MARK GOLDADE CD

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COLDWELL BANKER | PREFERRED REAL ESTATE

# Guide to Understanding Mortgages in Winnipeg and Surrounding Areas

**Introduction:**

Understanding mortgages is crucial for anyone looking to buy a home in Winnipeg and the surrounding areas. This guide will provide you with an in-depth understanding of mortgage types, the application process, insurance requirements, appraisals, lenders, and special considerations relevant to the Manitoba market.

## 1. Types of Mortgages:

### Fixed-Rate Mortgage:

- **Definition:** A mortgage with an interest rate that remains constant throughout the term.
- **Advantages:** Predictable payments make budgeting easier.

- **Disadvantages:** Generally higher initial interest rates compared to variable-rate mortgages.

**Variable-Rate Mortgage:**

- **Definition:** A mortgage with an interest rate that can fluctuate based on the lender's prime rate.
- **Advantages:** Potential for lower initial rates and payments.
- **Disadvantages:** Payments can increase if interest rates rise.

**High-Ratio Mortgage:**

- **Definition:** A mortgage where the down payment is less than 20% of the property's value.
- **Requirement:** Requires mortgage insurance through CMHC, Genworth, or Canada Guaranty.
- **Advantages:** Allows buyers with smaller down payments to purchase a home.
- **Disadvantages:** Additional cost for mortgage insurance premiums.

**Conventional Mortgage:**

- **Definition:** A mortgage where the down payment is at least 20% of the property's value.
- **Advantages:** No mortgage insurance required, potentially lower overall costs.
- **Disadvantages:** Requires a larger down payment.

**Open Mortgage:**

- **Definition:** A mortgage that can be paid off in part or in full at any time without penalty.
- **Advantages:** Flexibility to pay off the mortgage faster.
- **Disadvantages:** Higher interest rates compared to closed mortgages.

**Closed Mortgage:**

- **Definition:** A mortgage that does not allow prepayments beyond the agreed-upon amount without penalties.
- **Advantages:** Lower interest rates compared to open mortgages.
- **Disadvantages:** Less flexibility in making additional payments.

**2. Mortgage Application Process:**

**Step 1: Determine Your Budget:**

- **Assess Finances:** Calculate your income, expenses, and current debts.
- **Pre-Approval:** Obtain a mortgage pre-approval to determine your borrowing capacity and show sellers you are a serious buyer.

**Step 2: Choose a Mortgage Type:**

- **Consult with a Broker:** A mortgage broker can help you compare different mortgage products and choose the one that best fits your needs.

**Step 3: Submit Your Application:**

- **Documents Needed:** Provide proof of income, employment, credit history, and other relevant financial information.
- **Review Terms:** Carefully review the mortgage terms, including the interest rate, term length, and any prepayment options.

**Step 4: Approval and Conditions:**

- **Conditional Approval:** You may receive conditional approval, subject to an appraisal or other conditions.
- **Satisfy Conditions:** Work with your lender to meet any outstanding conditions, such as providing additional documents or completing an appraisal.

**3. Insurance Requirements:**

**Mortgage Insurance:**

- **Required for High-Ratio Mortgages:** If your down payment is less than 20%, you must obtain mortgage insurance.
- **Providers:** CMHC, Genworth, or Canada Guaranty.
- **Premiums:** Mortgage insurance premiums can be paid upfront or added to your mortgage amount.

**Home Insurance:**

- **Requirement:** Most lenders require proof of home insurance before finalizing the mortgage.
- **Coverage:** Insurance should cover the property's replacement cost, personal liability, and contents.

- **Additional Requirements:**
  - **WETT Inspection:** If your home has a wood-burning appliance, a WETT inspection may be required.
  - **Proximity to Fire Hydrants/Stations:** Insurance providers may offer discounts if your home is close to fire hydrants or stations.
  - **Aluminum Wiring and Poly-B Plumbing:** Older homes with aluminum wiring or Poly-B plumbing may require upgrades or may have higher premiums.

**4. Appraisals:**

**Purpose:**

- **Market Value:** Appraisals determine the current market value of the property.
- **Loan Approval:** Lenders use appraisals to ensure the property value supports the mortgage amount.

**Process:**

- **Selection:** The lender typically selects an accredited appraiser.
- **Inspection:** The appraiser visits the property to assess its condition, features, and any improvements.
- **Report:** The appraiser provides a detailed report with the property's market value and supporting data.

**Cost:**

- **Responsibility:** The borrower usually pays for the appraisal.
- **Typical Fees:** Appraisal fees in Winnipeg range from $300 to $500.

**Financial Ramifications of an Appraisal:**

- **Example Scenario:** You purchase a home listed at $500,000.00 and win a bidding war by agreeing to pay $650,000.00. The bank's appraiser, however, values the property at $480,000.00.
- **Impact on Borrowing Amount:** Lenders base the mortgage on the appraised value, not the purchase price. If the appraised value is $480,000.00, the lender may only finance up to 80% of this amount for a conventional mortgage, which is $384,000.00.
- **Personal Liability:** Since you agreed to pay $650,000.00, you must cover the difference between the purchase price and the appraised value with your own funds:
  - Purchase Price: $650,000.00
  - Appraised Value: $480,000.00
  - Lender's Maximum Mortgage: $384,000.00 (80% of $480,000.00)
  - Required Down Payment: $266,000.00 ($650,000.00 - $384,000.00)
  - Original Down Payment: $130,000.00 (assuming 20% of $650,000.00)
  - Additional Funds Needed: $136,000.00 ($266,000.00 - $130,000.00)
- **Conclusion:** This discrepancy means you would need an additional $136,000.00 upfront to cover the shortfall.

**5. Types of Lenders:**

**Banks:**

- **Description:** Major financial institutions offering a wide range of mortgage products.

- **Advantages:** Stability, a variety of products, competitive rates.
- **Disadvantages:** Stricter qualification criteria, less flexibility.

**Credit Unions:**

- **Description:** Member-owned financial cooperatives.
- **Advantages:** Competitive rates, personalized service, community focus.
- **Disadvantages:** Limited locations, sometimes fewer product options.

**Private Lenders:**

- **Description:** Individuals or companies offering mortgages.
- **Advantages:** Flexibility, easier approval for those with poor credit.
- **Disadvantages:** Higher interest rates, shorter terms, higher risk.

**Mortgage Brokers:**

- **Description:** Intermediaries who shop around for the best mortgage rates and terms from multiple lenders.
- **Advantages:** Access to various lenders, potentially better rates, personalized service.
- **Disadvantages:** Broker fees may apply, less direct control.

**"B" Lenders:**

- **Description:** Alternative lenders offering solutions to those who may not qualify with traditional banks.
- **Advantages:** Easier qualification, more flexible terms.

- **Disadvantages:** Higher interest rates, additional fees.

**6. Special Considerations in Manitoba:**

**Land Transfer Tax:**

- **Calculation:** Based on the property's purchase price, with rates increasing at different price thresholds.
- **Rebates:** First-time homebuyers may qualify for partial rebates.

**Property Taxes:**

- **Assessment:** Property taxes are based on the assessed value of the property, which is determined by the City of Winnipeg.
- **Payment:** Typically included in monthly mortgage payments and held in escrow by the lender.

**Legal Requirements:**

- **Lawyer's Role:** A real estate lawyer will handle the transfer of title, register the mortgage, and ensure all legal documents are in order.
- **Title Insurance:** Protects against title defects or issues that could arise after purchase.

**First-Time Home Buyer Programs:**

- **Home Buyers' Plan (HBP):** Allows first-time homebuyers to withdraw up to $35,000 from their RRSPs to buy a home.

- **First-Time Home Buyers' Tax Credit:** A non-refundable tax credit that can be claimed on your federal income tax return.
- **Manitoba Down Payment Assistance Program:** Provides financial assistance to first-time homebuyers to help cover the down payment.

**7. Key Mortgage Terms and Clauses:**

**Amortization Period:**

- **Definition:** The total length of time it takes to repay a mortgage in full, usually 25 years in Canada.
- **Impact:** A longer amortization period results in lower monthly payments but more interest paid over the life of the loan.

**Term:**

- **Definition:** The length of time your mortgage agreement is in effect, typically ranging from six months to ten years.
- **Renewal:** At the end of the term, you must renew your mortgage or pay off the remaining balance.

**Prepayment Options:**

- **Definition:** Terms that allow you to pay off part or all of your mortgage before the end of the term without penalties.
- **Types:** Lump-sum payments, increasing regular payments, or making extra payments.

**Portability:**

- **Definition:** Allows you to transfer your existing mortgage to a new property without penalties.
- **Benefit:** Useful if you plan to move before your mortgage term ends.

**Rate Hold:**

- **Definition:** A lender's guarantee to hold a specific interest rate for a set period, typically 90 to 120 days.
- **Purpose:** Protects you from rate increases while you shop for a home.

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