Your monthly home & mortgage newsletter

MORTGAGEARCHITECTS | October 2021 e-Newsletter

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I have some great tips for you this month now that Fall is in full swing! As we move into October, this is a great month to touch on credit scores and all the tips to make it less spooky! Plus, why invest in a home inspection as well as seasonal home preparation tips!

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Low Credit Is Spooky! Get Better Credit

With The 5 C's

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Buying your first home is an incredible step in life, but it is not without its hurdles! One of which is demonstrating that you are creditworthy, which all comes down to your ability to manage credit. This is how lenders and credit agencies determine the interest rate you pay. A higher credit rating could mean a lower interest rate and save you thousands of dollars over the life of your mortgage.

There are several attributes that lenders consider before granting credit, and these are commonly referred to as the “Five C’s” and consist of: Character, Capacity, Capital, Collateral and Conditions. Let’s take a closer look at each:

1. Character

The first C focused on YOU and your personal habits, which comes down to whether or not it is in your nature to pay debts on time. The determining factors for your credit character include the following:

- Whether you habitually pay your bills on time
- Whether you have any delinquent accounts
- Your total outstanding debt
- How you use your available credit:
    - Quick Tip: Using all or most of your available credit is not advised. It is better to increase your credit limit versus utilizing more than 70% of what is available each month. For instance, if you have a limit of $1000 on your credit card, you should never go over $700.

  - If you need to increase your score faster, a good place to start is using less than 30% of your credit limit.
  - If you need to use more, pay off your credit cards early so you do not go above 30% of your credit limit.

2. Capacity

The second component relating to your credit rating is your capacity. This refers to your ability to pay back the loan and factors in your cash flow versus your debt outstanding, as well as your employment history.

  - How long have you been with your current employer?
  - If you are self-employed, for how long?

Don’t be confused as capacity is not what YOU think you can afford; it is what the LENDER has determined that you can afford depending on your debt service ratio. This ratio is used by lenders to take your total monthly debt payments divided by your gross monthly income to determine whether or not you are able to pay back the loan.

3. Capital

Capital is the amount of money that a borrower puts towards a potential loan. In the case of mortgages, the starting capital is your down payment. A larger contribution often results in better rates and, in some cases, better mortgage terms. For instance, a mortgage with a down payment of 20% does not require default insurance, which is an added cost.

When considering this component, it is a good idea to look at how much you have saved and where your down payment funds will be coming from. Is it a savings account? RRSPs? Or maybe it is a gift from an immediate family member.

4. Collateral

Collateral is what is pledged against a loan for security of repayment. In the case of auto loans, the loan is typically secured by the vehicle itself as the vehicle would be repossessed and re-sold in the event that the loan is defaulted on. In the case of mortgages, lenders typically consider the value of the property you are purchasing and other assets. They want to see a positive net worth; a negative net worth may result in being denied for a mortgage. Overall, loans with collateral backing are typically more secure and generally result in lower interest rates and better terms.

5. Conditions

The conditions of the loan can also influence the lender's desire to provide financing. Conditions can include: interest rate, terms, length of loan and amount of principle needed. Typically lenders are more likely to approve specific-loans, such as a car loan or home improvement loan or mortgage as these have a specific purpose, as opposed to a signature loan.

There is no better time than now to recognize the importance of your credit score and check if you are on track with the Five C’s and your debt habits. A misstep in any one of these areas could be detrimental to your efforts to get a mortgage. If you are not sure or want more information, please don’t hesitate to reach out to me today to determine your current credit score and if there are areas for improvement to help you get a better interest rate and mortgage.

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Why Invest in a Home Inspection

While home inspections might not be the most exciting part of your home buying journey, they are extremely important and can save you money and a major headache in the long run.

In a competitive housing market, there can sometimes be pressure to make an offer right away without conditions. However, no matter how competitive a market may be, you should never skip out on things designed for buyer protection - such as a home inspection.

You may have a good eye for décor and love the layout of your potential new home, but what is under the surface is typically where headaches can lie. We have all heard the expression “don’t judge a book by its cover” so why would you make the most important purchase in your life without checking it out?

In fact, there are five reasons that a home inspection might just be the best $300-$500 you ever spend:

- **It Provides an “Out”:** When buying a new house, it is always best to avoid taking chances. While a house may look great on the surface, hidden structural issues such as cracked foundation or roof damage can easily turn into expensive repairs. A home inspection can help reveal any large and/or hidden issues, which can often provide an ‘out’ for the buyer. If you find something that will cost a considerable amount to replace or repair you can go back to the seller’s agent and ask for a reduction in the price. A leaky roof may cost a few thousand to replace. Perhaps the seller would split the cost with you? It’s worth asking. If the price cannot be re-negotiated if issues come to light, then it is best to just walk away on the basis that the home will cost you too much in the long run.
- **Confirms Safety and Structural Integrity:** Another benefit of having a home inspection is not only to find issues, but also to confirm structural integrity. During an inspection, the inspector will review everything from the attic to the furthest reaches of the basement and will look for things like mold, holes in the chimney, saggy beams or improper wiring.
- **Reveal Illegal Additions or Installations:** Similarly to determining any safety and structural issues, home inspections can also reveal hidden additions or DIY installations that may cause trouble down the road. If the seller wired the house improperly or used substandard materials, it not only could cost you big in the future but it could even null and void your home insurance should something happen!
- **Forecast Future Costs:** A home is an ongoing expense, much like a car. Unless it is brand new, there will be regular maintenance and updates required to replace things when they become old and inefficient. For instance, water heaters typically last for 6-10 years, the life of a good roof is around 20 years, while furnaces can last up to 25 years. The home inspection report will include an estimate on the

remaining life for each of these big-ticket items, which will give you a heads up on future expected costs and provide you time to save for their eventual replacement.

- **Peace of Mind:** Finally and perhaps most importantly, getting a home inspection is important for your own peace of mind. A home is a huge investment, and one that you will be paying off for 20 or 30 years. It is much easier to feel good about your investment after you have gone through a home inspection and you know that the house is safe and that you won't run into any surprise problems down the road. While a home inspection isn't free, peace of mind is priceless and a few hundred bucks is worth it!

If you're not sure how to get started with your home inspection, please don't hesitate to reach out to me directly for some help or a few referrals!

Fall Home Tips

It is hard to believe it is October already! Even though Fall has already started, there are a few things you can do still to ensure your home is well-prepared for the season:

- **Inspect Your Gutters:** This time of year it is important to clean and inspect your gutters (replacing as needed) to ensure they are working properly as the rain and snow season hits. If they are clogged or damaged, it could result in a flooded interior and damaged exterior so don't wait!
- **Check for Drafts:** In the Fall and Winter, many homeowners are spending extra money heating their homes due to drafts, but it doesn't have to be that way! Do a

check on all exterior doors and windows to confirm if they are properly sealed. To do this, simply close a door or window on a strip of paper. If the paper slides easily, you need to update your weatherstripping.

- **Have Your Furnace Inspected:** In Canada we are no strangers to chilly evenings! To ensure you are comfortable throughout the colder months, be sure to have your furnace inspected by an HVAC professional. They can check leaks, test efficiency, and change the filter. They can also conduct a carbon monoxide check to ensure air safety.
- **Fix Any Concrete/Asphalt Cracks:** This one is easy to ignore thinking it will be fine, but it could easily turn into a bigger issue. When water gets into existing cracks during the colder months it will freeze and expand, causing the crack to become even larger.
- **Turn Off Outdoor Plumbing:** Since your garden will not need attention until the Spring, it is a good idea to shut off and drain all outdoor faucets and sprinkler systems. Depending on where you live, you might also want to cover them to prevent freezing during the Winter months.
- **Change Your Batteries:** It is a good idea annually to check that all smoke detectors and carbon monoxide devices are working. While you're doing your Fall and Winter home preparations, this is a good time to test your existing gadgets.

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