Mortgage Basics: A Newcomer's Guide To Financing a Home in Canada

What newcomers should know before getting their first mortgage in Canada

October 3, 2024

TD

Agenda

1. Questions to ask when deciding on buying a home and costs to consider
2. Review budgeting example
3. What is a mortgage and types of mortgage interest rates
4. Understanding down payments
5. Understanding mortgage pre-approvals
6. Understanding mortgage prepayments
7. Next Steps

Introduction

Darwin Truong

TD Mobile Mortgage Specialist, Greater Toronto Area, Ontario

Questions to ask when deciding on buying a home and costs to consider :

If you're sure you're ready to buy a home, ask yourself these questions:

- Where do I want to live?
- What neighborhood do I like?
- Do I want to be close to schools, transit or shopping?
- What kind of property do I want? House or condo? Existing property or new build?
- Do I have enough money set aside for a down payment on a house?
- What will my mortgage payments look like, and can I afford it?

Owning a home in Canada can cost a lot more than you might expect. Monthly costs can include:

- Mortgage Payment
- Property / School Taxes
- Condo Fees
- Home / Condo Insurance
- Utilities
- Emergency Maintenance Costs

A TD Mortgage Specialist can help you understand how much you may be able to afford for a home

How much you may be able to afford?

Budget Example

Let's say you have **$3,500** that can go to housing costs.

How does that stack up against standard homeownership costs?

	$2,250	Mortgage Payment
	$300	Property / School Taxes
	$550	Condo Fees
	$100	Home/Condo Insurance
	$200	Utilities
+	$100	Emergency Maintenance Costs
=	**$3,500**	**Total monthly cost**

In this case, your $3,500/month would be enough to pay for this home's monthly costs.

What is a mortgage?

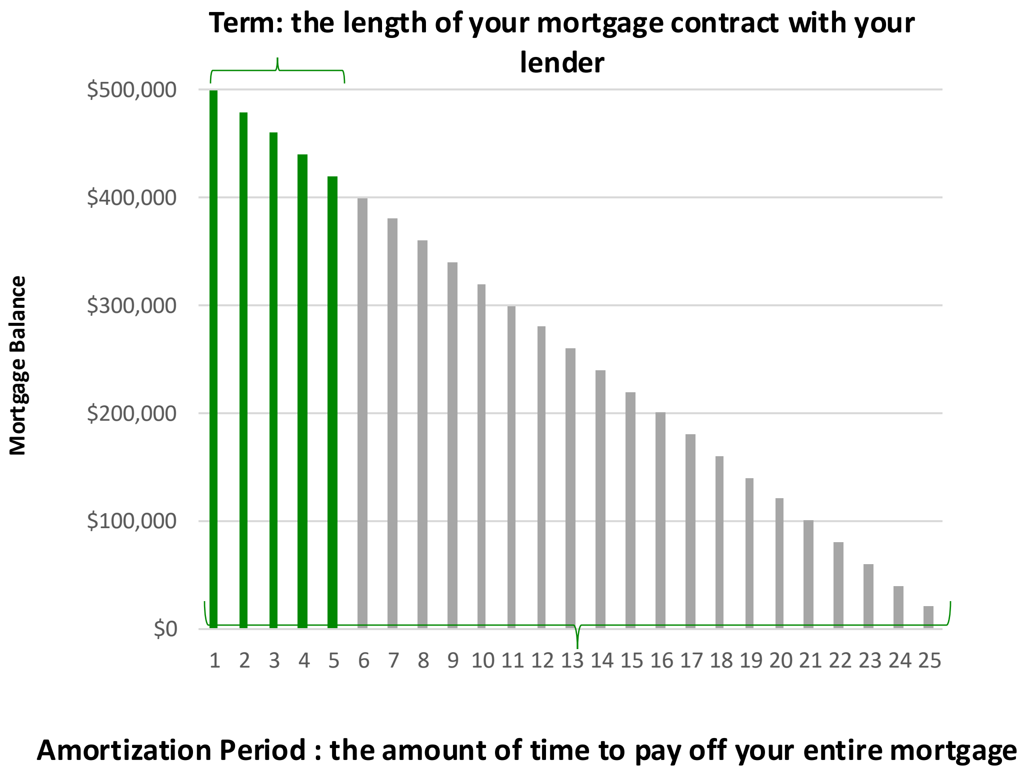
A **mortgage** is a loan commonly used to finance the purchase of your home. The property is the security for the loan.
A mortgage has an amortization period and payments that typically include principal and interest.

The **amortization period** is the time it would take to pay off the mortgage assuming no change to the payment amount or interest rate. Many people choose a 25-year amortization period.
The longer the amortization period, the more interest you will pay over the life of the mortgage.

Mortgage **term** is different than the amortization period. The mortgage term is the length of time you've committed to a mortgage interest rate and payment with your mortgage lender

Example of a mortgage of $500,000 with a term of 5 years and and amortization of 25 years

Note: the illustration below assumes the interest rate stays the same through the amortization period. The actual interest rate will not be the same during the life of your mortgage



Mortgage Interest Rates

The mortgage interest rate is the percentage amount of interest charged on your mortgage.

There are two types of mortgage interest rates:

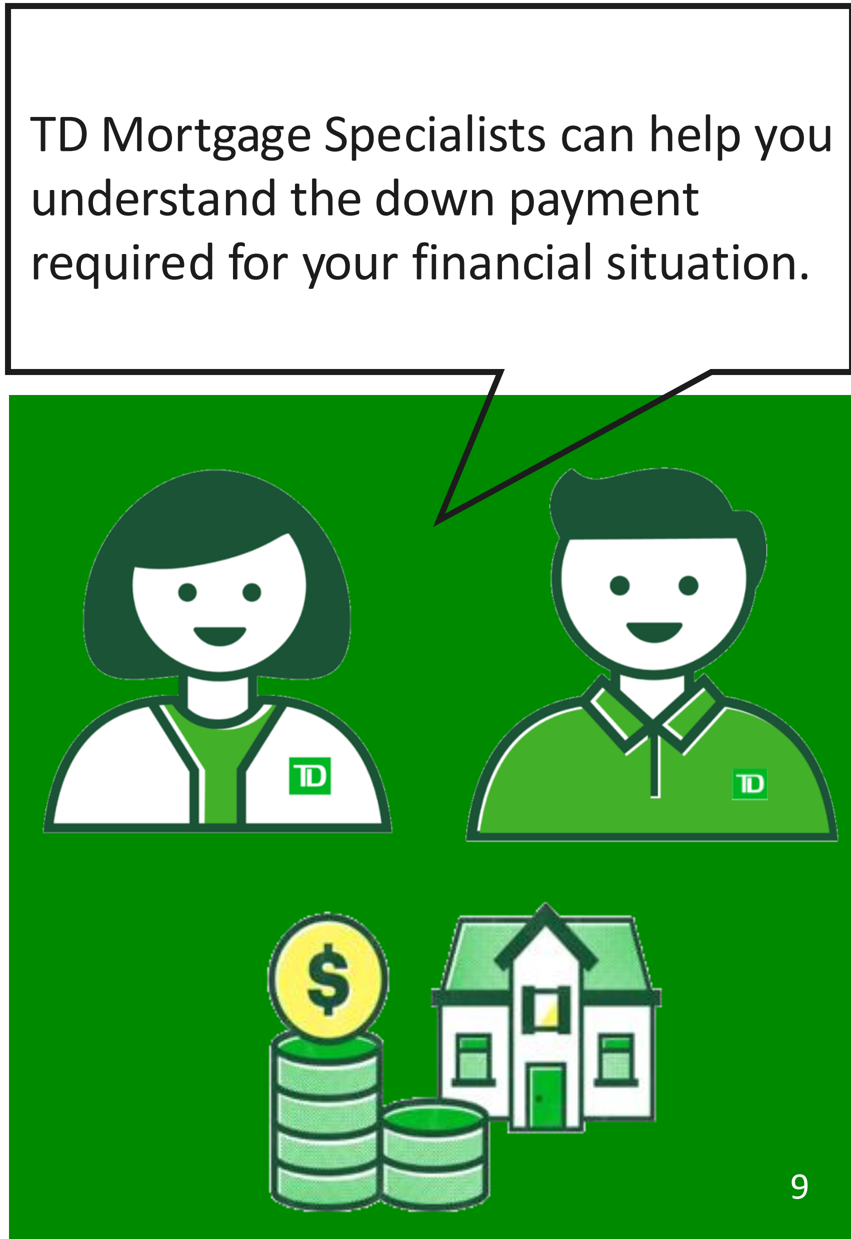
1) **Fixed:** The interest rate will not change throughout the term of your mortgage loan.
2) **Variable:** The interest rate can fluctuate throughout the term as the base interest rate changes. Each financial institution will have their own base interest rate

Public

Down Payments

The **down payment** is the amount of the purchase price of the home that is not being financed and you pay upon closing. Some lenders have mortgage solutions tailored to newcomers, and they may have specific minimum down payment requirements.

Note: In Canada, mortgage default insurance is required if putting less than 20% down payment of the home purchase price. This amount is added onto your mortgage principal, or you can pay it as one time amount upfront.



Getting pre-approved for a mortgage

Pre-approval is when a potential mortgage lender looks at your finances and decides how much they might lend you and what interest rate they'll charge, subject to certain conditions.

You might end up being pre-approved for an amount greater than you want to borrow. This doesn't mean that you need to borrow all of it. **Create a budget** and make sure you follow it.

Why get pre-approved?

Pre-approval helps you understand the amount you may be able to borrow and locks in an interest rate for a period, which varies by mortgage lender.

Note: Getting pre-approved is not a promise that you will be approved for a mortgage. Make sure you read and understand all the conditions for the pre-approval

TD Mortgage Specialists can talk to you about applying for a mortgage pre-approval.

Mortgage Prepayments

You can make additional payments to pay off the mortgage sooner. These are called **prepayments** and could be in the form of lump sum payments or increasing your regular payment.

Mortgage lenders can have different prepayment options.

Prepayment privilege is the maximum prepayment without paying a prepayment charge and it will vary by mortgage lender and mortgage type.

Next Steps:

TD can help you finance your first home in Canada with specially designed mortgage solutions for Newcomers.

You may be eligible for a TD mortgage, even if you have no Canadian credit history, provided you meet eligibility and credit criteria at TD. Visit https://www.td.com/ca/en/personal-banking/solutions/new-to-canada/mortgages-for-newcomers for more details.

Request a call from a TD Mortgage Specialist to learn about our mortgage options after you have arrived in Canada.

Questions?