Mortgage Preapproval

A prerequisite

Compliments of . . .

Fraser Carmichael
RE/MAX Ocean Pointe Realty
640 Trans Canada Highway
Ladysmith, BC
Box 970
V9G 1A7
Toll-free: (800) 665-8313
Phone: (250) 245-3700
Fax: (250) 245-2234

Getting your Mortgage Pre-Approved

Many lenders will approve your mortgage in advance. This has two distinct advantages. First it helps you determine what you can afford to purchase. Second, it will guarantee you a certain interest rate for a period of time while you are out shopping for a home. If your interest rate is not "locked-in", a sudden increase in interest rates could mean you can no longer qualify for the purchase of your dream home.

Shopping for your mortgage

If you apply for your mortgage using an independent mortgage consultant (usually called a mortgage broker). Your mortgage consultant is there to answer all you questions with expert, independent advice. Your mortgage consultant works for you, not the bank, and has access to every lender including the Banks, Trusts, Credit Unions, and Life Insurance Companies. They can find you the right mortgage, at the best rate.

Is there a cost for the services of a mortgage consultant?

NO - in most cases, the consultant is paid a finder's fee by the lender and there is no fee payable by you. There are instances where due to poor credit or lack of income the lender may not pay a finder's fee to the mortgage consultant. In this situation, the mortgage consultant may charge a fee. If this is the case, you will be apprised of the situation early in the mortgage approval process, and a fee will agreed upon in writing.

Pre-Qualifying

You can pre-qualify yourself by visiting a mortgage broker web site (e.g, ClickMortgage.ca) or any of the large Bank sites. It is helpful to use their calculators to determine your housing affordability. It will give you an idea of how much you can afford to pay for your new home and what those payments will be. In order to take the next step and get pre-approved, you need to supply some basic information about yourself, your employment and your down payment plans. To get started, you can apply on-line or by phone.

Pre-Approval

The first step to being pre-approved is to complete a mortgage application. The information on the application includes personal information (your address and date of birth), employment information (where you work and your annual income), and information about your assets & liabilities (where is your down payment coming from and what other regular monthly payments you make - like a car payment).
Based on the information you have supplied, the lender will determine the maximum mortgage amount for which you qualify and then lock-in the interest rate for you.
Usually this interest rate is held for you for 90-120 days while you shop for a new home.
If rates go up during this period, you still get to take advantage of the rate you were guaranteed (as long as your purchase completes before the guarantee's expiry date). If rates go down during your guaranteed rate period, your guaranteed rate will generally go down accordingly. If you do not find a home during this period, you can renew your pre-approval that the prevailing interest rate after your rate guarantee expires.
Pre-approvals are still subject to the lender verifying the information that you provided on your mortgage application. The lender must also approve of the property you are purchasing and the price you are paying for it.

Approval & Commitment

Once you have found a home and agreed on a purchase price, it is time to convert your pre-approval to an approval. The details of the purchase, as well as the mortgage amount you require, are submitted to the lender who then issues a commitment letter. This letter is confirmation of the amount you will be borrowing and the interest rate applicable. It will also give the details of the items the bank must verify before the approval is finalized and funds are committed. At this point, your approval is "conditional" on you supplying the lender with these items. These items usually include verifying your annual income and that the down payment is not being borrowed (however, a gift from a family member is acceptable). The lender will also want to verify that the property is worth what you are paying for it. This is often done by an appraiser or by using a large database of past sales prices in the area. Once all the conditions are met, your approval is finalized and funds are committed to your mortgage for the completion date.

What if interest rates drop after we sign our mortgage commitment but before the completion date set for our purchase?

Your interest rate will usually drop accordingly. In cases like this, different lenders have different rate drop policies. Be sure to ask a mortgage broker or lending institution for details.