

Financing always comes first

...should be in place before even looking at houses

BY VITO CUPOLI, FOR POSTMEDIA NEWS MARCH 31, 2011



Jesse Bagelman and his wife Michelle Gomp Bagelman outside their new home. Being pre-approved eased their minds.

Photograph by: TIM FRASER POSTMEDIA NEWS, For Postmedia News

Two years ago, when Michelle Gomp and Jesse Bagelman started thinking about buying a house, they assumed it would be impossible to qualify for a mortgage because of some heavy debt and Jesse's status as a self-employed stone mason.

Rather than give up, Gomp - now Gomp Bagelman - launched a campaign. "I made up some little posters with a target date called 'Operation Jessie & Michelle Buy a House.' I put them up where we couldn't miss them - on our fridge, on the bedroom dresser, our laundry, office, I had them everywhere. I just wanted a house to be top of mind. We're going to figure it out!"

A friend in real estate suggested she speak with a mortgage broker to see how close she was to qualifying for a first-time mortgage. "The broker really worked his magic and next thing you know we were approved with a monthly payment that was less than the rent we were paying for our basement apartment," she says.

She knew very little about the mortgage process initially, which is typical for firsttime buyers, says mortgage broker Sandra Grywul.

"For the most part, the first-time homebuyer doesn't know anything about financing a home," says Grywul, owner of Always A Mortgage in Toronto.

"It's funny because buyers are thinking so much about what neighbourhood they want to live in, how many bedrooms, bathrooms, square footage. But they're not thinking about what kind of mortgage they want to enter into."

Buyers shopping for a mortgage have a lot of choices to sift through. Fixed term or open? Variable or fixed rate? Should they use their RRSPs for a down payment? But Grywul says those decisions should be made after the buyers have tackled the most important element, which is to understand how much mortgage they can truly afford.

"The bank will look at your credit report, but it won't know if you like to spend \$300 for a haircut or eat in an expensive restaurant each night. New homeowners go in, they get the mortgage that the bank says they can qualify for and after two or three months into the house, they're calling around to see if they can do a consolidation or a refinance. The joy of their home has completely dissipated because they didn't take into account all their monthly expenses when figuring out how much they could afford per month on their mortgage.

"I see this all the time. So as part of getting pre-approved for a mortgage, buyers need to be very honest with themselves about how much money they need to live happily."

Toronto real estate agent Cameron Weir of Royal LePage, Johnston and Daniel has worked with a number of first-time home buyers. He says it's exciting to watch people go from being renters to owners and mortgage preapproval is vital because it allows the buyer to be nimble in an active market.

"A lot of times today we find that there's more than one offer in on a property. And if you don't have everything set with a pre-approval, when your perfect property comes up you can't close the deal without arranging financing first. While you're working that out, a competitor who has already done his homework might make a firm offer at the same price and unfortunately you'll probably lose that property."

Weir describes the firsttime buyer as, "very excited, very nervous, lots of questions. It's the biggest purchase they're going to make, after all. But along with that, they're also pretty cautious."

Gomph Bagelman's fear of high lawyer fees made her cautious. She was also concerned about having a stable and predictable monthly mortgage payment, so she chose a five-year mortgage and a fixed interest rate on the house she and her husband took possession of in February.

"With a variable rate I worried that I don't have a lot of experience with these interest rates and anything could happen. But the five-year term gives me security right now. So I have the current safety net and hope for something better when the five years are up."

In considering all the details and requirements of financing a home, Weir says "the most important thing is to find the right place, at the right price at the right time."

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