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October 2008: Identify Theft Alerts

Question:

About two years ago I realized that I had been a victim of identity theft and had a fraud alert placed on my credit file. How do I get it removed?

Answer:

There are two types of fraud alerts: an initial fraud alert, which stays in your file for at least 90 days, and an extended alert, which stays in your file for seven years. It sounds as if you provided an Identity Theft Report to obtain an extended alert. An identity theft report includes a copy of a report you have filed with a federal, state or local law enforcement agency, as well as additional information a consumer reporting company may require you to submit.

To remove the fraud alert from your credit file, you must submit a written request to the credit reporting agency where you filed it.

August 2008: Joint Credit Scores

Question:

My husband and I are about to look for our first home. How will my husband's credit history and mine affect our mortgage prospects?

Answer:

Your credit history plays a significant role in your mortgage loan, particularly with interest rates. Lenders use your credit report in the underwriting process. The bottom line is that the higher your credit score, the lower your interest rate.

When you got married, your credit histories weren't merged together, but in looking for a mortgage, both credit histories will be taken into account. If you and your spouse both have good credit scores, you'll have nothing to worry about. If your credit scores could be healthier, call us and we can give you some advice on how to turn your scores around.

Before you try to get a mortgage, look at both your credit scores to determine the health of your credit. If you are happy with your credit report, come and see us. We will help you secure the best possible mortgage that suits your individual needs.

For more insight into the importance of your credit score, read this article from the Toronto Star – www.thestar.com/printArticle/447318.

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February 2008: Building Your Credit

Question:

I'm trying to build my credit and have been using a secured credit card for a few months. I recently applied for a standard credit card but got turned down. Is it best to continue using this card, or should I apply for another type of credit card, such as a department store or gas card?

Answer:

Congratulations for getting started on building a sound credit history with your secured card! As you continue, it makes sense to apply for a department store or gas credit card. These can be easier for first-time borrowers to obtain and are a great way to demonstrate responsible credit use over time. Once you have a steady record with the secured card and a department store or gas card, your credit score should improve and you may start receiving standard offers in the mail.

December 2007: Choosing the Right Mortgage

Question:

My wife and I have purchased a new home and are looking for financing. There are so many mortgage options available and we don't know where to start. How do we choose a mortgage that will work for us?

Answer:

Lenders offer a number of options that make designing your perfect mortgage easier than ever before. They are designed to give homeowners the flexibility to pay off their mortgage debt in a comfortable and manageable way. The options you choose may depend on your income circumstances. Let's look at two scenarios: i) regular income and ii) irregular income (salary with bonus, 100% commission, self employed, etc.). Homeowners with a regular income have the luxury of certainty and can budget accordingly; those with an irregular income have less certainty and budgeting becomes more difficult. Choosing an **extended amortization period**, rather than the standard 25 years, may be part of the answer. To illustrate, let's look at an example: a \$300,000 mortgage at 5.99% for a 5 year term with monthly payments with two different amortization periods.

Amortization	25 year	40 year
Monthly Payment	\$1,918.00	\$1,633.00
O/S Balance	\$269,472.00	\$289,273.00
Total Interest Paid	\$16,165.00	\$17,193.00

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The extended amortization period reduces your monthly payments but increases the total interest you will pay over the 5 years (approx. \$1,000). For those with fluctuating and/or uncertain income, a 40 year amortization makes your mortgage more affordable in the **short term**; however, over the long term, the interest paid will be substantially higher than for the 25-year (\$484,000 vs \$275,000!). To reduce your interest and pay off your debt faster, take advantage of other options offered by the lenders. Using the same example, **increase the payment frequency** from monthly to accelerated bi-weekly (ie, 26 payments per year)

Amortization	25 year	40 year
Acc. Bi-Wkly Payment	\$959.00	\$817.00
O/S Balance	\$258,155.00	\$279,633.00
Total Interest Paid	\$15,544.00	\$16,664.00
New Amortization	21 years	30.5 years

By making this small change, at the end of 5 years, your outstanding balance is approximately \$10,000 lower and your amortization period has decreased by 4 and 9.5 years respectively. Now take this one step further and use extra income from your bonus to make annual bulk payments (10-25% of the principal, depending on the lender). Using the same example, make a 10% (\$3,000) **bulk payment** each year, starting at the end of year 1.

Amortization	25 year	40 year
Acc. Bi-Wkly Payment	\$959.00	\$817.00
O/S Balance	\$241,216.00	\$262,695.00
Total Interest Paid	\$14,746.00	\$15,864.00
New Amortization	18 years	23 years

A small annual contribution reduces your outstanding balance by a further \$17,000 and your amortization by another 3 and 7.5 years. In 5 short years, you have reduced your outstanding balance by approximately \$28,000 and your amortization by 7 and 17 years! Now those are serious savings! Regardless of your income situation, take full advantage of the available options to create a mortgage that fits your lifestyle.

Visit our website at www.gillisgroup.ca and use our Calculators to see how much you can save or call me at 416.440.0338 to fully discuss your options.

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October 2007: Extended Amortizations

Question:

My husband and I want to buy our first home but we have just started our careers and don't have much saved for a down payment. We know that our incomes are going to increase in the next 6-12 months because of bonuses and raises but we don't want to wait. How can we afford to buy a house now?

Answer:

With the introduction of several changes on the mortgage scene, home ownership is more affordable now than ever before. Just a word of warning...these options are not for everyone and are often solutions for the short term only.

In the past year, lenders have introduced 30-, 35- and 40-year amortization periods which means that first-time homebuyers can enter the housing market sooner and move-up buyers can afford those bigger second or third homes. The extended amortization reduces the monthly mortgage payments, making the purchase that much more affordable. By choosing an extended amortization, you will incur higher interest costs over the life of your mortgage; however, you will be able to purchase a new home now.

In addition, lenders are now offering "no-down payment" mortgages, meaning that you can purchase a home with no money down. Keep in mind that, because you are putting less than 20% down, you will have to pay mortgage default insurance which will add to your monthly payment amount. Another of our feature articles explains mortgage default insurance.

Also, financial professionals recommend that monthly housing costs (i.e., mortgage payments and property taxes) should not exceed 32 per cent of your gross monthly income and that monthly debt payments (i.e., mortgage payments, property taxes, credit cards, car loans etc.) should not exceed 40 per cent of your gross monthly income.

Call me to find out if these options are right for you.

Stay tuned for news on how to use those raises and bonuses to pay down your mortgage faster, reduce your interest costs and your amortization period.

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September 2007: Credit Cards & Your Credit

Question:

We have numerous credit card accounts that we don't use any more and haven't used them in years. There are also some newer ones that were used one time for the special deal they offered. Would it hurt my credit to cancel any or all of these unused accounts?

Answer:

That's a great question. A lot of people assume closing old accounts will improve their credit and in reality, that's not the case. In fact, closing your accounts can often have a negative impact on your credit score because it lowers the amount of available credit you have, increasing your debt-to-credit ratio. If you do want to close your unused accounts, be sure to close your newest accounts. The older accounts are good to keep around because they show you have an established credit history-and that can be a positive thing in the eyes of lenders.

So, just to be clear, if you want to close some accounts, you should close your newer accounts and keep your oldest ones open.

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