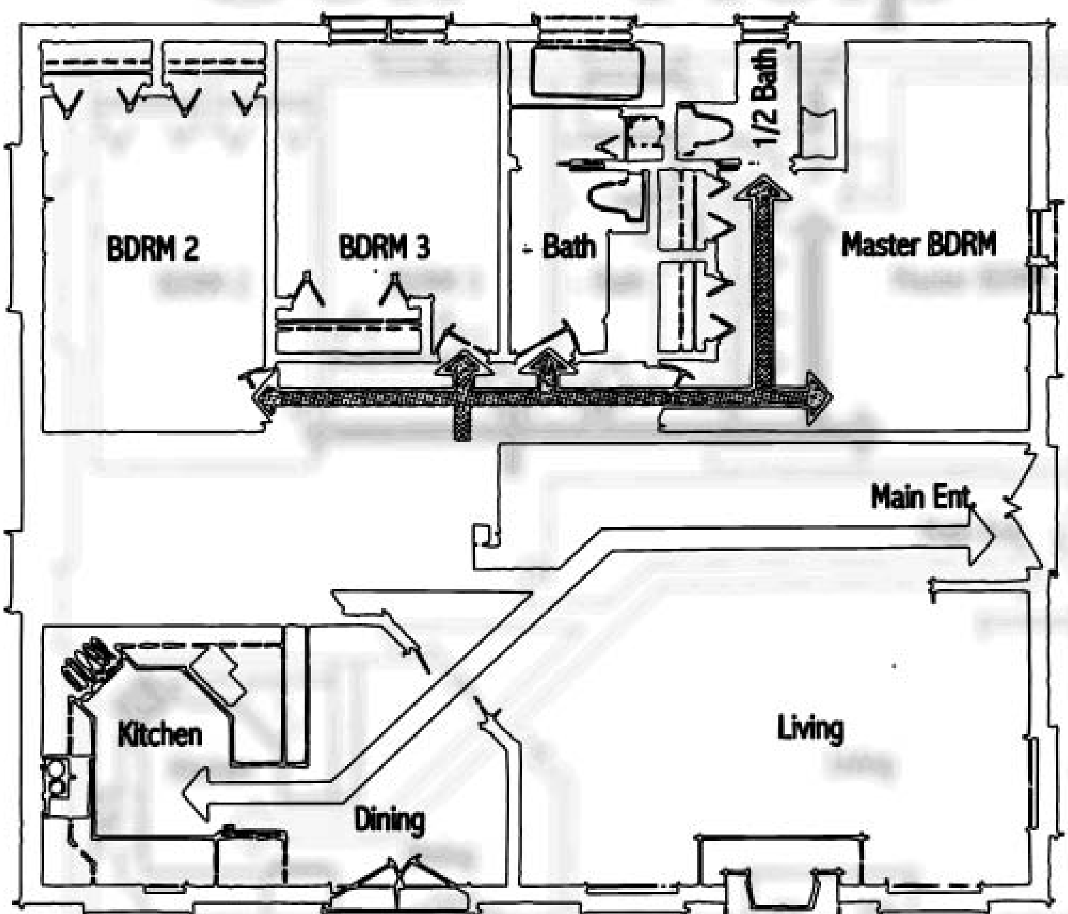
Yukon Housing Corporation

Self - Help



Manual

THE ECONOMY AND HOME OWNERSHIP

The economy — it is complex, mystical and sometimes frightening. It seems that most financial successes or failures are viewed as occurring only because of quirks of the economy. The state of the economy does affect us all, but to what extent does it affect our ability and/or desire for home ownership??

The word 'home' to most of us is synonymous with ownership. When we say we are going home, or perhaps picture 'home' in our minds, we mean a place we can call our own. We all have a place to live, but the word 'home' means more than just a place to protect us from the elements. It is a place where we have seclusion and the freedom to develop intimate relationships with our family and friends. It is the human relation aspects that greatly increase the quality of our lives and lifestyles and create the personal desire and longing for a 'home'. Renting will suffice, but it has its limitations and for most people it is not as desirable as home ownership.

This desire is not affected by changes in the economy as much as we might think. Rather, it is financial ability and prudence in conjunction with the economy that dictate whether or not we will decide to own a home.

The economy seems to change rapidly, often for reasons that cannot be determined and we tend to change our short term and long term outlooks as the economy changes. These changes in economic activity are described in many ways and using many different terms, such as: upside/downside, boom/bust, demand side/supply side, expanding/contracting, and so on. The names or terms themselves are not that important. It is the changes that concern us.

For example, the relative values of the American and Canadian dollars directly effects tourism. Since the Yukon economy is so dependent on tourism, anything that happens to discourage tourists has a direct impact on our economy here. Another example is the relationship between the mining industry and the Yukon economy. When the Cyprus Anvil Mine in Faro closed in the early 1980's the entire territorial economy was affected.

So what does this all have to do with home ownership? Possibly it points out that being preoccupied with the state of the economy is somewhat futile. Do you have any control over the economy? No! Can you change the economy? No! Can you accurately forecast what the economy will be like even one year from now? Probably not ! One thing you can do, by analyzing the current economic situation in your area, is to try to determine whether you are in an economic upswing or downswing.

Following is a list of items that illustrate what often happens during economic swings

ECONOMIC UPSWING

- lots of construction activity
- families start to buy or move up
- families feel financially secure (often two workers)
- families believe inflation will help them to afford a home
- money is borrowed to upgrade present dwelling
- rents increase
- house prices increase.

ECONOMIC DOWNSWING

- construction activity slows down
- sales remain static
- financial security is threatened (loss of jobs)
- high mortgage payments become a burden
- house prices decrease
- rents decrease
- families start to lose homes through foreclosure.

The preceding list describes what happens during economic swings, but when is the best time, or at least a good time, to buy?

Consider the following:

The "Up" Economy	The "Down" Economy
A home is a home. (It is something you really can't put a dollar value to.)	A home is a home is a home.
It is a good investment.	It is not as good an investment.
It is an inflation fighter. When the inflation rate goes up, so does the value or price of a house.	It is an inflation loser. When the inflation rate goes down, so does the value of a house.
Good liquidity. When things are going "up", consumer demand does the same. The end result is that it is fairly easy to sell a house.	Poor liquidity. When things go "down", people buy fewer houses and as a result, there are more houses on the market than there are people who want to buy, and it becomes more difficult to sell.

All of the above should be tempered with the “old farmer’s philosophy”, i.e. when everybody is going into cattle, grow grain. When everybody is selling homes, that may be the time to buy, and when everybody is buying, it could be the time to sell.

When considering the ‘up and down’ of the economy there are some things that can be useful in evaluating where we are. Historic information or statistics show us where we have been. They do not show us where we are going, although many people do use this information to predict future economic activity. Most economists agree that this method is at best just a guess.

Some of the information used as housing activity indicators are:

Starts	are the number of construction starts for new housing units within a specific time period.
Completions and Absorbtion	This shows the number of new housing units that have not been rented or purchased. It indicates the inventory of vacant new housing stock.
Building	This information supplements the completions and absorptions by showing the number of housing units under construction. This can indicate what the future empty housing stock will be or in other words, the availability of new houses to rent or purchase.
Listings and Sales	Listings are houses that people own and want to sell. The houses are ‘listed’ with a real estate firm who in turn arranges the sale. The sales are confirmed when the new purchaser meets the requirements of the sales agreement. This then indicates the availability of pre-owned houses to purchase.
Vacancy Rates	Rental vacancies are compiled and reported on a percent age basis. A 9.8 vacancy rate indicates that 9.8% of the units available for renting are empty. If the vacancy rate is high, the competition among apartment owners brings rents down. If vacancy rates are low, the competition among renters drives the price up.

Foreclosures

These are houses where the mortgage lender has or is taking possession of the home due to breach of the mort gage agreement. The houses are then put back on the market for sale.

Foreclosures can indicate a number of things. The owner could have been "house poor", ie. paying more on house payments than his/her income could support, or, a "walk away", which means that the value of the house had dropped below the amount owed in the mortgage and people turned the house back and found cheaper accommodation. Foreclosures could also mean an interruption of income due to loss of a job.Overall, foreclosures indicate there is an adjustment still going on in the market place. The adjusted price of foreclosed units is usually very attractive and can mean good deals for buyers.

House Prices

House prices are one of the most down to earth indicators you can get. They are established by what the market (consumer) can bear. If the economy is "up", people are more willing to buy and houses are scarce so the price goes up. And vice versa. When the economy is "down", there are more houses available and less buyers, so the price goes down .

Mortgage Interest Rates

Interest rates affect your pocket book in two ways:

1) the monthly payment
2) the cost of financing.

The higher the interest rate, the higher the monthly payment and the higher the total financing cost, and vice versa.

By using these indicators and doing some market analysis you should have enough knowledge to make some prudent decisions. With knowledge about the state of the economy, (and more specifically the housing industry), you can start to concentrate on the more personal aspects of home ownership.

HOME OWNERSHIP IN GENERAL

Housing is a high priority for all of us, right up there with food and clothing. Often we take housing for granted. We own our home or rent our apartment, and there's not much more to think about. But occasionally we have an urge or desire to change and we start to wonder whether we really are satisfied with our present accommodations.

Millions of families every year become involved in the great 'rental vs. ownership' debate as they contemplate moving. Each family situation is different, therefore there are no rules of thumb that can be applied equally to all families. There are some common matters that you should thoroughly analyze in order to assist your decision making. Keep in mind that the final decision is yours alone. Nobody but you knows your financial situation, your likes, dislikes and your personal preferences .

Advantages to owning your home are many, but hidden pitfalls and responsibilities also deserve consideration. Carefully consider the following points:

- **Are you currently living in rental accommodation equal or superior to the type of home that could be purchased for the same monthly payments?**

- **With your current income and debt load can you support the necessary mortgage payments? Would it be better to wait until you financial outlook improves?**

- **Are you prepared to accept the added responsibilities that come with owning a home? (i.e. maintenance, improvements, etc.)**

- **Will you gain equity by owning your own home?**

These are only some of the many, many different factors that have to be taken into account when considering ownership.

OWNERSHIP OPTIONS

Through Yukon Housing Corporation, there are five major individual ownership options available:

1) Purchase an existing pre-owned home
2) Purchase an existing new home
3) Have a home built for you by a contractor (Custom building)
4) Purchasing a new or newer mobile home (3 years old or newer,on it's own lot)
5) Self building

Economic changes have some effect on the financial attractiveness of each option. The volume of houses available in each category changes, causing different buyer and seller markets at different times. Each family will have their own opinion as to the advantages and disadvantages of each option but they usually revolve around these topics:

- Location Choices
  (general area and proximity to amenities)
- Purchase Price
- Financing Arrangements
  (assumable mortgages, etc.)
- House Type and Design Choices
- Waiting Time for Possession
- Repair, Maintenance, and Improvement Requirements
  (warranties)
- Resale Potential

Use the following chart to list what you feel are the advantages and disadvantages based on current market conditions. You may discover that only one option is attractive to you. At least you'll have a better grasp of what your real priorities are.

	ADVANTAGE	DISADVANTAGE
Pre Existing Home		
Existing Home		
Custom Building		
Self Building		

PERSONAL CONSIDERATIONS

At this point in your ownership evaluation you may realize that there are some personal considerations that have been overlooked. Often these personal considerations can outweigh all the financial aspects and can help in steering you to the best choice possible.

- Is your family growing — small children with more on the way??
- Is your family shrinking — kids growing up and moving out??
- Do you have a reliable and stable source of income?
- Do you anticipate any career changes or job transfers in the near future?
- Are you a ‘homebody’ with your life centred around home (gardening, reading, music, crafts, entertaining, etc.)?
- Is your lifestyle geared towards activities conducted away from home? (clubs, organizations, sports, travel)
- Do you have the know-how to be able to involve yourself in the construction of a new home?
- Do you really want to own a home or are you considering it just because it seems to be the ‘thing to do’?

Look very carefully into your own personal situation, check out all options, alternatives, and considerations to help you make the proper decisions as to what really is the best route for you.

HOW MUCH WILL OWNERSHIP COST?

You are sure to have heard the well worn statement "Buying a house will likely be the largest single expenditure you will make in your lifetime". This statement in most cases is very accurate, but after purchasing a home, most families are more concerned about the monthly mortgage payment than they are about the initial purchase price. This concern is often brought about by the fact that they simply did not spend enough time planning for the financial adjustments that were necessary to own a home.

Money. You may think that if you earned more, you would not have any financial problems. But actually, it all depends on what you do with your money. One family can earn $60,000.00 a year and be in constant debt because they live far beyond their means. On the other hand, a second family may earn only $35,000.00 a year and live comfortably. Being sensible about money matters - realizing your financial limits, determining your needs and setting realistic goals can make the difference in your financial situation.

Of course, every family differs. Different priorities, personal preferences, family size, and a host of other factors influence how we spend our money. Think about your own situation. Can you expect to earn more or less. If there are two incomes, would you be able to manage on only one? Will your spending habits change? Most families go through predictable periods of feast and famine as they move through the various stages of family life. Following is what the typical family can expect:

1. **The Beginning Years**

   Both partners are usually working and family income often exceeds current needs. It is a good time to save or invest so that you will be able to live on one income (if you decide to) during the next stages and avoid excessive credit use. It's unlikely you will have as much uncommitted income again for many years. This might be your best opportunity to put money aside for the purchase of a home.

2. **The Childbearing and Preschool Years**
As children are born, one partner may have to quit working. One income is then paying all the bills and the pressure begins to mount. Expenses remain relatively steady when the children are young, but then start on an upward climb. The "lean" years are just ahead.

3. **The School Years**
Expenses continue to rise, peaking when the children are in their late teens. Of course, family income has been rising over the years too, but peak expenses often come before peak income. It is during this period that many families become heavily indebted. This is also the time when a non-working spouse is often forced back to work - whether they want to go or not. Things should become a bit easier in the next stage.

4. **The Recovery Years**
As the children leave home expenses decline gradually. Family income is usually sufficient to cover current needs as long as a heavy debt load doesn't still exist from the previous stage. This is your last chance to pay off debts and make preparations for retirement.

5. **The Retirement Years**
Expenses remain relatively constant but income may drop abruptly possible to about 50% of the previous years' income. These can be difficult years if you have not planned ahead.

Once you have thought about where you are now and where you will be in a few years it is a good time to re-evaluate your goals and how you expect to achieve them.

PERSONAL BUDGETING

A budget is a plan for adjusting expenditures to fit income. A fixed income requires that some compromises be made in order that you do not overspend or go into debt. These compromises or adjustments are the result of budgeting.

A budget is a mystery to many people and yet some form of budget is a real benefit in managing your income. Every budget is a personal financial plan for its maker. In other words, it's your money - make it work for you. A budget can be as loose or as tight as you wish. Generally, it covers fundamental costs first, such as shelter, food, clothing, utilities, and transportation. After allowing for your basic costs, the balance can be allocated to loan repayment, savings, entertainment, and vacations. In a family, both spouses should be involved in determining a budget in order to make it effective. The budget should have a margin for unforeseen expenses, not be overly restricting, and have allocations for some type of savings. Above all, a budget should be an expression of a family's goals and lifestyle.

Before actually going out to look at houses, time should be taken to figure out what your cost limitations are. A realistic budget should be prepared so that you will know just what portion of your income can be safely allotted to cover your housing needs. If you exceed your ability to pay comfortably, you will find that your standard of living may have to be reduced or you will risk running steadily deeper into debt.

Your mortgage payments are made up of interest, principal, and taxes. The percentage of your monthly income needed to cover your monthly mortgage payments is called the Gross Debt Service ratio (G.D.S.R). Most lending institutions will limit this to a maximum of 30% of your Gross Income. This percentage does not necessarily mean that you can comfortably afford your payment. Another limit imposed may be your Total Debt Service ratio (T.D.S.R.). This is the percentage of your monthly income needed to cover your mortgage payment and all other debts. This figure is generally limited to 40% of your monthly income.

Financial Introduction to Home Ownership

In order to know how much you can afford to spend on a house, you must first determine how much down payment money you have available and how much you can afford for monthly mortgage payments. Be careful not to overestimate what your down payment amount will be. Remember that there may be some substantial expenditures upon moving into your home. Things like legal fees, insurance, moving charges, appliances, draperies, landscaping, lawnmower, fences, repairs, etc. may be required or desired. Are you going to put these things off until you have saved for them, purchase them immediately using credit, or set aside some of your present savings to buy them and go with a lower down payment on the house purchase?

The next decision is - how much of a monthly mortgage payment can you comfortably afford? In order to determine this, it is best to develop a realistic budget. Only by doing this will you realize what other things you might have to give up to be able to afford a house.

Most banks have budget workbooks available free of charge which will assist you in the preparation of a budget. There are three main aspects of a budget:

1) Income	Total monthly take-home pay from all sources (family allowance, etc.)
2) Expenses	This should be a detailed list of monthly expenses plus some allowance to cover irregular (non-monthly) expenses. (Car insurance, dental bills, etc.)
3) Balance	There should not be a plus balance as any extra money should be allotted for an emergency fund or a savings plan. **If there is a negative balance, it shows a need for adjustments in your expenditures.**

With this completed “present time” budget, you can then test out a future budget. A future budget would be estimated on the basis of what you would allow for your new housing costs. Remember to take into account things like insurance, property taxes, utilities, and any other items that may be new to you because of a house purchase. Keep reworking the figures accurately and honestly until you arrive at a monthly mortgage payment amount that you feel comfortable with. Keep this affordable payment in mind as you go through the next section on mortgage financing.

Knowing what monthly payments you can afford, along with the amount of the down payment you have available will allow you to start working out a purchase price limit.

MORTGAGE FINANCING

Financing may be the key to owning your home. Chances are you’ll have to borrow money to buy a house, unless you can dip into your savings account and pay cash. Therefore, you need some information on the financing available to you, along with some guidance in using that financing to your best advantage.

To obtain a house requires money, a good portion of which you will have to borrow in the form of a mortgage. A mortgage is a legal contract. When you accept and sign the documents, you become subject to legally binding commitments. A mortgage basically consists of two parts. The first part is an ‘IOU’, which sets out the terms of the debt repayment. The second part is security: you give the lender certain rights to the property if the stipulated payments are not made .

The amount that you borrow is known as the loan amount or principal. The amount you borrow combined with the interest rate and the length of time to pay it back, dramatically affects the overall cost of the house to you.

Most people are very much aware of the interest rate but few people consider the effect of principal and time. There is no doubt the interest rate is important but, what can you do about it? Not much. Interest rates are set by financial institutions and by the intervention of governments.
Therefore, interest rates may be an uncertainty in the financing of your

home. They could go up or down. However, you can do a lot to protect yourself from fluctuations in the money market and, at the same time, save yourself a great deal of money, by exercising control and manipulating the amount of money you borrow, and the time you take to pay it back.

AMORTIZATION PERIOD

The amortization period means the length of time required to pay back the money borrowed. Traditionally, 25 years has been the normal length of a mortgage. Some go as high as 40 years. In Europe it is not uncommon to have "second generation" amortization periods where the mortgage is passed down from one generation to the next.

It is to your advantage to keep the amortization period as SHORT as possible. (See Table 2.)

The following examples are designed to point out the direct relationship between the length of the amortization period and the cost to you.

Example A

House purchased for	$110,000
10% Down Payment	11,000
Loan Amount	$ 99,000

(3 year term at 9% amortized over **25 years**)

Monthly Payment (P.I.) $ 819.69 x 36 months = $ 29,509 3 Years Total Payments

The first 3 year term is up and 96.2% of the principal still remains (from table on page 1.36).

Balance Outstanding	$ 95,238.00
Amount Paid to Principal	$ 3,762.00 (99,000 - 95,238)
Amount Paid to Interest	$ 25,747.00 (29,509 - 3,762)
The Cost of Borrowing Money)	

Complete the following example to see the difference when a change is made in the amortization period. Use Table 3 to find the balance outstanding amount.

Example B

House Purchased for	$110,000
10% Down Payment	11,000
Loan amount	$ 99,000

(3 year term at 9% amortized over **15 years**)

Monthly Payment (P.I.) $________

The first 3 year term is up. What are the following amounts?

Balance Outstanding $____________
(original loan amount x % from table 3/11%)
Amount Paid to Principal $____________
(original loan amount - new loan amount)
Amount Paid to Interest $____________
(payment amount x 36 months - amount paid to principal)
(The Cost of Borrowing Money)
(Interest Charges)

THE PRINCIPAL

The amount of money you borrow, or the principal, is made up of the purchase price less the down payment amount. The more you borrow, the more it costs. The less you borrow, the less it costs. (See Table 2.)

Many homeowners today encounter financial difficulty because they thought they might as well borrow as much money as they could. The result is that they are either “house-poor” or have “debt-overhang”. House-poor is where most of the income goes into payments on the house and there is little left for anything else. Debt-overhang is an even more serious situation where payments are being made on the house but it’s value has decreased to where the amount owing is more than it's value. This is where the term walk-away comes from. People in this situation sometimes choose to give the house back rather than continue to make payments. (When a walk away occurs the home owner loses their home, any down payment that was originally contributed toward the purchase of the unit, and their credit rating and the lender may start legal proceedings to recover any losses they have on the dwelling.)

There are only two ways to reduce the principal. The first is to apply a larger down payment. The second is to lower the purchase price by finding a less expensive house.

Example C

You bought a house in 1985. You obtained a mortgage of **$85,000** at **11%** amortized over 25 years. It is now 1990 and your first five year term is up.

Monthly Payments of

$ ___________	(See Table 4 for payment calculation.)
$ ___________	(Monthly Payments)
$ ___________	Total Payments in 5 Years

94.8% of the principal still remains. (From Table 3, page 1.38).

Balance Outstanding	$ ___________
Amount Paid to Principal	$ ___________
Amount Paid to Interest	$ ___________
(The Cost of Borrowing Money)	

Complete the following example to compare with example C. Use Tables 3 and 4 to help with your calculations.

Example D

You bought a house in 1985. You obtained a mortgage of $85,000 at 11% amortized over 25 years. Your first five year term is up.

Total Payments Made $____________________
Balance Outstanding $____________________
Amount Paid to Principal $____________________
Amount Paid to Interest $____________________
(The Cost of Borrowing Money)

THE BEST USE OF YOUR MONEY

You have now heard of Principal and Amortization, which are the tools to reduce financing costs. Secure your investment (home) and make money work to your advantage!

To shorten the amortization period either:

a. increase the monthly payment
b. lower the principal
c. both of the above

The following exercise (called “Figure It Out”) helps you to understand how to come to the best combination suited to your particular set of circumstances. By inserting different amounts you will be able to see different combinations.

Sometimes a single change (eg. the amortization period) is enough. Or, a number of small changes (eg. down payment, monthly payment, and principal) are required to arrive at a suitable financing situation.

FIGURE IT OUT

1.	Monthly income	$__________	
	G.D.S.R.**	x 27%	
	= Monthly Payment	$__________	$_________
2.	Interest rate	__________%	
	Amortization	__years__months	
	Factor	__________	__________
3.	Monthly payment divided by factor		
	= Loan Amount	$__________	$__________
4.	Monthly payment	$__________	
	x number of months amortized	__________	
	= Projected Cost of Unit	$__________	
	- Loan amount	$__________	
	= Cost of Financing	$__________	$__________
5.	Down Payment **10%|5%|2.5%**	$__________ or	$__________
6.	Adjustment (see next page — working sheet))		
7.	Final Recommendations (based on _____% interest rate)		
	a) Down Payment	$__________	$__________
	b) G.D.S.	__________%	
	c) Monthly P.I. Payments	$__________	
	d) Amortized	__ years	
	e) Total P.I. Payments	$__________	
	f) Loan Amount	$__________	$__________
	g) Cost of Financing	$__________	__________

Monthly Payment - covers principal and interest. Taxes paid by owner.

** GDSR = Gross Debt Service Ratio: (monthly payment + monthly heating cost + monthly taxes) gross monthly income. Banks use 32% maximum. For a close approximation without heat and taxes, we will use 27%. It is actually lower for lower incomes and higher for higher incomes

6. Adjustments (working sheet)

PRINCIPAL (increase or decrease)			**AMORTIZATION (increase or decrease)**					
House Cost	+ Land Cost	- Extra Cash	Rev. Loan = Amount	x Factor	Monthly Payment	No. of x Months	Projected = Cost	No. of Years Amortization
	+	-	=	x	=	x	=	
	+	-	=	x	=	x	=	
	+	-	=	x	=	x	=	
	+	-	=	x	=	x	=	
	+	-	=	x	=	x	=	
	+	-	=	x	=	x	=	
	+	-	=	x	=	x	=	
	+	-	=	x	=	x	=	
	+	-	=	x	=	x	=	
	+	-	=	x	=	x	=	
	+	-	=	x	=	x	=	
	+	-	=	x	=	x	=	

SELECT THE BEST SET OF CIRCUMSTANCE AND COMPLETE SECTION 7 ON PREVIOUS PAGE

NEW EQUITY

“New equity” projects you out of the classroom and into your new living room. You have purchased your house and are standing, feet solidly placed on your own living room floor. You look around the house and realize you own it. It is yours.

What has ownership done to your family’s net worth? Fill out the following statement of equity as if you now own the house.

Your equity standing should increase substantially!

Now — how about your cash flow??

If you have purchased the house on, or under, budget you are in great shape. You have a new house you can afford and maybe some cash to play with. Cash that you can use to further reduce your principal or perhaps add something to the house like a deck or garage or even go to Hawaii if you so decide.

But — if you are over budget, what do you do? If you have more bills to pay and you do not have money to pay them, then what? Another loan? A second mortgage? You are in trouble..

The point or object is ... don’t go over budget. Make up your mind now that you will not allow yourself to go over budget and in all likelihood you won’t.

ASSETS	Before Acquisition	After Acquisition
Cash on Hand in Banks		
Stocks and Bonds		
Equity in Present Home (estimated)		
Real Estate		
Automobiles		
Personal Effects (Household goods, etc.)		
Other (specify)		
TOTALS		

Liabilities BEFORE Acquisition				Liabilities AFTER Acquisition			
Provide details of all debts (banks, finance companies department stores, personal, etc)				Provide details of all debts (banks, finance companies department stores, personal, etc)			
To Whom Payable	Original Amount	Balance Owing	Monthly Payment	To Whom Payable	Original Amount	Balance Owing	Monthly Payment

MORTGAGE SOURCES

There are various sources of mortgage funds available to you. Depending on your income, your housing needs and the location you wish to live, you will have to decide which mortgage is best for you.

Some sources of mortgage funds are:

- Yukon Housing Corporation
- Banks
- Credit Unions
- Trust Companies
- Life Insurance Companies
- Pension Funds (through your place of employment)
- Private Sector (through a mortgage broker)
- Special Mortgages (Farm Credit, Veterans Land Act, Federal Business Development Bank)

MORTGAGE PROCEDURE

Each mortgage lender has a different procedure leading up to loan approval and the advance of mortgage funds. There are, however, basic similarities common to all lenders.

1. The lender determines if you can indeed support (pay back) a mortgage. Your income, current debts and credit rating are investigated and a mort gage amount is arrived at using the G.D.S. and T.D.S. ratios. At this point the lender can tell you if you qualify for a mortgage through their company and the amount of mortgage funds you would qualify for. Some lenders will give you a letter stating the maximum amount of mortgage you could obtain, others will only tell you verbally so they will not be held to lending that amount if circumstances change.

2. You provide the mortgage lender with all the paperwork which makes up your formal mortgage application. This paperwork may include a sales agreement (if you purchase a house) or cost estimates (if you are building a house). The mortgage lender can then look at your purchase agreement and possibly request an appraisal to make sure that they are not lending more than the house is worth — review your income, debts and credit again. This process can take from one week to six weeks, depending on the mortgage lender you use..

3. After the formal review, if the application looks good, the lender will set up an appointment with you to explain how their mortgage works (when mortgage funds will be advanced, the mortgage term, pre-payment, insurance, etc.) and will have you sign the necessary mortgage documents.

4. Formal approval takes place at this interview or shortly afterwards. You will receive a letter of commitment from the mortgage company which is proof that you have a mortgage. A lawyer is normally assigned to handle all mortgage details for the mortgage lender. This lawyer often acts on behalf of both the lender and the borrower, but the borrowers may want to have their own lawyer represent their interests.

GLOSSARY OF MORTGAGE TERMS

Contract of Purchase and Sale

This is a binding contract that contains the terms and conditions that a purchaser and seller (vendor) have agreed to when the purchaser wishes to purchase a property from the vendor. It contains critical items, such as down payment amount, date the property is to be transferred to the new owner, and any agreed to conditions which affect the purchase of the unit.

Amortization Period

The amortization period may be thought of as the length or life of the mortgage, and is usually taken out for periods ranging from 15 to 40 years. The amortization period is often negotiable. It depends on your ability to repay the mortgage.

Assumed Mortgage

When you are buying an existing house, you might be able to assume the existing mortgage, thus taking over the mortgage payments.

Caveat

Latin for “let him beware” . Anyone who has an interest in your house, by supplying material, physical labour, etc. may register a caveat against your property if they have not been paid or if there is an unresolved financial dispute. This caveat will be registered on your property at the Land Titles office, and the caveat must be resolved before you can sell or dispose of your house. (Also see Lien.)

Closed Mortgage

A mortgage where the lender has you locked into the mortgage until the end of the term. Borrowers are only allowed to make monthly payments of interest, principal and taxes as specified in the mortgage document. (Also see Regular and Open Mortgages.)

Closing Date

This is the time the mortgage or sale is concluded with registration at the registry office (not to be confused with Possession Date).

Conventional Mortgage

A mortgage where you are expected to contribute a down payment of 25% or more. The Canadian Bank Act only allows banks to lend up to 75% of the value of a property, you have to supply the rest of the funds.(See High Ratio Mortgage)

Dower Rights

The legal rights of spouses as they pertain to the acquisition and/or disbursement of assets acquired during the relationship. Each spouse will have a legal Dower Right on their house and property.

Equity in Real Estate

This is the difference between the amount of money owing against your property and the amount of money your house is worth. If your house is appraised at $85,000 and you have a mortgage of $55,000 owing, your equity is the difference. In this example your equity is $30,000.

Fire Insurance

A must on all property. Your mortgage company will require a copy of your fire insurance policy.

First and Second Mortgages

When you take out a mortgage, the mortgage company registers a claim on your property at the Land Titles office. If you borrow additional money and another mortgage is registered against your property, that mortgage company will have second priority to any claims against your property (called a second mortgage). Your local taxes always have first priority over any claims. Second mortgages usually have a higher interest rate than the first mortgage because the security is not as good as the mortgage which was registered first (first mortgage). In case of default, the second mortgage would only be paid off after the first mortgagor is paid.

Gross Debt Service Ratio (G.D.S.R.)

This is the percentage of your monthly income needed to cover your mortgage payments, heating costs, and taxes. Your mortgage payments are made up of interest and principal. Most banks work with a maximum G.D.S.R. of 32%.

High Ratio Mortgage

This is a mortgage where you contribute a down payment of less than 25%. Often as low as 5% to 10% of the total cost of the house. Because your equity position is low, the mortgage company requires the homeowner to pay for insurance in case of default on your mortgage payments. This insurance is for the benefit of the mortgage company <u>only</u>, even though you must pay for it. It is not a form of fire or life insurance for you. (See Mortgage Insurance Fee.) This is the only way banks are allowed to lend more than 75% of the value of a dwelling. Canada Mortgage and Housing Corporation administers the Mortgage Insurance Fund for banks in the Yukon.

Interest Adjustment Date

This is the date the clock begins running on your mortgage. Your first payment will commence one month after the interest adjustment date, if you are making monthly payments. If you are making Bi-weekly payments, payments would begin two weeks after the interest adjustment date.

Interest Rate

Interest Rate is the finance charge you pay, over and above the amount you borrow. This rate is determined at the time you take out your mortgage and remains constant until the end of the term. Some lenders offer variable rate mortgages, which track the interest rate as it increases or decreases.

P.I.T. (Principal, Interest and Taxes) or
I.P.T. (Interest, Principal and Taxes)

Your monthly mortgage payment always includes Principal and Interest and may also include Taxes. Referred to as P.I.T. Often you are quoted a P.I. (Principal and Interest) payment amount when you are pre-approved for a mortgage. At that stage, the taxes on the dwelling you eventually purchase are not yet known.

Legal Description

This is how your property will be legally described in the sequence of Lot, Block, Subdivision and Plan. Your home address is just a further description of your legal description.

Lien

A lien is a claim registered against your property for the satisfaction of a debt. Commonly, the term refers to a Mechanics Lien. This is a claim registered by a tradesman or contractor against a property when he is not paid for work done or material supplied. A mortgage is also a form of a lien. (Also see Caveat.)

Monthly Income

Monthly income is the key to regulating your amortization period and your monthly mortgage payments. You need adequate income to qualify for the corresponding repayment schedules. For mortgage calculations, monthly income usually means gross monthly income. For budgeting it usually is adjusted to take-home pay.

Mortgage

A mortgage is, simply stated, security on a house. Because of the high cost of a house, you usually have to borrow some money to buy that house. The financial institution that lends you that money protects their investment by holding a mortgage on your house. When your mortgage is paid in full, you receive clear title to your property.

Mortgage Draws or Progress Advances

This is money advanced to the builder by the mortgage company, for work in place, based on the percentage of the work completed.

Mortgage Insurance Fee (M.I.F.)

If you have what is considered a high ratio mortgage (equity of less than 25% in your house), your mortgage company will require you to pay a mortgage insurance fee. This is for their protection only in the case you default. It is not a form of fire or life insurance.

Mortgage Life Insurance
(Not to be confused with Mortgage Insurance Fee)

Mortgage life insurance is a form of term life insurance to provide for payment of the mortgage in full, if the borrower dies. If your mortgage company, bank, etc. does not offer mortgage insurance (Yukon Housing Corporation does not), you may wish to obtain an ordinary term life insurance policy to give you this protection.

Open Mortgage

In an open mortgage you are locked into a particular interest rate, but you may pay off any or all of your mortgage, at any time, without penalty. The interest rate is usually one per cent or more above the conventional rate and the term is generally for one year or less. (See Closed or Regular Mortgages.)

Possession Date
(Not to be confused with Closing Date.)

Possession Date is the time when the keys to the house are given to the purchaser to allow them to move in. This date is often the same date as the closing date (you can't take possession until you actually own the dwelling), but at times the vendor will allow you to take possession early if the sale is secure.

Regular Mortgage

This is the most common type of mortgage. Borrowers have a locked-in interest rate, but can choose to pay off the mortgage at any time. They will generally be charged three months interest penalty if they pay out the mortgage. Also, you can generally prepay up to 10% of the original mortgage amount on the first and subsequent anniversary dates, with no penalty charge. For instance, if you are transferred, you could sell your house and pay off your mortgage, with a three month interest penalty. (Also see Open and Closed Mortgages).

Sideyards and Setbacks

When your house is built, placement of the house on the lot is guided by local by-laws. These by-laws include sideyards and setbacks and, simply stated, they govern how close to the front, side and back of your lot you may locate your house, garage, etc.

Statement of Adjustment

This is a statement prepared by the lawyers involved, detailing all costs, payments, financial costs, mortgage amount, etc. between the buyer or builder and the mortgage company.

Survey and Survey Certificate

At some point in time a survey is required on all property. The mortgage company requests a survey to ensure the dwelling is properly located on the lot. A surveyor locates the legal boundaries of your lot, details your legal description and locates your house foundation on your lot. The mortgage company can then verify that proper sideyards and setbacks, etc. are adhered to.

Term

The term is the period for which the interest rate does not change. The term is negotiable and may run from 6 months to five years. At the end of your term, you may renegotiate your loan amount, you may pay it off, or you may go to another lending institution. You will probably have a new interest rate when you renegotiate your term. The interest rate continually changes but when you renegotiate your term, you lock-in the interest rate for the period of the term.

Total Debt Service Ratio (T.D.S.R.)

Total debt service ratio is the percentage of your monthly income needed to cover your mortgage payment and all other consumer debts. Most lenders do not like to see a T.D.S.R. over 40%. Your G.D.S.R., the amount available for mortgage payments, is reduced by the amount of the T.D.S.R. is over 40%.

IN SUMMARY

A mortgage not only allows you to purchase a house, but creates for you an investment, or if you will, a form of forced savings by establishing equity in real estate.

Where else can you make a down payment of only 10% of the value of the item, and retain the equity that has accumulated on it? You also fulfill a basic need in your life, namely housing your family.

Think about it!!

Table 1: How Interest Rates Affect Your Costs (based on a $100,000 Mortgage)

		AFTER 25 YEARS	
Interest	Monthly	Total	Cost Of
Rate	Payment	Payments	Financing
6%	$639.81	$191,943	$91,943
7%	$700.42	$210,126	$110,126
8%	$763.42	$228,309	$128,936
9%	$827.98	$246,492	$148,394
10%	$894.49	$264,675	$168,347
11%	$962.53	$282,858	$188,759

Table 2: Monthly Mortgage Payment Factors for a Loan of $1,000 (Amortization Factors)

INT %	10 YRS	15 YRS	20 YRS	25 YRS	30 YRS	35 YRS	40 YRS	INT %
6.00	11.06510	8.39883	7.12189	6.39807	5.94824	5.65253	5.45088	6.00
6.25	11.18769	8.53077	7.26282	6.54742	6.10533	5.81662	5.62120	6.00
6.50	11.31094	8.66370	7.40501	6.69824	6.26403	5.98238	5.79319	6.50
6.75	11.43488	8.79761	7.54845	6.85050	6.42428	6.14974	5.96677	6.75
7.00	11.55940	8.93250	7.69311	7.00416	6.58604	6.31863	6.14185	7.00
7.25	11.68461	9.06835	7.83898	7.15919	6.74925	6.48900	6.31835	7.25
7.50	11.81047	9.20514	7.98603	7.31555	6.91387	6.66077	6.49620	7.50
7.75	11.93697	9.34288	8.13423	7.47322	7.07984	6.83388	6.67532	7.75
8.00	12.06410	9.48153	8.28358	7.63214	7.24712	7.00827	6.85563	8.00
8.25	12.19185	9.62111	8.43404	7.79229	7.41565	7.18387	7.03706	8.25
8.50	12.32024	9.76158	8.58560	7.95364	7.58540	7.36063	7.21955	8.50
8.75	12.44924	9.90295	8.73822	8.11615	7.75631	7.53849	7.40302	8.75
9.00	12.57886	10.04519	8.89190	8.27978	7.92833	7.71739	7.58741	9.00
9.25	12.70909	10.18830	9.04660	8.44450	8.10143	7.89728	7.77266	9.25
9.50	12.83992	10.33227	9.20231	8.61028	8.27555	8.07810	7.95871	9.50
9.75	12.97135	10.47707	9.35900	8.77708	8.45065	8.25979	8.14550	9.75
10.00	13.10337	10.62270	9.51655	8.94488	8.62668	8.44232	8.33299	10.00
10.25	13.23598	10.76915	9.67524	9.11363	8.80362	8.62562	8.52110	10.25
10.50	13.36918	10.91641	9.83474	9.28330	8.98141	8.80966	8.70981	10.50
10.75	13.50295	11.06445	9.99513	9.45387	9.16001	8.99483	8.89906	10.75
11.00	13.63729	11.21327	10.15640	9.62530	9.33938	9.17975	9.08880	11.00

Table 3: Cost of Financing Comparison

	10 Years		15 Years		20 Years		25 Years	
Mortgage @ 9%	Total Cost	Cost of Financing	Total Cost	Cost of Financing	Total Cost	Cost of Financing	Total Cost	Cost of Financing
$80,000	**120,756**	**-40,756**	**144,649**	**-64,649**	**170,724**	**-90,724**	**198,714**	**-118,714**
$85,000	128,304	-43,304	153,691	-68,691	181,394	-96,394	211,134	-126,134
$90,000	**135,850**	**-45,850**	**162,731**	**-72,731**	**192,065**	**-102,065**	**223,554**	**-133,554**
$95,000	143,399	-48,399	171,772	-76,772	202,735	-107,735	235,971	-140,971
$100,000	**150,946**	**-50,946**	**180,812**	**-80,812**	**213,406**	**-113,406**	**248,391**	**-148,391**
$105,000	158,494	-53,494	189,853	-84,853	224,074	-119,074	260,811	-155,811
$110,000	**166,040**	**-56,040**	**198,895**	**-88,895**	**234,744**	**-124,744**	**273,231**	**-163,231**
$115,000	173,587	-58,587	207,934	-92,934	245,414	-130,414	285,651	-170,651
$120,000	**181,135**	**-61,135**	**216,975**	**-96,975**	**256,085**	**-136,085**	**298,071**	**-178,071**
$125,000	188,682	-63,682	226,015	-101,015	266,755	-141,755	310,491	-185,491
$**130,000**	**196,230**	**-66,230**	**235,056**	**-105,056**	**277,425**	**-147,425**	**322,911**	**-192,911**
$135,000	203,777	-68,777	244,098	-109,098	288,096	-153,096	335,311	-200,311

Table 4: Percentage of Original Balance Remaining

@ 6% Interest

Years Elapsed	Original Length of Mortgage (in years) 10	15	20	25	30	35	40
1	92.4	95.7	97.3	98.2	98.8	99.1	99.4
3	75.9	86.4	91.4	94.3	96.0	97.2	98.0
5	57.3	75.9	84.8	89.8	93.0	95.0	96.4
10	-	43.5	64.4	76.2	83.5	88.3	91.6
15		-	36.9	57.8	70.8	79.4	85.2
20			-	33.2	62.5	67.3	76.5
25				-	30.8	51.1	64.9
30					-	29.3	49.3

@ 6.5% Interest

Years	Original Length of Mortgage (in years)						
Elapsed	10	15	20	25	30	35	40
1	92.6	95.9	97.5	98.3	98.9	99.2	99.4
3	76.4	86.9	91.8	94.6	96.4	97.5	98.2
5	57.9	76.6	85.5	90.5	93.5	95.5	96.8
10	-	44.4	65.5	77.3	84.6	89.3	92.5
15		-	37.9	59.2	72.3	80.8	86.5
20			-	34.3	55.4	69.1	78.2
25				-	32.1	52.9	66.9
30					-	30.6	51.2

@ 7% Interest

Years	Original Length of Mortgage (in years)						
Elapsed	10	15	20	25	30	35	40
1	92.8	96.1	97.6	98.4	99.0	99.3	99.5
3	76.8	87.3	92.3	95.0	96.9	97.7	98.4
5	58.5	77.3	86.1	97.0	94.0	95.9	97.2
10	-	45.2	66.6	78.4	85.6	90.2	93.3
15		-	38.9	60.6	73.7	82.1	87.7
20			-	35.5	57.0	70.7	79.8
25				-	33.3	54.7	68.8
30					-	32.0	53.1

@ 7.5% Interest

Years Elapsed	Original Length of Mortgage (in years) 10	15	20	25	30	35	40
1	93.0	96.2	97.7	98.6	99.1	99.4	99.6
3	77.3	97.7	92.6	95.3	97.0	98.0	98.6
5	59.1	77.9	86.8	91.6	94.5	96.3	97.5
10	-	46.1	67.6	79.5	86.6	91.0	94.0
15		-	40.0	61.9	75.1	83.4	88.8
20			-	36.6	58.5	72.4	81.3
25				-	34.6	56.4	70.6
30					-	33.3	55.0

@ 8% Interest

Years Elapsed	Original Length of Mortgage (in years) 10	15	20	25	30	35	40
1	93.1	96.4	97.9	98.7	99.1	99.4	99.6
3	77.7	88.2	93.0	95.7	97.2	98.2	98.8
5	59.7	78.6	87.4	92.1	95.0	96.7	97.8
10	-	46.9	68.7	76.4	84.6	91.8	94.6
15		-	41.0	63.3	76.4	84.6	89.8
20			-	37.8	60.1	73.9	82.8
25				-	35.9	58.1	72.3
30					-	34.7	56.8

@ 8.5% Interest

Years Elapsed	Original Length of Mortgage (in years) 10	15	20	25	30	35	40
1	93.3	96.5	98.0	98.8	99.2	99.5	99.7
3	78.2	88.6	93.4	96.0	97.5	98.4	98.9
5	60.3	79.2	88.0	92.6	95.4	97.0	98.1
10	-	47.7	69.7	81.5	88.4	92.5	95.2
15		-	42.0	64.6	77.7	85.7	90.8
20			-	38.9	64.6	75.4	84.1
25				-	37.1	59.7	74.0
30					-	36.0	58.6

@ 9% Interest

Years Elapsed	Original Length of Mortgage (in years) 10	15	20	25	30	35	40
1	93.5	96.6	98.1	98.9	99.3	99.6	99.7
3	78.6	89.0	93.7	96.2	97.7	98.5	99.1
5	60.8	79.9	88.5	93.1	95.8	97.3	98.3
10	-	48.6	70.7	82.4	89.2	93.2	95.7
15		-	43.0	65.8	78.9	86.8	91.6
20			-	40.0	63.0	76.8	85.3
25				-	38.3	61.4	75.5
30					-	37.3	60.3

@ 9.5% Interest

Years Elapsed	Original Length of Mortgage (in years) 10	15	20	25	30	35	40
1	93.6	96.8	98.2	98.9	99.4	99.6	99.8
3	79.0	89.4	94.1	96.5	97.9	98.7	99.2
5	61.4	80.5	89.1	93.6	96.1	97.6	98.5
10	-	49.4	71.7	83.3	89.9	93.8	96.2
15		-	44.0	67.1	80.1	87.8	92.4
20			-	41.2	64.5	78.2	86.5
25				-	39.6	62.9	77.0
30					-	38.6	62.0

@ 10% Interest

Years Elapsed	Original Length of Mortgage (in years) 10	15	20	25	30	35	40
1	93.8	96.9	98.3	99.0	99.4	99.7	99.8
3	79.4	89.8	94.4	96.8	98.1	98.8	99.3
5	62.0	81.1	89.6	94.0	96.4	97.9	98.7
10	-	50.2	72.6	84.2	90.6	94.4	96.6
15		-	45.0	68.3	81.2	88.7	93.2
20			-	42.3	65.8	79.5	87.6
25				-	40.8	64.4	78.4
30					-	39.9	63.6

@ 10.5% Interest

Years Elapsed	Original Length of Mortgage (in years) 10	15	20	25	30	35	40
1	94.0	97.0	98.4	99.1	99.5	99.7	99.8
3	79.8	90.1	94.7	97.0	98.3	99.0	99.4
5	62.5	81.7	90.1	94.4	96.7	98.1	98.9
10	-	51.0	73.6	85.0	91.3	94.9	97.0
15		-	46.0	69.4	82.3	89.6	93.8
20			-	43.4	67.2	80.7	88.6
25				-	42.0	65.9	79.8
30					-	41.2	65.1

@ 11% Interest

Years Elapsed	Original Length of Mortgage (in years) 10	15	20	25	30	35	40
1	94.1	97.2	98.5	99.2	99.5	99.7	99.8
3	80.2	90.5	95.0	97.2	98.4	99.1	99.5
5	63.1	82.2	90.6	94.8	97.0	98.3	99.0
10	-	51.9	74.5	85.8	92.0	95.4	97.3
15		-	47.0	70.6	83.3	90.4	94.4
20			-	44.5	68.5	81.9	89.5
25				-	43.2	67.3	81.1
30					-	42.5	66.6

TABLE 5: Monthly Payment Comparisons

Mortgage at 9% ($)	5 years monthly payments ($)	10 years monthly payments ($)	15 years monthly payments ($)	20 years monthly payments ($)	25 years monthly payments ($)	40 years monthly payments ($)
80,000	**1654.29**	**1006.30**	**803.61**	**711.35**	**662.38**	**606.99**
85,000	1757.69	1069.20	853.84	755.81	703.78	644.92
90,000	**1861.08**	**1132.09**	**904.06**	**800.27**	**745.18**	**682.86**
95,000	1964.47	1197.99	954.29	844.73	786.57	720.80
100,000	**2067.87**	**1257.88**	**1004.51**	**889.19**	**827.97**	**758.74**
105,000	2171.26	1320.78	1057.74	933.64	869.37	796.67
110,000	**2274.66**	**1383.67**	**1104.97**	**978.10**	**910.77**	**834.61**
115,000	2378.05	1446.56	1155.19	1022.56	952.17	872.55
120,000	**2481.44**	**1509.46**	**1205.42**	**1067.02**	**993.57**	**910.48**
125,000	2584.84	1572.35	1255.64	1111.48	1034.97	948.42
130,000	**2688.23**	**1635.25**	**1305.87**	**1155.94**	**1076.37**	**986.36**
135,000	2791.62	1698.14	1356.10	1200.40	1117.77	1024.30