do so.

A solid credit history can mean qualifying for a larger loan, lower interest rate and lower monthly payments. A high credit score makes you more creditworthy in the eyes of lenders. Also, if you are looking to finance at 95%, there is a minimum credit score requirement.

Prior to shopping for a mortgage, do everything you can to improve your credit score. Pay your bills on time—payment history can account for up to 35 percent of your credit score. The longer you pay your bills on time, the better.

Pay off or pay down credit cards, auto loans and other obligations that affect your creditworthiness. Amounts owed account for another third of your score.

Watch out for red flags like minimum-only payments, late payments and dipping into a credit line to pay for living expenses—these suggest you may be in financial difficulty.

And it goes without saying that you need to know your credit score before you sit down with a broker. Know your financial situation and be prepared to explain any potential concerns.

If you give yourself a good six months to correct errors in your credit report, and identify and address potential problem areas, you'll be in a much better position to buy when the time comes.

### ***Insider Secret:***

*Prior to shopping for a mortgage, do everything you can do to improve your credit score.*

## Mortgage Mistake #3

## Making a large purchase before or during the mortgage loan process.

**G**otta have a shiny new car to go with that shiny new house, right? Wrong! Here's another big no-no that could kill your ability to qualify for a mortgage according to the mortgage experts.

### ***Insider Secret:***

*Don't do anything while applying for a mortgage that diminishes your financial health...*

Large expenditures made before or during the mortgage loan process will jump out during a credit check and can hurt your debt-to-income ratio, especially if you're taking on a long-term obligation like a car loan. Other purchases to be avoided: expensive home appliances, furniture, vacations, etc.

Don't do anything while applying for a loan that diminishes your financial health or suggests a reduced ability to make timely payments on your mortgage, mortgage professionals warn. You may need that sub-zero fridge for your new home, but at least wait until after closing.

## Mortgage Mistake #4

## Changing careers before or during the mortgage loan process

**G**oing into a different line of work while shopping for a new home is a bad idea, according to top mortgage officers. As with making large purchases, you're calling into question your ability to repay the loan.

Say you're very successful as an accountant, but you've always wanted to work as a chef. Hold that dream in check until after you've closed on your home. A lender is basing a decision to loan you money on your ability to repay; switching to a different career calls this into question.

### ***Insider Secret:***

*A lender's decision to loan you money is based on your ability to repay; switching to a different career calls this into question.*

Switching jobs within the same field, on the other hand, isn't necessarily a bad thing if it means more money. Be sure to talk to your lender about any changes in your situation like this so you don't run into any unpleasant surprises.

## Mortgage Mistake #5

### Getting prequalified but not preapproved.

*P*requalified simply means you've met with a mortgage broker (or lender) and talked about your ability to purchase a home. You've discussed your current income,

#### **Insider Secret:**

*From the seller's perspective, you're a question mark: Can this person actually get the money?*

household expenses, assets and liabilities, and other factors that may affect your ability to borrow. But you haven't been approved.

From the seller's perspective, you're a question mark: Can this person actually get the money to buy my home? Am

I going to take my home off the market for someone who may not have financing to buy it? When competing with prospective buyers who have their financing already arranged, you're at a distinct disadvantage.

Pre-approval, on the other hand, means you've provided a broker with written evidence of your income, expenses, credit and other financial information. In other words, much of the work toward obtaining a mortgage has been done. It can make your shopping experience easier and put you in a better negotiating position when you find the right house.

## Mortgage Mistake #6

### Shopping around a lot for the best deal.

*O*f course you should do your homework and look for a good deal. If you don't, you could end up borrowing at a higher rate than your credit profile entitles you to.

#### **Insider Secret:**

*Use a mortgage professional to eliminate numerous inquiries on your credit bureau.*

But be careful how you do it. If you're talking with a number of lenders and each one is pulling your credit report to prequalify you, each inquiry can affect your credit score and make you less creditworthy.

And unless you're doing it in a very short timeframe, shopping around can lead to inaccurate comparisons.

The market is constantly changing, and what is true today may not be true tomorrow. Using a qualified mortgage professional can eliminate this. They will take one credit inquiry and forward it to the many banks/mortgage companies that they deal with thus eliminating unnecessary inquiries on your credit bureau.

## Mortgage Mistake #7

## Choosing a lender simply because they have the lowest rate.

If you're only looking at the interest rate, you may be ignoring something that could cost you thousands of dollars over the term of your mortgage. Make sure you are comparing apples to apples when examining different lenders' rates.

You shouldn't choose a mortgage just for the interest rate or because it offers the lowest monthly payment. There are other variables that can end up making life uncomfortable or costing you money if you don't understand how the program works. For example, what kind of program is it? Fixed rate? Variable? Are there any special programs that make sense for your circumstances? What about the terms? How long are you planning on living in a house can affect your choice. If you're unclear about certain aspects of a mortgage, just ask. Your mortgage professional is there to explain it to you. While a broker can explain the details and help point you in the right direction, you know best whether a program fits your lifestyle, your budget, and your long-term plans.

### ***Insider Secret:***

*Make sure you are comparing apples to apples when examining different lenders rates.*

## Mortgage Mistake #8

## Believing a rate quote that's too good to be true.

It's a cliché but it's true, If something seems too good to be true, it probably is. If one broker is quoting you an unbelievable rate and everyone else is in another ballpark, run for the exit. All lenders have to operate in the same economic world, and a rate out of line with everyone else's is cause for skepticism.

### ***Insider Secret:***

*If one broker is quoting you an unbelievable rate and everyone else is in another ballpark, run for the exit.*

Some brokers will use an artificially low rate to entice customers. Then they'll move the process far enough along until it's too late to do anything when your rate "suddenly" increases for any one of a variety of handy excuses.

Remember, if your rate isn't locked in, you're not protected against this kind of unethical behavior.

## Mortgage Mistake #9

Not understanding charges and fees that may be attached to your mortgage.

In Canada, unless you have 20% equity in your home, the mortgage must have mortgage default insurance. CMHC, Genworth Financial and AIG are the mortgage default insurers. They charge a premium that is added to your mortgage depending on the loan to value that is borrowed. The lower down payment you have, the higher the insurance premium. Also, if you chose a 30, 35 or 40 year amortization, your default insurance will increase by .20% for each 5 year addition. So for example you are purchasing a home for \$100,000 with a 5% down payment, your default insurance would be 2.75% of your purchase price less your down payment for a 25 year period. If you chose a 30 year amortization, the default insurance premium would increase to 2.95%.

### ***Insider Secret:***

*In Canada, some mortgages must have mortgage default insurance.*

## Mortgage Mistake #10

Choosing the wrong mortgage.

There's a mortgage to fit every buyer. Which buyer are you? Are you planning to stay in your new home until retirement? Is this a transitional home you'll be out of in five years? Any chance your employer might move you out of the area in the near future? These are just some of the issues that can impact the kind of home mortgage you should consider.

A 25-year fixed-rate mortgage is great when rates are low and you've found the house you want to grow old in, but if this is a short-time starter home, think again. A variable-rate mortgage may not be wise if interest rates start rising and your income doesn't. Suddenly that affordable monthly payment isn't so affordable anymore.

Use common sense. Pick the program that fits your budget and your life circumstances. Don't let the emotion of the home-buying moment blind you to fiscal reality.

### ***Insider Secret:***

*Retirement, relocation...these are just some of the issues that can impact the kind of home mortgage you should consider.*

## Mortgage Mistake #11

Not finding out if your mortgage has  
a prepayment penalty.

If you don't complete the terms of your mortgage—for example, if you decide to refinance—you could be hit with a prepayment penalty.

### ***Insider Secret:***

*You could be hit with a  
prepayment penalty.*

## Mortgage Mistake #12

Signing documents without reading them.

Buying a new home is an exciting, emotional time. But in your excitement, don't rush through the process and fail to review the paperwork. Ask for all mortgage papers in advance of signing and give yourself ample time to review them.

If you're unclear what something means, ask for an explanation.

### ***Insider Secret:***

*In your excitement, don't rush through  
the process and fail to review the  
paperwork.*

## Mortgage Mistake #13

Borrowing too much money.

Most of us would like the nicest house we can afford but some of us want the house that may be a little beyond our grasp. Qualifying for a larger mortgage doesn't mean you have to take it.

Make sure you've realistically assessed all the costs associated with buying a house—your monthly payment, property taxes, insurance, utilities, maintenance and repairs for starters. If you're a first-time home buyer, you may be

overlooking expenses you didn't have to worry about as a renter. Overextending yourself can lead to a life of stress and sacrifice for you and your family.

### ***Insider Secret:***

*If you're a first-time home  
buyer, you may be overlooking  
expenses you didn't have to  
worry about as a renter.*



While many experts suggest limiting your housing costs to no more than a third of your gross income, consider limiting yourself to a quarter.

This can be especially tough in markets where housing prices have gone through the roof in recent years. Some homeowners are spending 40 or even 50 percent of their gross income on housing costs. Don't be one of those people; it's a sure road to financial ruin.

## Mortgage Mistake #14

## Committing all your cash.

If you're borrowing more than you should, chances are you also may be spending more than you should. Putting your last dime into that new house doesn't leave you with anything in the event of an emergency. Moving expenses, unforeseen repairs, a sick child, loss of a job—the list is long.

Make sure you have a reserve fund of at least three months.

### ***Insider Secret:***

*Putting your last dime into that new house doesn't leave you with anything in the event of an emergency.*

## Mortgage Mistake #15

## Not understanding your closing costs.

This is our number-one complaint," says one mortgage officer. "People come to me all the time saying, 'So-and-so quoted me a really low rate,' but when I ask about the closing costs they're clueless." CMHC/Genworth Financial/AIG require that you have 1.5% of your purchase price on hand to cover closing costs. This includes lender, attorney, inspection and tax adjustment.

### ***Insider Secret:***

*"So-and-so quoted me a really low rate, but when I ask about the closing costs they're clueless."*

One top producing mortgage officer says she's seen plenty of brokers fail to disclose all the fees included at closing. She always provides her customers with a separate written agreement so that there's no confusion about what a borrower is paying for.

## Mortgage Mistake #16

## Taking a lender's word that your rate is locked in.

A handshake deal is a nice idea, but in the real world be sure to get it in writing. Taking a broker's word that your rate has been locked in might end up biting you.

"Some brokers will let the rate float even after claiming to lock it in hopes of making a greater profit," says one mortgage professional. "If the rate goes down more, they can lock it in, charge you the rate they quoted and pocket the difference. But if the rate goes up, they'll claim it happened before they had time to lock it, and you'll be stuck at the higher rate."

Be sure that your written rate lock includes the interest rate, lock length and program details.

### ***Insider Secret:***

*Be sure that your written rate lock includes the interest rate, lock length and program details.*

## Mortgage Mistake #17

## Taking your time turning in your paperwork.

If your broker requests additional documents, get them in as quickly as possible; delays can end up costing you money.

That's the advice of many top real estate finance leaders from across North America. These professionals advise their clients not to drag their feet, not to end up thinking they have all the time in the world. If they hold up the appraisal or otherwise delay the mortgage closing, they can run the risk of losing their rate lock. This is not a good scenario.

### ***Insider Secret:***

*Delays can end up costing you money.*

## Mortgage Mistake #18

## Withholding information from your mortgage lender.

**Y**our mortgage is priced based on a variety of factors: size of the mortgage, your credit rating, the home you're buying, your ability to document income and assets, etc. If you supply your broker with inaccurate or incomplete information, it may affect the cost of the loan or even your ability to qualify for a particular deal.

"I take my customers at their word, so I ask them not to lie," explains one leading mortgage broker. "Those lies will only end up hurting them." For example, if you fudge on your credit score and claim a 700 instead of 600, you may not qualify for the rate your lender quotes you.

"I had a situation once where I couldn't verify a customer's employment," this broker says. "It turns out that he was laid off shortly before we started, but he hadn't informed me. Luckily he landed another job and we were able to close, but it just as easily could have been an unhappy ending."

### ***Insider Secret:***

*If you fudge on your credit score and claim a 700 instead of 600, you may not qualify for the rate your lender quotes you.*

## Mortgage Mistake #19

## Not shopping for home insurance until it's time to close.

**T**here's a lot to do when you're buying better to start looking as soon as you have an accepted offer.

### ***Insider Secret:***

*If you wait until the last minute to find home insurance, you may find there's no time to shop around.*

## Mortgage Mistake #20

Not hiring a real estate professional.

Okay, this one isn't a mortgage mistake. But hiring a professional real estate agent who knows the market can help you find the house that fits your needs, negotiate the best deal possible and will save you time, money and sleepless nights.

### ***Insider Secret:***

*Hiring a professional real estate agent can help you negotiate the best deal possible and will save you time and money.*

Avoiding the mistakes outlined here AND putting a real estate pro on your team will make your home-buying experience a satisfying one.

---

I hope this information has helped you to be prepared for this next transition in your life. Even if you do not plan on becoming a client of mine, please feel free to contact me as a resource for more information on how you can best prepare your home to get the most out of your real estate investment. In today's market, every little bit of information helps, and I have many valuable insider secrets to share with you. Give me a call today.

Sincerely,

Amy Flowers



**Office: 905-878-8101**  
**Direct: 905-878-6232**  
**www.AmyFlowersTeam.ca**  
**homes@amyflowers.ca**



475 Main St. E  
Milton, ON L9T 1R1  
Toll free: 1-800-514-3316  
Fax: 416-981-3559

