

# Real Estate Journal

Your Monthly Home & Financing News

June 2015



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## DID YOU KNOW...

There are [eight preset dates per year](#) on which the Bank of Canada makes decisions that affect variable-rate and short-term fixed-rate mortgages. Longer-term fixed rates are influenced more heavily by the bond market.

The most recent Bank of Canada meeting was May 27th. For deeper insight from Dominion Lending Centres Chief Economist [Dr. Sherry Cooper](#) [click here](#).

## HOMEOWNER TIPS

**Summer Vacation Note:**

Welcome to the June issue of the *Real Estate Journal*, which is designed to help keep you in the know regarding Real Estate and Mortgage related matters!

Summer is here! This month's newsletter talks about mortgage pre-approvals and the possibility of overblown fears around household debt.

Please let me know if you have any questions or feedback regarding anything outlined below.

Thanks again for your continued support and referrals!

## In This Issue

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more important  
and less concrete  
than ever**

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an overblown  
issue?**

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## Pre-approvals, more important and less concrete than ever

**G**oing through the pre-approval process is more important than ever to both you and your Realtor, but the actual

- If more than four weeks pass, all of the documents are out of date – by lender standards – and a fresh batch needs to be ordered and reviewed.
- The conversion rate of pre-approvals to 'live transactions' is less than 10%.

- Book that vacation sooner rather than later. Camping sites seem to book up faster than ever each year.
- Most homeowner insurance policies require that you ensure somebody is checking in on your home a minimum of once per week during your absence. Ideally there an alarm monitoring record of somebody attending the property. If not then at the very least keep a record of email exchanges confirming that your property was viewed at a certain time and date. Perhaps even with a snapshot of the utility room in particular sent your way. A burst hot water tank or even a leaking pipe left unattended for days or weeks on end can result in a denied insurance claim.

With that handled, go and enjoy the great outdoors and make the most of the summer of 2015!

term 'pre-approval' is potentially misleading.

You may be pre-approved for a certain mortgage amount, however there are still a number of variables that can enter the picture once an offer is accepted. That's why it is imperative that one always include a clause in the offer along the lines of 'subject to receiving and approving financing'. (There are variations to be discussed around the specific wording.)

Often clients are reluctant to write the initial offer on a property without feeling like they are 100% pre-approved.

An understandable desire. The risk, though, is that some may falsely believe that they have a guarantee of financing. They don't.

A lender must review all related documents – not just those of the clients, but also those from the appraiser and the Realtor – as the property itself must meet certain standards and guidelines.

The pre-approval process should be considered a pre-screening – a first step only.

It does involve review and analysis of the client's current credit report; it should also include a list for the client of all documents that will be required in the event that an offer is written and accepted. Clients should also come away from this initial process with a clear understanding of the maximum mortgage amount they qualify for, along with the various related costs involved in their specific real estate transaction. Equally important: with the completed application your broker is able to lock in rates for up to 120 days.

Why won't a lender fully review and underwrite a pre-approval?

- Lenders do not have the staff resources to review 'maybe' applications – they have a hard enough time keeping up with 'live' transactions.
- The job you have today may well not be the job you have by the time you write your offer.

It is this last point that makes it so difficult to get an underwriter to completely review a pre-approval application as a special exception.

The bottom line is that a client's best bet for confidence is the educated and experienced opinion of the front-line individual with whom they are directly speaking - and that's their Mortgage Broker. This individual will not be the same person who underwrites and formally approves the live transaction when the time comes.

This disconnect between intake of application and actual underwriting of a live file makes having a 'subject to receiving and approving financing' clause in the purchase sale agreement so very important.

Perhaps the most significant factor in undermining the solidity of a client's preapproval is the relentless pace of change of lending guidelines and policies – changes implemented not only by the Federal Government but also by the lenders themselves. It is very easy to have a pre-approval for a certain mortgage amount rendered meaningless just a few days later through changes to internal underwriting guidelines. Often these changes arrive with no warning and existing pre-approvals are not grandfathered.

It is absolutely worthwhile going through the pre-approval process before writing offers, and in particular before listing your current property for sale or accepting offers. This will give you a good idea of your maximum mortgage amount as well as securing a rate for you. It is a worthwhile endeavour.

Just be aware that aside from the key advantage of catching small issues early and securing rates, a pre-approval is not a 100% guarantee of financing.

But the good thing is, I can help you with this process!

# Household debt – an overblown issue?



**I**n a headline that runs contrary to the more inflammatory and regular warnings seen in mainstream media, the Fraser Institute released a report on May 20th titled [‘Concern about Canadian household debt levels overblown when assets, other measures taken into account’](#).

It cited such key statistics as the growth of assets owned by Canadian households to a current total of \$10 Trillion, with household debt growing at a much slower rate to \$1.8 Trillion.

In other words, for every \$10.00 of assets we own, we owe just \$1.80. Hardly a fear-inducing ratio.

As far as the apparent desire of the media to link Canadian household debt data to that of the United States household debt data prior to the U.S. Real Estate meltdown, the Fraser Institute’s report cites the key systemic differences in the two countries lending policies. Namely, the inherent stability of the Canadian structure.

The bottom line is that appreciation of assets is outpacing quite handily the rate at which Canadian consumers are taking on new debt and when measured against our current assets we are clearly in a stronger position than many might otherwise realize.

## About

## ROYAL LEPAGE

Royal LePage is Canada’s oldest and largest Canadian owned real estate company. Founded in 1913 by Albert LePage when he was just 26 years old, Royal LePage is now Canada’s largest real estate company with more than 14,000 agents in more than 600 locations across the country. And we firmly believe that you can only become the oldest and largest company by being the best.

Over the years, we’ve learned a lot about real estate – and how to provide the best possible service for our clients. Since the mid-1990s, Royal LePage has more than tripled the size of its sales force and almost doubled its market share.

Throughout our successes, we remain dedicated to helping you through the real estate process. Our commitment to innovation and customer service is as strong as ever.

We offer all of our REALTORS® – from those serving tiny communities to those in major urban centres – strong support from our national pool of knowledge, skill and technical expertise. We regularly invest time, money and resources to develop and provide the knowledge and tools they need to best market your home, including:

- Up-to-date information about local market conditions
- Quarterly housing reports

- Creative brochures and newspaper ads to showcase your home
- Ongoing negotiation, marketing and technical training

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