FINANCING YOUR *first* HOME

Maximizing your chances of mortgage approval

A step-by-step guide

refresh™ FINANCIAL

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So, you've decided it's time to own your own home. Awesome! Instead of paying someone else's mortgage with your rent money, you'll be building your net worth instead.

However, buying a home isn't an easy process. The keys to responsible home buying are *patience* and *preparation*. If you are considering buying your own home, this guide will help you better understand the role that credit plays in the mortgage approval process, increasing your chances of receiving that all-important financing.

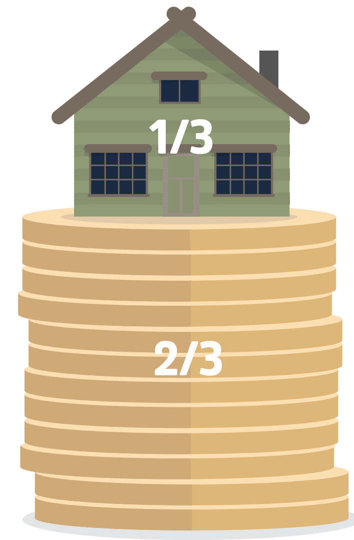
Did you know...

A new mortgage stress test was introduced to Canada in 2018 that looks at your income and determines whether you could make monthly payments if the interest rate went up. For new home buyers, the rules mean you may not be able to borrow as much as before the federal guidelines came into effect.

PATIENCE – take your time before applying for a mortgage

Step One: Ensure you can prove a steady income

Mortgage lenders need to know you have a steady income. Be prepared to explain your work history if it's sporadic or very cash-based. It might be that you must wait another 6 months to prove a steady income.



Tip: As a general rule of thumb, your housing expenses shouldn't cost more than 33% of your income. If the potential mortgage payment you're facing is soaking up all your cash, maybe reconsider that home.

Step Two: Know your current credit situation

Know and understand your credit score - all it takes are a few low points on your credit report to stop you from getting a mortgage. Check your score for free at https://refreshfinancial.ca/find-credit-score/ and see where you fall on the chart below:

Excellent (Scores 760-900)

The world is your oyster. You're almost guaranteed approval for any financing you apply for as long as you can afford the payments. You're also going to get the best interest rates.

Good (Scores 725-759)

You're still going to get a good interest rate but it's worth it to spend a short period of time working your way up to excellent credit, just to be able to unlock even better interest rates.

Average (Scores 660-724)

You might get approved for credit and you might get an okay interest rate. Take the time to build your score from here, then apply for credit. You'll save a ton of money in the long run.

Poor (Scores 560-659)

You likely won't be approved for much outside of secured credit products. If you do get approved, expect to pay a high interest rate.

Very Poor (Scores 300-559)

You will likely have a very difficult time getting approved. If you find an approval, you may pay interest rates as a high as 40%! That means for every $100 you borrow, you'll pay $40 in interest.

Tip: Aim for a score of 725 or higher - it's at this score that you unlock the lowest rates. If your score isn't quite there, be patient and build your credit for a few extra months as better credit will save you a ton in interest over the long run.

Your credit report

There several aspects to your credit report that could negatively impact your ability to qualify for a mortgage.

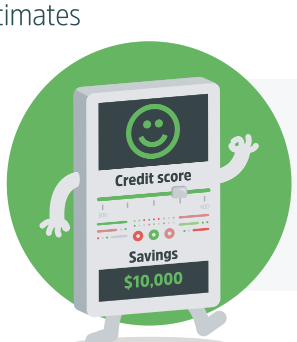
- **If you've applied for a few credit products recently, your credit report and credit score is going to show that**. It looks like you're desperate to get your hands on some money which is a negative against you for any lenders.
- Your credit report should reflect **a good diversity of credit products with at least a year of payments in good standing**. If all you have is one credit card, lenders may wonder if will you be able to handle multiple credit products or is one your limit?
- There should be **no bankruptcies, consumer proposals or excessive derogatory items** (late payments, missed payments, or a payment that was not enough) on your credit report.

Check out how much money you could be paying in interest for different types of loans.

Interest paid

	Sub-Prime (560-619)	Near-Prime (620-674)	Prime (675+)	Interest saved from Sub-Prime to Prime
Cash loan ($10,000)	$9,400	$3,300	$1,600	$7,800
Car loan ($20,000)	$5,400	$3,700	$1,500	$3,900
Mortgage ($300,000)	$370,000	$135,000	$91,000	$279,000

* Numbers are estimates



Use our free mortgage interest calculator to get an idea of how much your credit score may impact the cost of your mortgage: https://refreshfinancial.ca/mortgage-calculator/

Step Three: If your credit isn't great, build it.

It's good practice to work hard towards a better credit score for **6 months to a year** prior to applying for a mortgage. This establishes a history of good credit management and can boost your score significantly if you keep all your credit products in order.

Three of the fastest ways of building credit are:

A secured credit card

A cash secured loan

Both!

Which is best for me?

	Secured Credit Card	Cash Secured Loan
Lowest interest rate		✓
Save money while building credit		✓
Spend money while building credit	✓	
Low maintenance: 'set-it-and-forget-it'		✓
No cash deposit		✓
No credit checks	✓ *	✓
Available at refresh FINANCIAL	✓	✓

* No credit checks applies only to Refresh Financial's secured Visa

The 'Do both' scenarios

Looking to fast-track your credit goals? By getting a cash secured loan and a secured credit card, you are giving yourself the greatest chance to get ahead.

1. Get a cash secured loan now, and get a secured credit card later.

- ✓ You will eventually have two trade lines, which shows other lenders that you can manage both.
- ✓ No deposit up front! You can use the savings you build with the loan as a deposit on your card!

2. Get a cash secured loan and a secured credit card now.

- ✓ Two trade lines right away means you're doing everything you can to build your credit.
- ✓ Combines the pros of both products – you get spending flexibility while also saving money.

To learn more about credit building tools visit **refreshfinancial.ca**

There are two major differences between a cash secured loan and a secured credit card:

- A cash secured loan is a form of **installment** credit which means you borrow a certain amount of money, and you pay the whole amount back in equal installments.
- **Revolving** credit (credit cards) means you have access to a set amount of credit, but how much you use, and therefore owe, each month changes.

Step Four: Save as much of a down payment as possible

Save for the maximum down payment possible for your situation. Weigh up whether it's better to buy with a 5% down payment or wait, and save 10%-20%, but take the risk that house prices will increase relatively more.

Tip: Make sure you are informed about the fees you'll encounter when buying a home (CMHC mortgage = default insurance, appraisal costs, purchase tax, closing costs, insurance etc.) and can afford them without risking your financial stability. If any major repairs would put you in the red, save an emergency fund on top of your down payment before buying your first home.

Did you know...

You might be asked to prove where your down payment came from. Lenders want to ensure that you're not borrowing your down payment. If you receive it as a gift from friends or family, they will need to sign a gift letter, stating it does not need to be repaid.

10 easy ways to start saving for a down payment:

1

Pay off your high-interest debts as fast as you can: The more you pay off these debts, the more you save on interest.

2

Make a reasonable budget. Identify areas where you spend too much and lower your budget in these categories.

3

Set up automatic transfers on payday to your savings account. Once you get used to it, you won't even think about this money anymore.

4

Find an income booster such as a second part-time job or offer a service around town. e.g. Tutoring, odd jobs or child care.

5

Move to a more modest rental. Or get a roommate and cut your rent in half. Move in with your parents if you have to!

6

Downsize your car to one that's more fuel efficient and lower in insurance.

7

Sell big-ticket items. The best way to decide what you can and cannot part with, is to ask yourself, "Does owning a home mean more to me than this thing?"

8

Put away every windfall, bonus, or other unexpected money. Don't look at this money as a reason to spend.

9

Save your money in a TFSA or RSP. The Canadian government allows you to withdraw up to $25,000 per year from your RSP to put towards your first home!

10

Ask for a raise. If successful, take the additional money each month and put it into your savings account.

PREPARATION – ensure you're ready to apply for your mortgage

With a steady income, your credit built ,and a down payment saved, most of the hard work has been done! The next two steps will ensure you're fully prepared, and when it comes to your mortgage application, you'll only hear 'approved'!

Step One: Know your debt-to-income (DTI) ratio

Your debt-to-income ratio is the amount in debt payments you must make each month versus the amount of money you make. For example, if your monthly income is $3000, and your minimum payments on your debts are $1500 every month, you have a debt-to-income ratio of 50%.

What is a good DTI ratio?

- **36% or less** – **Good**
- **37% - 42%** - **Manageable**. This is where a mortgage lender will look for your DTI to be at.
- **43% - 49%** - **Cause for concern**
- **50% or higher** - **Dangerous.** If your debt to income is on the high side, pay down a little of your debt before you apply for a mortgage.

Step Two: Reduce your credit usage percentage

Credit usage percentage is the total amount of credit you have to your name versus how much of it you have used. For example, if you have a credit card with a $10,000 limit and a $7,500 balance, you have 75% credit usage.

Tip: For the best rates, bring your credit usage below 30%. If you're already paying down your debt to decrease your DTI, your credit usage percentage should naturally decrease too, as long as you don't go closing any credit accounts during this critical stage!

Did you know...

Closing credit accounts can increase your credit usage percentage without you spending a penny! For example, if you have 2 credit cards, each with a $5,000 limit, and you have a balance of $2,500 on one, your credit usage percentage is 25%. If you close the account that is not in use, your credit usage percentage instantly shoots up to 50%!

Some final tips when applying for a mortgage:

- **Take advantage of first-time home buyer tax credits and other incentives**. There are several first-time home buyer programs offered by different provinces. Make sure you have investigated any tax credits or incentives in your area.

- **Shop around and compare mortgage rates.** Many people simply go to their bank to get a mortgage. The truth is, there is a whole world of mortgage brokers out there that often have competitive interest rates. The more places you look, the more likely it is you'll find a great deal.

- **Read the fine print.** Some lenders have significantly lower closing fees than all the others. Evaluating the total cost of each lender and weighing the pros and cons before you choose your mortgage provider is going to ensure you're spending the least amount of your hard-earned money as possible.

BUILDING A SOLID CREDIT HISTORY (STARTING NOW!)

At **Refresh Financial**, we believe everyone should have long-term access to affordable forms of credit at bank interest rates, no matter their current situation. Refresh delivers a private banking experience, with respect and personalized advice, to people who have traditionally been left on the sidelines. We do this with a range of credit building tools including the Cash Secured Savings Loan, the first product of its kind in Canada, and the Refresh Secured Visa, as well as our free financial education platform, Refresh f.i.t.

Get back on the road to financial recovery with help from Refresh Financial

Start building credit with a secured credit card. No risk of going into debt!

Which card is right for me?

	Refresh Financial	Other cards
Annual fee	$48.95/year	$59/year*
Interest rate	17.99%	19.80%*
Free financial education	✓	✗
Approval without credit check	✓	✗

Did you know...

Refresh Financial clients have free access to f.i.t - a money management and financial intelligence training program.

* Other cards may appear to have a lower fee; however, in exchange for higher interest rates.

Benefits Of Cash Secured *Savings* Loans

1 Your own Relationship Manager

Your Relationship Manager will work with you to build a plan to help you reach your financial goals. Clients also get access to Refresh f.i.t. - free online financial education!

2 Set it and forget it!

Credit building programs are designed to be very simple. With online sign up and automatic payments, you don't even need to leave the comfort of your own home to build your score!

3 Boost your credit score

A cash secured loan payment reports to the credit bureau, positively impacting your credit score with every payment made.

4 Build savings

Your credit building program is designed to help save money and build credit at the same time. At the end of the program, you not only have a brand new credit score, but a nice chunk of cash, too.

5 Better credit = lower interest

Paying high interest sucks. However, as your credit score improves, you'll gain access to better interest rates, which sucks less. Over time, this can save you so much money.

6 Say goodbye to "No"

With a good credit score, lenders will notice. They'll even start seeking you out! No more nerves during credit checks!

Start building your credit in 4 easy steps (It just takes 10 minutes)

1. Apply online at RefreshFinancial.ca or call 1 800 746 4840 to speak to a Relationship Manager today

2. Sign and submit your loan agreement, verify your ID, and confirm your banking details, all online!

3. Start making payments

4. Watch your credit and your savings soar!

92% of Refresh clients agree that the Refresh loan is a great program that has helped build their credit.

50%

of clients use the Refresh cash secured loan to rebuild credit after filing for bankruptcy.