

Mortgage approval

How Can I Qualify For A Mortgage?

Generally speaking, there are 3 components that go into a mortgage approval – credit history, affordability, and equity. While there are other factors to consider, if you can meet the minimum guidelines in the following areas, you're well on your way to being approved.

- **Credit History** – Your credit report is your track record for repaying your debt. If your credit score falls below a certain threshold (typically below 620), you may not qualify.
- **Affordability** – This refers to the relationship between your gross income (before tax) and the amount of your total debt payments. The lower the percentage of debt to income, the better your chances. We'll get into this in more detail a bit later.
- **Equity** – Equity refers to your down payment. At a minimum, you'll need to be prepared to put down 5% of the purchase price, and an additional 1.5% toward closing costs.

What Type Of Mortgage Can You Get?

Before you apply, you'll need to decide if your mortgage will be insured or conventional. The biggest factor here is the amount you'll be putting toward the down payment. If you plan on putting down less than 20% of the purchase price, your mortgage will need to be insured.

In this case, an insurer such as Canada Mortgage and Housing Corporation (CMHC) will protect the lender against default, should you fail to repay the mortgage. CMHC charges a premium for this, which gets passed on to you, the borrower. In most cases, the insurance premium is included in the mortgage financing.

If your down payment is 20% or higher, the mortgage is considered to be conventional.

What Are Acceptable Sources For Your Down Payment

When considering your down payment, you'll need to make sure that the funds are coming from a source that's deemed acceptable to your lender, and CMHC (for insured mortgages). In most cases, your down payment cannot come from borrowed funds. Aside from accumulated savings, a down payment can come from a number of other sources.

Acceptable Down Payment Sources

- Accumulated savings
- Gift from a family member
- Sale of investments
- Funds are withdrawn from an RRSP (Home Buyers Plan)
- Sale of another property
- Equity in your existing home (via a Home Equity Line of Credit)
- Inheritance (will need to provide evidence)
- Settlement from a marital split

Understanding Mortgage Closing Costs

A down payment isn't the only thing you'll need to pay for upfront. You'll be expected to cover closing costs ie. lawyer's fees, land transfer taxes. This can also include covering a portion of the current year's property taxes if the seller has already paid them in full. Always budget at least 1.5% of the purchase price to go toward closing costs, over and above your down payment.

How Much Do I Need to Make to Qualify for A Mortgage?

To determine affordability, most lenders will require that your monthly housing costs (mortgage principal, interest and property taxes) not exceed 39% of pre-tax income, and your total debt payments should not be more than 44%. For example, if your monthly income is \$5,000, then the total payments on your debt shouldn't exceed \$2,200/month.

What Is Mortgage Pre-Approval?

It's always a good idea to obtain a mortgage pre-approval before you begin house shopping. A mortgage pre-approval means that a lender has qualified you for a specific mortgage amount based on your credit history, and your income. You'll also need to demonstrate the ability to come up with the necessary down payment prior to final approval.

How Long Does Mortgage Approval Take?

Once you've found a home, the length of time it takes for your mortgage to be finalized will depend on the conditions that need to be fulfilled. In most cases, a mortgage application can be turned around within a couple of days, sometimes the same day if your application is solid.

Required Documents For A Mortgage Approval

The following is a list of documents you may need to provide when you enter into an agreement to purchase a home. It's always a good idea to check with your lender in advance so that you're fully prepared.

- Offer to Purchase and MLS listing (if available)
- A recent pay stub from your employer
- The past 2 years CRA Notice of Assessments
- A bank statement to confirm ongoing income
- Investment statements to confirm savings balances
- A gift letter if your down payment is being gifted by a family member
- Photo ID