The Complete Communicator

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VERICO COMPLETE MORTGAGE SERVICES

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Financial House Cleaning for Couples

(NC)—Now that the tax season is over, how did you and your significant other do? Were you faced with tax bills or did you receive a refund? If you both had a less than spectacular financial year, don't be discouraged. Mid-year is a great time to review your financial situation and resolve to make changes now to ensure you're in a better position next year. Here are some ideas that can help you both max out on the good and reduce the bad:

1. Clean up your tax act: Really evaluate how well you did this season. As a couple, did you take advantage of every credit possible—Spousal RRSP, GST credit, child tax and child care credits, marriage/common law/equivalent-to-married credits, RESP, charitable giving, medical expenses, tuition and education credits, and home-office expenses. Consider seeking advice from a tax expert. It's worth the cost especially if you've been through a major life event like: marriage, divorce, career changes, severance, retirement, illness and/or disability.

2. Develop the habits of Super Savers: Set up a pre-authorised payment plan to contribute to your registered accounts year-round and have fun watching your nest egg grow. To take advantage of automatic RSP contributions, consider filing a *Tax Reduction at Source Form 1213*. Essentially, once the government approves your application, they authorize your employer to deduct less tax from your salary. You'll end up increasing your cash flow and reducing your end-of-year tax bill, perhaps even to zero. The extra money you bring home can be directed towards debt reduction or your savings plan. Another option is to take advantage of any retirement savings programs that are provided through work, which results in instant tax savings.

3. Create a household budget and stick to it: Do you know what's coming in and what's going out? If you can't answer these questions immediately, you likely aren't budgeting. This can be a daunting task for some, but it doesn't have to be. To make a simple budget, make a list of your income sources and your monthly expenditures, including your investments and savings. You can track your budget on paper, a spreadsheet or by using personal finance software. One trick to remember is to add your month-end cash balances to the following month.

4. Seriously reduce your debt: Include a line in your budget for debt reduction and commit to paying it down. If a part of your debt comes from credit cards, aim to pay it off every month and avoid making new charges. It's always helpful to know your credit rating. If the result is high, make all the necessary changes to bring it down to normal levels.

5. Protect your investments: Would you be able to support your family and meet your financial responsibilities if you were in an accident or fell ill? A term insurance policy is an ideal solution because it's inexpensive and it will meet your short-term needs.

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The 10 year mortgage term: It's Making a comeback

Determine what your comfort level is with payments and if you need security in a longer term mortgage

The 10-year fixed-rate mortgage has generated renewed interest lately as borrowers look to lock in for the long term and enjoy the security and peace of mind this brings.

Following are three key reasons to consider a 10-year mortgage term:

1. YOU DO HAVE OPTIONS AND NO NEED TO BE CONCERNED ABOUT THE LONG TERM:

After five years, you only have to pay three months' interest to get out of the mortgage. This is currently the lowest penalty available for a fixed rate – much more attractive than facing a much higher interest rate differential (IRD) penalty!

2. THE SECURITY KNOWING YOUR PAYMENTS ARE STABLE.

Depending on your situation knowing your payments will remain the same provides peace of mind. If you are on a fixed income, taking advantage of the long termed fixed-rate mortgage can definitely be beneficial as it is quite likely that the rates will be increasing over the next ten years. If you are also just starting out with a tight budget knowing that your payments will remain the same makes budgeting easier. And, chances are, after 10 years are up, you'll be in better shape financially and have more equity in your home.

3. NOT HAVING TO WORRY ABOUT NOT BEING ABLE TO AFFORD ANOTHER HOME:

You don't need the equity out of your home for your next purchase as you can buy again with a 5% down payment. For instance, if you purchase with 5% down, your property would have to go up more than 25% for you to get equity to use as a down payment for a second home, which is not likely in five years. But, you can turn your current condo into a rental and buy your next home with 5% down (with a combination of savings or a gift).

Rental mortgages usually require a 20% down payment, whereas primary residences typically require just 5% down. Purchasing a condo to live in until you're ready to buy another home, and then renting out the condo, is a great way to become a real estate investor without having to come up with a 20% down payment.

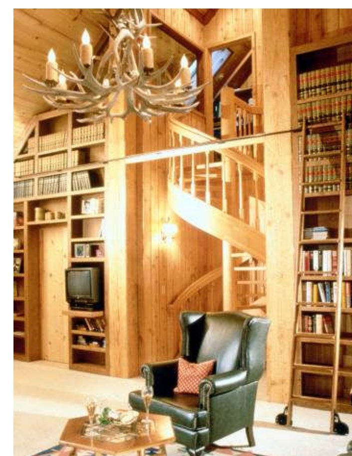
The return of the 10-year term means you have options. It may not be the best option for everyone, and the market may change in a few months to make it less attractive. I would be pleased to me show you how all the products that are in the marketplace today and meet your specific situation to ensure you receive the best product and rate to meet your unique situation.

Understanding Mortgages

One of the first steps in buying a new home is to take a realistic look at what you can afford and how you are going to pay for it. If you are like most people, you will probably have to finance your home purchase with a mortgage loan.

What is a mortgage?
A mortgage is a loan that uses home you buy as security. This loan is registered as a legal document against the title of your property. Here's a quick overview of some of the most common aspects of a mortgage that you need to understand.

- **The principal** is the amount of the loan, or the cash actually borrowed.
- **The interest** is the amount the lender charges for the use of funds, or principal. Interest rates vary according to many factors, including terms and conditions of the mortgage. Mortgage payments are applied toward both principal and interest.
- **The amortization period** is the actual number of years that it will take to repay the entire mortgage loan in full. This normally ranges from 15 to 25 years.
- **The term** is the length of time for which a mortgage agreement exists between you and your lender. Typically, terms range between six months and seven years.
- **The maturity date** marks the end of the term, when you can either repay the balance of the principal or renegotiate the mortgage at then current interest rates.
- **Options** let you tailor the mortgage to fit your personal needs and circumstances. Open or closed mortgages, pre-payment options, fixed or variable rates or portable mortgages are just a few of the available options.



When calculating how much it will cost to buy a home, don't forget to consider the additional costs you may encounter.

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Types of Mortgages
There are two basic types of mortgages:

- **Conventional Mortgage:** The loan amount does not exceed 75% of the property value, defined as the lesser of the purchase price or the appraised value.
- **High-ratio Mortgage**, or National Housing Act mortgage: The amount is more than 80% of the property value (up to 95%). By law, a high-ratio mortgage must be insured against borrower default. The borrower pays a mortgage insurance premium (a percentage of the total loan amount) which can be added to the mortgage loan or paid in a lump sum in advance. The borrower must also pay an insurance application fee.

(Source: Canadian Home Builder's Association)

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