



CENTRAL BANK OF  
TRINIDAD & TOBAGO |



# Opening the Door to Your Own Home

## A Guide to Home Ownership

*Know your way home*



The National Financial Literacy Programme  
Central Bank of Trinidad and Tobago  
Eric Williams Plaza  
Independence Square  
Port of Spain  
2013

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# FOREWORD

Since its establishment in 2007, the National Financial Literacy Programme (NFLP) has been providing generic advice and education to the population on an array of financial literacy and financial inclusion issues.

One area on which the NFLP has focused on through its pamphlet series in conjunction with the Office of the Financial Services Ombudsman (OFSO), has been the banking sector, as evidenced by the **Dollars and Sense** booklet. This was followed by an insurance pamphlet series, **In the Driver's Seat: Understanding Motor Insurance** and **Protecting Your Shelter: Understanding Property Insurance**.

For over four (4) decades, policymakers' macroeconomic policy has focused on improving the rate of homeownership in Trinidad and Tobago. The evidence on homeownership in Trinidad and Tobago suggests that a large percentage of the population own homes and that the purchasing of a home is an important investment decision for most citizens.



Mr. Jwala Rambarran  
Governor of  
The Central Bank of  
Trinidad and Tobago

This booklet provides an important guide for prospective and new homeowners. It outlines options pertaining to building or buying a home, costs and fees, and other pertinent advice. Once a decision has been made in respect of purchasing, the booklet outlines the important steps in the entire process of acquiring a mortgage: from identification of the property to the stage of loan qualification and options for homeowners insurance. In this regard, the information in this booklet can be read together with the **Protecting Your Shelter: Understanding Property Insurance** pamphlet, in which advice is given with respect to policies and costs related to insuring property and its contents..

This booklet is the result of critical inputs from stakeholders and interest groups in the mortgage market. In finalizing this document, contributions were made by various institutions, in particular the **Ministry of Legal Affairs, Trinidad and Tobago Mortgage Finance Company Limited (TTMF), Home Mortgage Bank (HMB), Housing Development Corporation (HDC)** and members of the **Bankers Association of Trinidad and Tobago (BATT)**.

I would like to convey special thanks to **Dr. Shelton Nicholls, Mrs. Judy Chang, Mr. Clarry Benn**, the team at the Central Bank, the staff of the NFLP, Legal and Corporate Communications Departments for their contribution to the production of this booklet.

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## ABOUT THE NATIONAL FINANCIAL LITERACY PROGRAMME (NFLP)

The National Financial Literacy Programme (NFLP) which is spearheaded by the Central Bank of Trinidad and Tobago, was launched on January 31, 2007.

The vision of The National Financial Literacy Programme is to develop a nation of citizens who are conscious about and capable of managing their finances. This involves promoting, positive and responsible beliefs, attitudes and behaviours about money and its use.

### THE OBJECTIVES OF THE NFLP INCLUDE:

- Providing individuals with knowledge that would assist them in making better financial decisions.
- Providing individuals with a basic understanding of banking and finance, including the essential features of the various products that they are likely to access.
- Fostering the skills and confidence needed by citizens to function in an increasingly sophisticated financial environment.
- Creating in the minds of citizens an awareness of developments within the financial environment and the ability to take advantage of opportunities which

may present themselves, for example, making the best of small business opportunities.

- Teaching individuals and families to conduct personal financial budgeting consistent with their personal circumstances. This objective is to prevent excessive personal debt accumulation, thereby promoting financial freedom.
- Encouraging persons to plan ahead and so increase citizens' financial preparedness for incidents in their work life and for retirement.

### CORE FINANCIAL LITERACY TOPICS:

- Budgeting
- Savings
- Investment
- Thriftiness
- Credit and Debt Management
- Insurance Protection
- Planning Ahead
- Planning for Retirement
- Preventing Financial Fraud
- Financial Products
- Estate Planning

- Home Ownership/Mortgages
- Starting your Own Business
- Record Keeping for Micro and Small Entrepreneurs
- Financial Attitude Adjustment

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and [www.facebook.com/pages/NFLPs-Managing-Your-Future](http://www.facebook.com/pages/NFLPs-Managing-Your-Future)

## INTRODUCTION

# So You Want to Have Your Own Home...

It is everyone's dream to own a house. For many persons, owning their own home translates into stability and security. For others, it is a manifestation of independence and coming into adulthood.

Your home is likely to be your most important and valuable asset. The process of acquiring a home may appear to be overwhelming but if you follow a few clear steps, it is manageable.

This booklet provides some guidelines to assist in simplifying the home acquisition process. It treats with the three most common approaches to accessing shelter, that is, **purchasing of property** (house, land, and condominium/townhouse), **building a house**, and entering into a **rental agreement** (renting). The booklet also highlights the differences between home ownership and the rental of a property.

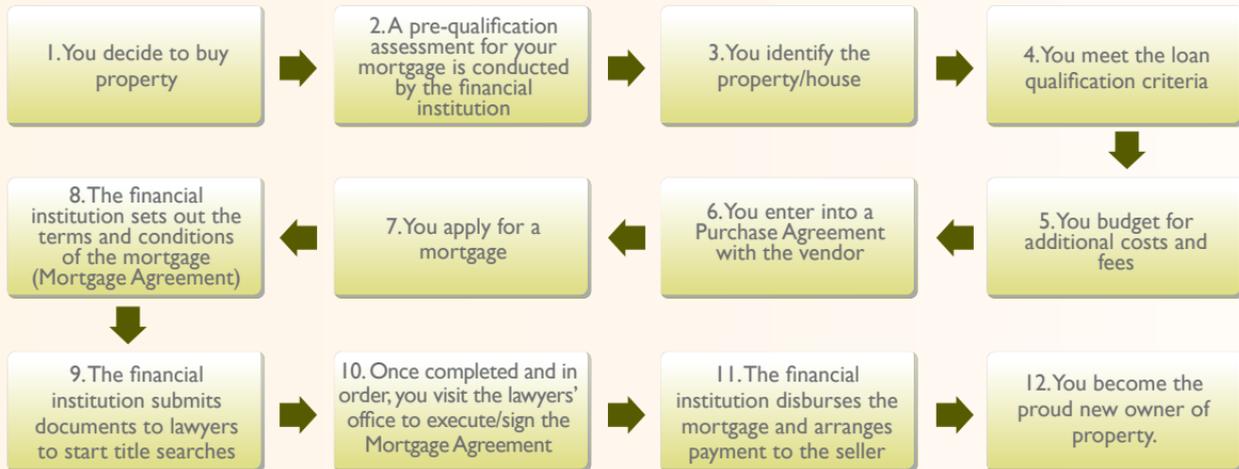
## 2. BUYING PROPERTY

### I. BUYING PROPERTY: THE APPLICATION PROCEDURE

It is extremely important for you (the buyer) to know how you will finance the purchase of property and the processes

involved in finally becoming the owner of property. Most financial institutions can provide advice on the loan amount for which you can qualify, based on your financial position.

#### STEPS IN THE BUYING PROCESS



## II. THE PRE-QUALIFICATION ASSESSMENT

*So you are considering buying property and are curious to know the maximum loan amount that you will qualify for ...*

Prior to entering into an agreement to purchase property, it is advisable to obtain advice on the amount of mortgage loan for which you are likely to qualify. This is called a *Pre-Qualification Assessment*.

Financial institutions require the following information from you to complete this assessment:

- Your current income;
- Your monthly (fixed) expenses;
- Your occasional (variable) expenses;
- Any additional debts you may have;
- Your assets; and
- Your credit history.

After evaluating the information, the financial institution will inform you of the maximum loan amount for which you may qualify and recommends the loan products or financing options that may be best suited to your financial position.

The pre-qualification assessment is considered to be the initial step in the acquiring of a mortgage loan, as it can lead

to a relationship with the financial institution of your choice.

### LOAN TO VALUE RATIO

You are advised to enquire about or seek clarification from your financial institution on their *Loan to Value Ratio*.

The Loan to Value (LTV) ratio describes the relationship between the amount borrowed and the value of the property. Generally, most mortgage providers will lend up to 75% of the lower of cost or value of a property. In such instances you are required to fund the remaining 25% of the cost or value of the property. Where the LTV ratio is greater than or less than 75%, you are required to fund the residual amount of the cost or value of the property. Therefore the higher your LTV ratio, the smaller your personal funding requirement and the lower your LTV ratio, the higher is your personal funding requirement.

For example, assume you intend to buy a \$100,000 home. You will qualify for a mortgage loan of \$75,000 if your LTV ratio is 75% and for a mortgage loan of

\$80,000 if your LTV ratio is 80%. In the first instance you are required to contribute \$25,000 towards the purchase of the property and in the second instance your contribution will be \$20,000.

The mortgage provider will require Mortgage Indemnity Insurance if you wish to borrow more than the amount set out by its LTV ratio. (Refer to Section 5, 'Options for Insuring Your Home')

### III. ABOUT MORTGAGES

A mortgage is a written agreement that creates a claim or lien upon real estate as security for the payment of a specified debt. Mortgage loans are available from most financial institutions in Trinidad and Tobago.

A mortgage loan can be granted at a fixed, variable or adjustable rate. A *fixed-rate* mortgage is characterized by an interest rate that is constant over a specified term of the mortgage, while a *variable-rate* mortgage is an agreement whereby the rate of interest is adjustable at any time during the life of the mortgage. An *adjustable-rate* mortgage is a mortgage in which the rate of interest charged is fixed for a specified period but is subject to change thereafter.

### MORTGAGE FACILITIES

Mortgage loan facilities can be accessed at a financial institution for the purchase of a house and/or land. If you are a first time home owner, you should try to access the preferential mortgage rates that the government has in place to facilitate home ownership.

### REVERSE MORTGAGES

A reverse mortgage is a facility through which qualifying individuals can convert the equity in their homes into a source of income.

The Reverse Mortgage requires the repayment of the loan after you have ceased occupation of the house. Upon sale of the property, migration or death of the homeowners, the full amount becomes due and payable. This is normally repaid from the proceeds from the sale of the property, or else the beneficiaries of the property can repay the loan from their personal resources.

**The use of this facility MUST be approached with caution.**

## KEY PARTIES INVOLVED IN THE PURCHASE OF PROPERTY

### THE VENDOR

- The individual selling the property.

### THE PROSPECTIVE HOME OWNER

- The intended purchaser of the property.

### THE FINANCIAL INSTITUTION

- Institution offering the mortgage loan.

### THE GUARANTOR

- The person who guarantees that the loan will be re-paid should the prospective home owner renege on the agreement.

## IV. IDENTIFICATION OF THE PROPERTY

*So you need to select property based on the funds you qualify for..*

Before entering into any contractual arrangements geared towards home ownership, you (the borrower) must first select an appropriate property. This can be done by utilizing the services of a real estate agent or by directly contacting the owner of the property which you wish to purchase.

The appropriateness of any property is driven by the price you can afford and your preference in terms of location and size.

In addition to the core considerations above, there are other criteria that you ought to be mindful of when selecting property, especially if you are a first time homeowner.

The following is intended to only be used as a guide:

### THINGS TO LOOK FOR

#### External Considerations

- Price Range
- Location

- Size of lot/plot (Square footage)
- Strong/reliable structure or foundation (Material used to construct the building, the way the foundation was laid, etc.)
- Material used to build the roof
- External finishes
- Security/Safety
- Neighbourhood
- Access to amenities and other necessary services

### **Internal Considerations**

- Electrical wiring
- Plumbing
- Size and quantity of rooms – bedroom and bathrooms
- Proper internal structure, e.g. inner wall, flooring, etc.
- Signs of mould/water damage
- Signs of shoddy masonry work
- Condition of woodwork (if any) – Be on the lookout for termites
- Availability of cupboards/closets/storage space
- Finishing (aesthetic) touches – such as moulding

### **ADDITIONAL ADVICE TO GUIDE FIRST TIME HOMEOWNERS IN SELECTING A PROPERTY**

- Take photos when viewing property.
- Rate the properties visited in a scale of 1-10 (10 being the highest) to narrow your selections.
- Take detailed notes while viewing properties. Highlight what you were most and least impressed by.
- View your top selections on at least one more occasion before you make a decision.
- View property during the day so that it is easier to identify flaws.
- Research the area in which the property is located. You can try speaking to residents in and around the area to learn of any possible draw-backs or incentives to making that selection.
- Take your time when viewing property.
- Question the real estate agent or vendor/property owner and obtain all relevant information.

Once you have rated, reviewed and made your selection, you can then progress to the mortgage loan qualification phase.

## V. MEETING THE MORTGAGE LOAN QUALIFICATION

*So you have decided to buy a parcel of land or an existing house...*

### ACQUIRING A PROPERTY

Many persons have to access a loan from a financial institution in order to acquire a property.

### LOAN QUALIFICATION

The maximum loan for which you will qualify will be determined by:

- Your gross monthly income (either singly or jointly);
- Your level of indebtedness (Debt Service Ratio);
- Your credit history;
- You having a down-payment (usually between 10-25%);
- Your job stability;
- The rate of interest being charged; and
- Your age.

*Shop around for the best terms and conditions suitable to your situation. Visit a variety of financial institutions.*

**TIP**

If you are a salaried worker, you must be able to provide proof of your total monthly income in the form of:

- A job letter; and
- Your most recent pay slip.

Variable income such as overtime, acting allowances and bonuses are not usually considered part of your gross income.

*It is advisable that your maximum monthly mortgage instalment not exceed 30% of your gross monthly basic income.*

**TIP**

If you are self-employed, you must be able to provide:

- Bank statements for a minimum of the last two (2) years;
- Financial statements for a minimum of the last three (3) years; and
- Tax returns for the same period.

## DECLARATION OF FINANCIAL OBLIGATIONS

Accurate and complete information should be provided regarding your financial commitments.

*All financial obligations, regardless of how minimal they may appear, must be declared.*

**TIP**

Your monthly mortgage instalment, in addition to your other debt obligations, generally should not exceed 40% of your total monthly income (Total Debt Service Ratio). These additional debt obligations include:

- Credit card loans;
- Hire purchase loans;
- Credit union loans;
- Motor vehicle loans;
- Alimony;
- Child maintenance payments; and
- Any other commitments.

### **Note:** **About Debt Service Ratio**

The Debt Service Ratio (DSR) is a guide used by lenders to determine the borrowers' ability to promptly meet their monthly instalments without undue financial strain.

In calculating the DSR, the financial institution would include payments on all debt commitments, including monthly costs associated with the home ownership (for example maintenance costs), as a percentage of the borrower(s) total monthly income.

Generally for mortgage lending, the financial institutions work with a debt service ratio of 40%.

The Total Debt Service Ratio is determined by the following formula:

*Monthly Mortgage Instalment + Other Monthly Debt Commitments + [(Annual Property Tax + Home Owners Insurance Premium + Condominium Fees if applicable) / 12] ÷ Gross Monthly Income*

For example:

Mr. and Mrs. Smith are interested in purchasing a townhouse in a gated community. While their proposed monthly mortgage instalment is \$3000,

the Smiths are required to pay monthly maintenance fees of \$500 to the Management Company of the gated community, \$1,500 on a car loan, and \$350 on their credit card. As new owners of the town house, they will also be required to pay annually Land and Building Taxes of \$500; property insurance of \$2,000. As a security officer and a school teacher, the Smith's gross combined monthly salary is \$15,000.

*The Debt Service ratio for these prospective home owners is calculated as:*

$$\frac{\$3000 + \$500 + \$1500 + \$350 + [\$500 + \$2000/12]}{\$15000} = 37.05\%$$

Moreover, you must provide evidence that you have funds available for a down-payment (your contribution to the purchase of the property) and to be able to meet all fees and costs involved in the completion of the mortgage transaction.

## VI. PURCHASE OF PROPERTY – SOME COSTS AND FEES

*So you want to know what additional costs are involved so you can budget for them...*

In order for your mortgage application to be processed, a number of documents are required by the financial institution. Some of the documents and their respective fees are outlined below:

### COSTS AND FEES INVOLVED IN THE PURCHASE OF PROPERTY



**Credit Check Report** - Your financial institution will notify you that your information will be sent to a credit checking institution to receive a history of all credit facilities that you have been granted in order to determine your credit worthiness. This institution will provide a status report on your Credit History.

**Loan Processing Fee** – This is calculated as a percentage of the loan amount usually 1% -1.5% of the amount loaned. In some instances, the financial institution has a flat fee.

**Valuation Report Fee** - A valuation report is a document outlining the value of a property in the current market based on many factors including location, price and size. The fee for this report is normally 1/4 of 1% to 1/3 of 1% of the value of the property being purchased or assessed, in addition to Value Added Tax (VAT) and incidentals.

### **Examples of calculation of Valuation Report fees on property valued at \$400, 000.00**

\*Property Value: \$400, 000.00

Calculation of fees:  $\$400,000 \times 1/4 \times 1\% = \$1,000$

\*Property Value: \$400, 000.00

Calculation of fees:  $\$400,000 \times 1/3 \times 1\% = \$1,333.33$

**Legal Fees** – These are a significant part of the costs you will have to bear. Most prospective homeowners are unaware of these fees. You need to be aware of how much you will have to pay so that the fees can be included in your budget. The legal fees that are generally incurred in processing a mortgage are as follows:

Search Fees;

- Stamp Duty for the Deed of Conveyance;
- Stamp Duty for the Deed of Mortgage;
- Attorneys' fees for preparation of the Deed of Conveyance;
- Attorneys' fees for preparation of the Deed of Mortgage.

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\*Disclaimer: For illustrative purposes only - All calculations are variable and subject to change over time

**Example of associated legal fees in a purchase transaction given a value of \$650,000.00:**

<b>* Property Value:</b>	\$650,000.00
<b>Mortgage Amount:</b>	<b>\$585,000.00 (Value less 10% down-payment)</b>
Stamp Duty on Conveyance:	\$ 0.00
Legal Fees on Conveyance:	\$ 6,038.00
Stamp Duty on Mortgage:	\$ 1,170.00
Legal Fees on Mortgage:	\$ 5,664.00
Title Search:	\$ 1,000.00
Registration:	\$ 100.00
Oath:	\$ 3.00
<b>Total Fees</b>	<b>\$ 13,975.00</b>

**Example of associated legal fees in a purchase transaction given a value of \$950,000.00:**

<b>* Property Value:</b>	\$ 950,000.00
<b>Mortgage Amount:</b>	<b>\$ 855,000.00 (Value less 10% down-payment)</b>
Stamp Duty on Conveyance:	\$ 3,000.00
Legal Fees on Conveyance:	\$ 10,500.00
Stamp Duty on Mortgage:	\$ 3,800.00
Legal Fees on Mortgage:	\$ 14,250.00
Title Search:	\$ 500.00
Registration:	\$ 100.00
Oath:	\$ 3.00
<b>Total Fees</b>	<b>\$ 32,153.00</b>

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\* Disclaimer: For illustrative purposes only - All calculations are variable and subject to change over time

**Stamp Duty**- This is a mandatory payment to the Board of Inland Revenue for the registration of the Deed of Conveyance and the Deed of Mortgage.

The fees charged by an attorney for the preparation of these deeds are based on the value of the land or the amount of money being borrowed.

### Deed of Release

So far we have addressed the question of fees as it relates to obtaining a new mortgage. A point to note is that whenever a mortgage is fully repaid, it is the responsibility of the homeowner to request a Deed of Release from the financial institution. A Deed of Release indicates that the mortgage loan is repaid in full, the mortgage can now be released and the records at the Registrar General's Office can be wiped clean of any encumbrances on the property.

### It is **YOUR** responsibility to register the Deed of Release.

When you have repaid your mortgage loan in full, ensure that you obtain and register your Deed of Release. If you fail to do this, you will find it difficult to pass title to a purchaser or family member should you wish to sell or give your home as a gift and you will be unable to use your house as security for another loan.

### Stamp Duty on the Deed of Release:

PROPERTY VALUE	RATES/FEES CHARGED
Not exceeding \$250,000.00	\$250.00
Exceeding \$250,000.00	\$250.00 for the first \$250,000.00 and \$15.00 for every \$5,000.00 or part thereof of the amount in excess of \$25,000.00 up to a maximum fee of \$10,000.00.

## VII. THE PURCHASE AGREEMENT

If you are purchasing a property, you will enter into an Agreement for Sale, also known as a Purchase Agreement with the vendor.

A Purchase Agreement/Agreement for Sale will contain *inter alia*:

- The name of the owner (Vendor);
- The name of the purchaser;
- The address of the property being purchased;
- The purchase/sale price;
- The manner in which the total cost will be paid – for example, a down-payment of 10% of the purchase price at the time of signing the Agreement;
- The time frame for the payment of the balance of the purchase price is specified. Usually 90 days from the signing of the Agreement;
- Situations where the transaction cannot be completed within the specified time, for example:-
  - If the vendor is unable to provide proper title
  - If the purchaser is unable to pay the balance of the purchase price when it is due.

This agreement must be signed by:

- The owner (vendor) or his agent;
- The purchaser; and
- Witnesses to the signatures.



*You should seek professional advice before signing the Purchase Agreement.*

**TIP**

The other property documents (which are discussed in VIII and IX of this section respectively) should be obtained from the vendor. These are submitted along with the originals of your personal documents with the relevant application form and applicable fees. The financial institution will then review your application, and once approved, you will be issued an Offer of a Mortgage Loan which you will sign binding you to the terms and conditions.



*Please read carefully! Ensure that you understand the Agreement.*

**TIP**

## Escrow

It is advisable for the parties involved in the Purchase Agreement to make provisions for any monies arising from the transaction to be held in *escrow*.

Escrow refers to a financial instrument held by a third party (usually an attorney, in the case of a mortgage) on behalf of the other two parties in a transaction (usually the purchaser and vendor, for a mortgage). The funds are held by the escrow service until it receives the appropriate written or oral instructions or until obligations have been fulfilled.

For example, when the buyer makes his down-payment to the seller, these funds are held by the attorney and are not paid directly to the seller, until proper title to the property has been established and the property is transferred or conveyed to the new owner. This protects the buyer's down-payment in the event that there is something that prevents the transaction from being completed.

### Note:

- Ensure that you receive a receipt for any money paid, particularly for the down-payment made to the vendor. It is also advisable that these payments should not be in cash.
- Two legal documents i.e. the Deed of Conveyance and the Deed of Mortgage have to be prepared. You will usually have the option to choose the attorney to prepare the Deed of Conveyance. The financial institution will generally decide on the attorney to prepare the Deed of Mortgage. The fees incurred however, may be less if one attorney prepares both documents.
- When signing the Purchase Agreement you should ensure that the vendor is the same as the person named in the existing Title Deed. All named owners in the Title Deed must also be named as vendors in the Agreement.
- The loan will be based on either the valuation or purchase price of the property, whichever is lower.
- The practice in conveyancing has been for a 10% down-payment to be paid.

- Before the release of any funds for purchase, ensure that all liens on the property have been satisfied.
- Ensure there is a clause that would allow funds to be held by an independent agreed third party so that you, the purchaser, would be able to retrieve funds in the event of an untoward occurrence.
- Be on the alert for fraudulent activities or practices before making the initial payment.

**TIP**

## VIII. APPLYING FOR A MORTGAGE LOAN

You are required to provide the following documentation *inter alia* to financial institutions when applying for a mortgage loan:

### *Personal Information*

- Evidence of Nationality (Identification Card,
- Driver's Permit or Passport);
- Evidence of Income (Job letter and pay slip);
- Statements of Loans;
- Statements of Savings; and
- Evidence of Current Address (Copy of utility bill).

### *Purchasing a House*

- **Purchase Agreement** – This is a contract for the purchase of a property that lays out the terms and conditions of the purchase;
- **Deed of Conveyance** – This document transfers ownership of property from the owner (vendor/seller) to the purchaser;
- **Title Deed or Lease** – This is a legal document to prove the ownership of a property;
- **Deed of Mortgage** (where applicable) – This is a type of mortgage in which the borrower

transfers or conveys his/her right to the ownership of a property to the lender (financial institution) as security for a loan;

- **Survey Plan** – This document has drawings of the boundaries and any physical objects on the property. This plan is prepared and signed by a licensed surveyor;
- **Completion Certificate** (required for properties less than 4 years old) – This document states that the house or building has been successfully constructed in accordance with approved plans. The certificate is issued by the Office of the Local Regional Authority;
- **Property (Land & Building) Tax Receipt** – This receipt confirms that the tax payments on the property are up to date and there are no pending claims by the relevant authority;
- **Lease Rent Receipt** (applicable where land is leasehold) – This is a receipt from the lessor (e.g. a regional authority or an individual), confirming that the lease payments are up to date;
- **Water and Sewage Authority Clearance Certificate** – This document is the written confirmation by the Water and Sewage Authority that there are no outstanding payments due on the property;

- **Valuation Report<sup>1\*</sup>** – This report is prepared by a valuator and states the fair market value of a property if it were to be sold on the open market. The report also details the forced sale price (in event of foreclosure), the recommended insurable value of the property, and gives some indication of the state of the property.

### *Purchasing Land*

The documentation required for the purchase of land is the same as for the purchase of a house except that the land and building tax receipt will be replaced by a land tax receipt.

- **Purchase Agreement** – See page 20.
- **Deed of Conveyance** – See page 20.
- **Title Deed or Lease** – See page 20.
- **Deed of Mortgage** (where applicable) – See page 20.
- **Survey Plan** – See above.
- **Property (Land) Tax Receipt** – This receipt indicates that the rates on the land have been paid for the current year and are therefore up to date.
- **Lease Rent Receipt** (where applicable) - See above.
- **Water and Sewage Authority Clearance**

<sup>1</sup>You should ensure that these reports are prepared by someone/a company recognized by your lending institution.

- **Certificate** – See page 21.
- **Valuation Report<sup>2\*</sup>** – See page 21.

### *Purchasing a Townhouse or Condominium*

If you are purchasing a townhouse/condominium, you need to provide the documents required for purchasing a home, as well as the following additional documents *inter alia*:

- **Original Share Certificate in the townhouse or condominium complex** – When you purchase a condominium, you become the owner of your unit, as well as a percentage of the common property elements allocated to the unit. As a result, when you purchase a unit in a townhouse/condominium development, you also purchase into the common areas as well. Each townhouse or condominium development, is held in the name of a holding company, and as a homeowner, you also become a co-owner of this company. Your share certificate in this company is therefore used as proof of ownership of a share in the housing development and forms part of the collateral required by the lender.

- **Copy of the Annual Returns of the holding company** – This certifies that the holding company (referred to above) in which the homeowner has purchased a share has met its statutory requirements for filing.

### *Other Key Factors*

It is important that you be aware of the following factors that are relevant to the granting of mortgage loans, in order to avoid unnecessary time wasting and costs:

#### **1. Who Qualifies for Mortgage Loans in Trinidad and Tobago?**

- Citizens of Trinidad & Tobago;
- Persons who are residents of Trinidad and Tobago for more than five (5) years; and
- Non-nationals who satisfy the requirements of the Foreign Investment Act of 1990 (Refer to the Ministry responsible for housing and its website for further details).

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<sup>2</sup>You should ensure that these reports are prepared by someone/a company recognized by your lending institution.

## 2. Size of your Loan

Your income, existing debt, credit history and age will determine how much you can borrow. (See Section V; 'Meeting the Loan/Mortgage Qualification' of this section).

## 3. Your Debt Service Ratio

Generally, your mortgage installment should not exceed one third of your gross monthly income. Additionally, your mortgage installment together with any of your other loan commitments should not exceed 40% of your gross monthly income.

## 4. Select Wisely

- i. Decide whether you are going to purchase house and land or purchase land only; and
- ii. Identify a property which you can afford.

### *Assessment of Guarantors*

A *guarantor* is a person or corporation who guarantees payment by another and becomes a co-endorser and assumes liability in the event of default.

Some financial institutions may not incorporate guarantors into their mortgage loans. Prospective borrowers/home

owners are expected to qualify for a mortgage facility based on their **own** financial capabilities. There are, however, exceptions when the inclusion of a guarantor are allowed.

In those circumstances, the would-be guarantor is assessed on the same basis as the borrower:

- Income verification must be provided – Job letters, salary slips etc;
- All existing liabilities must be declared;
- Record of savings and evidence of assets must be provided; and
- Credit checks are also carried out to determine credit worthiness.

For prospective guarantors, it is recommended that independent legal counsel be obtained so that they are fully aware of their obligations under the mortgage. Therefore it is critical that guarantors understand their roles and the implication of them signing in that capacity.

*As a guarantor, be mindful that if the borrower does not pay or defaults in his payments, you, the guarantor, would be called upon to do so!*

**TIP**

## IX. FINALIZATION OF THE MORTGAGE CONTRACT

Once you have accepted the offer of a mortgage loan, the financial institution will instruct its attorney to:

- Conduct the relevant title search on the property which is to be mortgaged; and
- Prepare the relevant documents.

A *title search* will show all encumbrances – liens, judgments or prior mortgages. As a caution, vendors and prospective mortgagors should also search for judgments. Once the title is good, the relevant deeds are prepared.

The *Deed of Conveyance* transfers ownership from owner to purchaser and must be signed prior to the signing of the Deed of Mortgage. The Deed of Mortgage transfers ownership to the financial institution and it is important that you understand what is contained in this document. Some elements of this document are:-

- The parties to the mortgage;
- Description and location of the property being mortgaged;
- The terms of repayment;
- The interest rate and whether it is fixed or variable;
- The date on which monthly instalments are due; and
- Penalties for late payment or early repayment.

The financial institution will disburse funds once the attorney has confirmed that the title is good (proper root of title). The Deed of Conveyance is executed by the vendor and the purchaser and the Deed of Mortgage by the purchaser and the financial institution. The attorney will then register the deeds and provide you with a copy.

Finally, the Return of Ownership Form is prepared by the attorney. This serves to inform the District Revenue Office that you now own the property. You are responsible for ensuring that this process is completed in order to receive your Certificate of Assessment for payment of Water and Sewerage Rates and Land and Building Taxes.

## POSSIBLE CAUSES FOR DELAY IN COMPLETION OF A MORTGAGE TRANSACTION

### Title Issues

Once instructions are sent to the attorneys, the title search of the property begins immediately. The length of time for the searches to be completed will vary depending on whether title to the property falls under Common Law or under the provisions of the *Real Property Ordinance* (RPO). A title search of the property under the RPO can usually be completed within two days. However, locating the Certificate of Title can take up to one week.

An average title search may be completed within fourteen (14) days. In a mortgage transaction where the title is good, delays may occur for one or more of the following reasons:

- There is an existing mortgage on record: This can delay the transaction as the attorneys must ensure that a release of this mortgage has been effected.
- A judgment is discovered: A judgment operates like a charge over the property of the person against whom it is registered. If you purchase property from someone with a judgment registered against him or her, you acquire the property and all property related debts of the previous owner.
- A lis pendens is discovered: This gives notice of a High Court Action that may affect the property.
- The Certificate of Title is missing.
- The Land and Building Tax receipt is not in the name of the vendor.
- There exist discrepancies between assessment numbers stated on Land and Building Taxes (Property Tax) and water rate receipts.
- A party to the transaction cannot be located.
- A previous owner is now deceased. Depending on the manner of ownership of the property, you may require either the production of a Death Certificate or a Grant of Probate/Letters of Administration.

In some transactions a proper *root of title* cannot be established. This can cause significant and costly delays for example:

- Someone acquires a property by a Deed of Gift, but proper transfer of title was not done. In such an instance a Deed of Rectification will have to be done.
- A person has ownership together with a minor (someone under the age of 18). This could prevent such a person from selling or doing anything with the property until the minor becomes of age. A Court Order showing that the action to be taken is for the benefit of the minor could

be used to facilitate transactions.

- Incorrectly spelt names. Change of names or aliases not reflected on the title deed will pose problems.
- Land sub-divided from a larger parcel – a proper root of title must be seen for the original parcel.
- Occupation of a property (State or private lands) without interruption, for sixteen (16) or more years could give rise to rights by the occupants, according to the Real Property Limitation Act Chapter 56:03.

**Note:**

If the seller is unable to provide proper title, the down-payment would be refunded to the intended purchaser. If the buyer is unable to pay the balance of the purchase price, he could lose his down-payment and the seller is then free to sell to another buyer.

## Contract Details

When either buying or building your home you will need to enter into several contracts – all of which you must ensure you read thoroughly and understand **before** you sign. Some possible contracts you may have to sign (execute) are as follows:

AGREEMENT	DESCRIPTION	PARTIES INVOLVED
Purchase Agreement	Agreement that you enter into if engaging in a transaction to buy a house or land	Vendor/Agent & Purchaser
Mortgage Agreement	If you need to borrow to meet the cost of buying your home or land, you will have to enter into a mortgage agreement	Lending Institution & Purchaser/ Mortgagor

## Mortgage Agreement

The mortgage document can be quite long and intimidating. **Do not be put off by it.** Take your time and read through the document before signing. If anything is not clear to you seek clarification from the attorney who prepared it. Ensure that the information in the mortgage document is accurate.

The Mortgage Agreement includes:

- The parties to the mortgage – the lending institution, borrower, guarantor (if there is one);
- Agreement date;
- The amount being borrowed;
- Terms of repayment (including rules pertaining to pre-payment);
- Clauses which govern the manner in which the property should be kept;
- Clauses that allow officers of the lending institution to visit the property to ensure that it is being maintained. (The property is being held by the lending institution as security for the funds you borrowed and as such they will want to ensure that the property is not being allowed to deteriorate);
- Requirement for all rates and taxes to be kept up-to-date and for the property to be adequately insured. The borrower will be required to provide proof that

all rates and taxes are kept up-to-date and that the property is adequately insured and amounts for which the property should be insured; and

- The procedure that will be followed in the event of foreclosure.

You should verify the following:

- The spelling of your name;
- Your mailing address;
- The amount being borrowed;
- The interest rate; and
- The terms of the loan.

## Covenants

When purchasing a property, you should ensure that you are fully aware of any *restrictive covenants* that are attached to the property you are buying. You ought to guarantee that you receive a copy of the Deed that outlines the restrictive covenants.

Restrictive covenants that you may encounter include:

- The height of the fence and the type of material that can be used;
- The keeping of pets;
- The noise level permitted after a particular time;

- Parking;
- The number of levels allowed;
- The type of activities not allowed; e.g. wholesale/retail business, etc; and
- Rates and taxes include maintenance fees (if applicable), lease rent, water rates and land and building (property) taxes.

If you have decided to purchase property from someone who is not the original owner, you should request a copy of the deed in which any restrictive covenants are quoted.

In condominiums, townhouse developments and apartment complexes, you may also have to deal with common walls/partitions and the restrictions that apply to them (for example, breaking of walls, running of electrical wires, etc.).

Additionally, you may have to deal with common service charges or maintenance fees. These charges are obligations that you must satisfy, as their non-payment could result in legal action. You should also be aware of the fact that your mortgage deed would also require that you keep abreast of these payments. Be sure to keep your receipts in a secure place as you could be called upon to prove that these obligations are being met.

## Joint Applications

When applying for a mortgage with other parties, all persons involved must be fully aware of their obligations under the terms of the mortgage deed. In the event that a mortgage is granted to joint applicants, all parties are *jointly and severally liable* under the mortgage deed. This applies regardless of the relationship among the parties, whether employed or unemployed, whether husband and wife; parent and child; siblings (brother and sister) or business partners.

When a child enters into a mortgage agreement with a parent, he must be made fully aware of the impact of that decision on his debt service ratio, as it could possibly prevent him from obtaining a mortgage to finance the purchase of his own home or loss of preferential first time home owner benefits.

## X. BUYING PROPERTY: PROS, CONS AND GENERAL ADVICE

<b>You Are Required To Pay</b>	<ul style="list-style-type: none"><li>• A down-payment</li><li>• Closing costs</li><li>• Fees (Refer to VI: Purchase of Property-Some Costs and Fees of this section)</li><li>• Lien costs</li></ul> <p><b>For 15-30 years:</b></p> <ul style="list-style-type: none"><li>• Mortgage Payment (principal + interest)</li></ul> <p><b>Forever:</b></p> <ul style="list-style-type: none"><li>• Taxes</li><li>• Homeowner's Comprehensive Insurance and Householder's Comprehensive Insurance</li><li>• Maintenance</li><li>• Utilities</li></ul>
<b>What You Get</b>	<ul style="list-style-type: none"><li>• Your property is your investment. When you purchase your property, initially your stake in it is equal to your down-payment;</li><li>• As you make monthly mortgage payments for 15-30 years, you will gradually acquire greater equity in your property;</li><li>• Your property should increase in value over time.</li></ul>

<b>Potential Risks</b>	<ul style="list-style-type: none"> <li>• If you fail to pay your mortgage instalments, taxes, utility bills and maintain your property, you can lose it;</li> <li>• No compensation for damage or loss of your property and its contents if you do not have insurance coverage.</li> </ul>
<b>Pros</b>	<ul style="list-style-type: none"> <li>• You have the option to choose a completed structure that is “right” for you so you eliminate having to work with architects and contractors for several months to build a house;</li> <li>• Ability to customize the house (restrictions may apply in state subsidized houses and multi-unit housing complexes for example apartments, town houses, condominiums);</li> <li>• The price is fixed by the purchase agreement;</li> <li>• Payments towards the principal on your loan increase your equity;</li> <li>• Any appreciation of the value of the property is to your benefit as it increases your net worth;</li> <li>• If you sell your property, you do not have to pay any income tax on the profit;</li> <li>• You are afforded the opportunity to use your equity in the property as security to raise funds;</li> <li>• You can enjoy affordable shelter for the rest of your life.</li> </ul>
<b>Cons</b>	<ul style="list-style-type: none"> <li>• You may have to forego spending money on things that you ‘want’ in order to accumulate funds needed to purchase property;</li> <li>• You usually have to borrow at a cost, the funds needed to acquire your own property;</li> </ul>

**Cons (continued)**

- Maintenance cost is approximately 1% per annum of the value of a contemporary structure but higher for older buildings. (You may be covered for 6 months to one year by a “defects liability” clause).
- You cannot easily relocate.

## 3. HOME CONSTRUCTION

### I. HOME CONSTRUCTION: FROM 'FOUNDATION TO FINISH'

Sometimes the prospective homeowner may opt to build his/her dream home instead of buying a house that has already been built. This option may result in a more customized effect for the homeowner on completion of the construction process. It is necessary to mention that the financing and construction processes under this arrangement can be more challenging.

It is extremely important for you (the prospective homeowner) to know how you will finance the construction of your home. Most financial institutions can provide advice on the loan amount for which you can qualify, based on your financial position.

STEPS IN THE BUILDING PROCESS



## II. THE PRE-QUALIFICATION ASSESSMENT

*So you are considering building your house and are curious to know the maximum loan amount that you will qualify for to meet your home construction needs ...*

As with the buying process, if you decide to build your dream house and you require funds from a financial institution, it is advisable to obtain advice on the loan amount for which you are likely to qualify by doing a *Pre-Qualification Assessment*.

Financial institutions require the following information from you to complete this assessment:

- Your current income;
- Your monthly (fixed) expenses;
- Your occasional (variable) expenses;
- Any additional debts you may have;
- Your assets; and
- Your credit history.

After evaluating the information, the financial institution will inform you of the maximum loan amount for which you may qualify and recommends the loan products or financing options that may be best suited to your financial position.

The pre-qualification assessment is considered to be the

initial step in the acquisition of a construction loan, as it can lead to a relationship with the financial institution of your choice.

### III. ABOUT CONSTRUCTION LOANS AND BRIDGING FINANCE

#### CONSTRUCTION FACILITIES

A construction loan (offered by a financial institution) is financing geared towards the completion of the building of a house. The amount approved for a construction loan is normally based on the cost of construction and the projected value of the property being constructed. The disbursement of funds is based on the progress of works being done. This manner of disbursing funds for the provision of the essential works during the construction phase is called *bridging finance*. A partial amount of the approved funds will be disbursed at signing, to satisfy any purchase agreement or outstanding debt, as well as to provide funds for the first phase of construction. Upon completion of construction, and once the relevant certificates and inspections are finalized, the construction loan is converted into a residential mortgage.

#### KEY PARTIES INVOLVED IN THE CONSTRUCTION PROCESS

##### PROSPECTIVE HOME OWNER

- The owner of the land on which the house will be constructed.

##### THE FINANCIAL INSTITUTION

- Institution from which Construction or Bridging Finance will be made available.

##### BUILDER

- The person that builds the house from foundation to finish.

##### ARCHITECT

- The individual that finalizes the design and produces house plans.

##### QUANTITY SURVEYOR

- The person that manages costs related to building of the house, from the initial calculations through to the project's final figures.

#### IV. HELPFUL HOME CONSTRUCTION HINTS

- Have an idea of the type of house you want built. Develop a portfolio of preferred designs and photographs of properties you like. This will help the persons you are hiring to design and construct your home in keeping with your vision.
- Invite a surveyor, builder and/or architect to do a site visit prior to agreeing on design and price in order to ensure that the building you have in mind is feasible and affordable.
- Shop around before choosing a contractor or builder. View their previous work and seek references. Ensure that the person has a good reputation for working in a timely manner and within budget.
- Keep your square footage, finishing touches and interior simple if you are building on a restrictive budget.
- Seek the advice of competent persons on construction 'do's and don'ts.' For example, advice on the positioning and amount of electrical outlets in any particular area.

#### V. HOME CONSTRUCTION – SOME COSTS AND FEES

*So you want to know what additional costs are involved so you can budget for them...*

In order for your application for a construction loan to be processed, a number of documents are required by the financial institution. Some of the documents and other costs are outlined below:

**Quantity Surveyor's Report** - If you decide to build your house, you would need a Quantity Surveyor's Report. This document outlines the cost of construction given market conditions and valuation as determined by a qualified quantity surveyor. The cost to acquire this document varies depending on the cost of construction. This report may also be required for extensive renovations to the property.

**Bridging Financing** – If you are building, funds are advanced on a phased basis and interest is charged monthly on these sums. This process is called Bridging Financing. The interest charged is usually at a higher rate than your mortgage is likely to be. To get draw-downs on your bridging loan, a Quantity Surveyor's Report is needed to verify that the works done to date have been satisfactorily completed.

**Insurance Premiums** – If you are building your home, ensure that you have insurance coverage for the property and that the contractor has purchased Contractors All Risk Insurance for the period of the construction. The latter insurance is a requirement of most financial institutions in order for you to be able to access draw-downs.

If you have insurance coverage during the construction phase, a claim for losses incurred due to theft or accident can be made to the insurance company provided that such incidents are covered under your insurance policy. You therefore need to decide on the perils you wish to have covered under your insurance policy. (See Section 5, ‘Options for Insuring Your Home’).

*Upon completion of construction, you are required to purchase Homeowner’s Comprehensive Insurance to cover the replacement cost of the building. (See the National Financial Literacy Programme’s Protecting Your Shelter: Understanding Property Insurance, 2009).*

**TIP**

## VI. APPLYING FOR CONSTRUCTION FINANCING: DOCUMENTS REQUIRED

The following documents are required when applying for construction/bridging financing:

### *Personal Information*

- Evidence of Nationality (Identification Card, Driver’s Permit or Passport);
- Evidence of Income (Job letter and pay slip);
- Statements of Loans;
- Statements of Savings; and
- Evidence of Current Address (Copy of utility bill).

### *Property Information*

- **Title Deed or Lease** – This is a legal document to prove your ownership of the land on which the house is being constructed;
- **Survey Plan** – This document has drawings of the land, its boundaries and physical objects on the land. This plan is prepared and signed by a licensed surveyor;

- **Property (Land) Tax Receipts** – These receipts confirm that the tax payments on the property are up to date and there are no pending claims by the relevant authority;
- **Lease Rent Receipt** (applicable where land is leasehold) – This is a receipt from the lessor (e.g. a regional authority or an individual), confirming that the lease payments are up to date;
- **Town and Country Planning Approval** – Your house plans must be approved by the Town and Country Planning Division prior to construction;
- **Regional Corporation Approval** – Your house plans must be approved by the Local Regional Authority prior to construction;
- **Builders' Estimate** – This is an estimate of the cost to build the house from 'foundation to finish', prepared by the person contracted to do the job. It includes labour and material costs. References from the builder's previous clients are also required by mortgage lenders;
- **Quantity Surveyor's Report** \* – This is an estimate of the final construction cost of the building based on current market conditions. The report is prepared by a licensed quantity surveyor;
- **Projected Valuation Report (Post Construction)** – This is a report which details the estimated value of the property on completion of the construction according to the specifications of the drawings.

When the loan is approved by the financial institution, the borrower will be required to transfer or convey his/her right to the ownership of a property to the lender (financial institution) through a Deed of Mortgage, as security for the loan.

#### *Upon Completion of Construction*

- **Electrical Inspectorate Certificate** – The certificate is issued by the Government Electrical Inspectorate and confirms that the wiring and electrical installation in the building are in accordance with its regulations;
- **Re-inspection Valuation** – This is a post-construction confirmation that the final value of the property is not less than original estimates;

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\*You should ensure that these reports are prepared by someone/company recognized by your lending institution.

- **Water and Sewage Authority Clearance Certificate** – This certifies approval of the water and wastewater plumbing designs by the relevant authority;
- **Completion Certificate** – This document confirms that the house or building has been successfully constructed in accordance with approved plans. The certificate is issued by the office of the Local Regional Authority.

## VII. Finalization of the Mortgage Contract

When building, whilst the process is similar to buying property, the following differences should be noted in terms of the process required to finalize the construction loan and convert it to a mortgage contract:

- 1st. Loan funds are disbursed on a phased basis (*draw-downs*).
- 2nd. Interest is payable on the accumulated sums drawn down.
- 3rd. Interest payment begins with the disbursement of the first draw-down and continues until the issuance of a *Completion Certificate* on the property. This is known as bridging interest.

- 4th. Upon completion of construction you will be required to obtain the Completion Certificate from the relevant Regional Corporation.
- 5th. Once the Completion Certificate is obtained, an up-to-date valuation report must also be requested from the valuator. At this point the lender converts the bridging loan to an amortised mortgage loan for which you begin to repay both principal and interest.

### Contract Details

When either buying or building your home you will be required to enter into several contracts – all of which you must read thoroughly and understand **before** signing. One such contract is a Builder's Contract, details of which are as follows:

AGREEMENT	DESCRIPTION	PARTIES INVOLVED
Builder's Contract	Agreement entered into if building a house	Builder/ Contractor & Client

## Builder's Contract

A builder's contract will contain *inter alia*:

- The price at which the project will be done. It is very common to have an escalation clause that will cover any increases in the cost of material and/or labour. This increase will have to be borne by you, the client.
- The scope of works that will be covered – that is, the work that will be done by the builder/contractor.
- The mobilization fee that will be needed.
- The time frame in which the project will be completed.
- Any penalty for not completing within the specified time
- The value of any materials to be supplied by the client.
- Guarantee of the works within a specified time period.
- The Completion Certificate, which will include electrical and plumbing certification.

## VII. HOME CONSTRUCTION: PROS, CONS AND GENERAL ADVICE

<b>You are required to pay</b>	<ul style="list-style-type: none"><li>• A down-payment</li><li>• Bridging Finance</li><li>• For: Building Plans and Quantity Surveyor's Report</li></ul> <p><b>For 15-30 years:</b></p> <ul style="list-style-type: none"><li>• Mortgage Payment (principal + interest)</li></ul> <p><b>Forever:</b></p> <ul style="list-style-type: none"><li>• Taxes</li><li>• Homeowner's Comprehensive Insurance and Householder's Comprehensive Insurance</li><li>• Maintenance</li><li>• Utilities</li></ul>
<b>What You Get</b>	<ul style="list-style-type: none"><li>• Your home is your investment. When you build your house, its value is equal to your building cost;</li><li>• As you make monthly mortgage payments for 15-30 years, you will gradually acquire greater equity in your home;</li><li>• Your home should increase in value over time.</li></ul>

<p><b>Potential Risks</b></p>	<ul style="list-style-type: none"> <li>• Delays in the completion of your house;</li> <li>• Sub-standard work in the construction of your house;</li> <li>• Cost overruns which could cause significant delays or result in an incomplete house;</li> <li>• If you fail to pay your mortgage instalments, taxes, utility bills and maintain your home, you can lose your property;</li> <li>• No compensation for damage or loss of your home and its contents if you do not have insurance coverage.</li> </ul>
<p><b>Pros</b></p>	<ul style="list-style-type: none"> <li>• You can design the house to suit your needs;</li> <li>• Payments toward the principal on your loan increase your equity;</li> <li>• Appreciation in the value of the house is to your benefit as it increases your net worth;</li> <li>• If you sell your home, you do not have to pay income tax on the profit;</li> <li>• You are afforded the opportunity to use your equity in the house as security to raise funds;</li> <li>• You can enjoy affordable shelter for the rest of your life.</li> </ul>
<p><b>Cons</b></p>	<ul style="list-style-type: none"> <li>• You may have to forego spending money on things that you 'want' in order to accumulate funds needed to build your home;</li> <li>• You usually have to borrow at a cost, the funds needed;</li> <li>• Building a house can take 6 to 12 months or more;</li> </ul>

**Cons (continued)**

- Rapidly rising construction costs could result in cost overruns. The final cost is invariably higher than the initial contract price;
- You incur maintenance costs after completion of construction. Maintenance cost is approximately 1% per annum of the value of the house.
- You cannot easily relocate.

## 4. OTHER CONSIDERATIONS FOR HOME OWNERSHIP

### HOME EQUITY

The term *home equity* refers to the money value of your home in excess of any outstanding debts such as mortgages or liabilities. For example, if you have a house for which the current fair market value is \$500,000 (this should be based on an official appraisal) and a mortgage balance of \$350,000 then you have \$150,000 of home equity.

### INCREASING YOUR HOME EQUITY

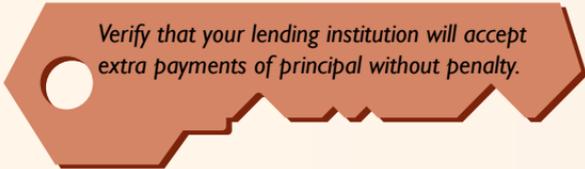
Every month as you make your mortgage contribution, you increase your home equity. With discipline and determination, the sooner you pay off your mortgage your personal financial position is likely to improve.

You can build additional home equity when you improve the quality of your home. In order to get maximum equity from enhancing your home, ensure that the improvements you are contemplating will result in the value of your home appreciating.

### ACCELERATING YOUR MORTGAGE PAYMENTS

There are a number of effective ways to pay your mortgage off in a shorter period of time in order to build equity in your home. These include:

- Making a higher initial down-payment;
- Making extra principal payments/accelerating payments (once allowed in contract. Check the Pre-payment/Penalties section in your agreement);
- Taking a shorter mortgage term.



Verify that your lending institution will accept extra payments of principal without penalty.

**TIP**

### BORROWING ON HOME EQUITY

Equity in your home can be utilized in several ways. The primary manner in which it can be used is in securing a *home equity loan* or a second mortgage to facilitate *inter alia*:

- Covering expenses of major emergencies for example a huge medical bill, (if you do not have sufficient savings or inadequate medical insurance);
- Financing education;

- Engaging in crucial home improvements projects and renovations;
- Consolidating your various debt into one monthly payment.

### Note:

- Home equity borrowing for the purpose of purchasing a vehicle, paying for a vacation, or covering basic living expenses should be avoided.
- Carefully weigh the pros and cons of accessing home equity loans. After weighing your options, if you do decide that you need to access a home equity loan, 'shop around' at various financial institutions for terms and conditions best suited to you.
- Be especially wary of suspicious offers for home equity loans received through the mail, or via telephone.

### FORECLOSURE

*Foreclosure* can be defined as the legal process by which a person's right to a property is terminated, usually because the borrower has failed to meet the monthly payments as previously agreed.

The Mortgage Deed gives the financial institution the power to foreclose on your loan under certain circumstances.

You, the borrower, may be unable to meet your mortgage payment due to a change in your financial situation. Some common financial situations that may lead to foreclosure can include becoming unemployed, a reduction in earnings or experiencing an alteration in your marital status (e.g. separation, divorce or death of one party).

Different strategies can be implemented to avoid or reduce the likelihood of foreclosure. It is recommended that you establish an emergency fund. This type of fund would allow you to continue to meet your financial obligations, in the event of the occurrence of any of the aforementioned situations.

Additional techniques to avoid foreclosure on your property may include:

- Mortgage Installment Protection (See Section 5, 'Options for Insuring Your Home');
- Reducing expenditure by making and adhering to a strict budget;
- Supplementing your income by getting a second job or through utilizing your skills to generate additional income;
- Downsizing to a property for which the payments would be more affordable.

Regardless of your situation, it is recommended that you keep your mortgagee (financial institution) informed. This could result in a plan being specifically structured for you, leading to you being able to avoid the challenges associated with foreclosure.

### **MULTI-UNIT HOUSING**

Within recent years multi-unit housing (town houses, condominiums and apartments) have become more common in Trinidad and Tobago. The advent of multi-unit communities may require that potential home owners reconsider their position on ownership by assessing whether a single family, bungalow home is their only option. You should educate yourself on the option of multi-unit dwelling. Multi-unit communities are typically governed by a home owners' management committee, which is elected by owners to implement and enforce rules and regulations designed to maintain a particular quality of life for all owners.

Different communities have varying rules and regulations. For example, the owner may be required to pay a monthly service fee to the Management Company for the upkeep of the common property. As a buyer, it is your responsibility to be aware of all rules and regulations when co-existing in a multi-unit housing establishment. Some rules may include for example, no pets, no loud music, no hanging of clothes in front of the unit and no external alterations to the unit.

## 5. OPTIONS FOR INSURING YOUR HOME

Purchasing your home may be the most valuable investment you make in your lifetime. As one of your most prized possessions, you should find ways to protect this investment. Insurance is a tool that is used to help you to manage your risks and protect your investments.

### SOME TYPES OF INSURANCE RELATIVE TO HOME OWNERSHIP

#### 1. Homeowner's Insurance

With regard to home ownership, one type of insurance that home owners are encouraged to purchase is Homeowner's Insurance (See The National Financial Literacy Programme's **Protecting Your Shelter: Understanding Property Insurance, 2009**).

This type of insurance allows the owner of the property to receive compensation in the event of any loss or damage as long as the policy's annual premium payments are kept up to date.

By ensuring that you have adequate coverage for your property and its contents, the insurance company can

reimburse or cover a specified portion of the costs of getting your home back to its former condition, in the event that there is damage to your home and/or its contents.

Your insurance policy will specify your coverage. For example, your policy may cover damages due to wind, vandalism and theft. If you want coverage for damages not specified in the basic policy, for example floods, you will need to pay an additional sum.

#### 2. Estate Protection

This type of insurance functions to pay off the mortgage in the event of the death of the owner.

#### 3. Mortgage Installment Protection

This policy has several beneficial functions. It effectively:

- Pays your mortgage and related expenses if you become temporarily disabled due to an accident or sickness which results in a loss of income;
- Pays the outstanding balance if you become permanently or totally disabled;
- Waives your premium for a specific period if you become unemployed; and
- Waives your premium for a specific period if there is foreclosure on your property.

#### 4. Mortgage Indemnity Insurance

This type of insurance is characterized by a premium being paid only once to the Insurer at the time of disbursement of the mortgage loan and forms part of the closing costs associated with a mortgage transaction. Generally, the mortgage lender will have a group policy covering its mortgage holders where the premiums are lower than the individual insurance rate.

This insurance is used in instances where the company gives you a mortgage in excess of your eligibility. For example, if the norm is to lend 75% of the value or purchase price, and you are granted a mortgage of 90% of the value or purchase price, the financial institution could ask that you pay mortgage indemnity insurance to cover the additional amount advanced to you over and above the 75% threshold.

Mortgage Indemnity Insurance is a cost that is borne entirely by you the borrower and needs to be provided for as part of your cost for the mortgage. The purpose of the insurance is to provide additional “protection” to the financial institution in the event that you default in your payments to them.

#### 5. Contractors All Risk Policy/Insurance

This particular type of insurance is required when you are building your home. The main purpose of this policy is to protect the owner from damage to the building under construction, as well as to third party claims.

#### Note:

#### ***Additional considerations for property value coverage:***

In addition to the insurance coverage mentioned above, you can make enquires at your financial institution or insurance provider for information on the following insurance options for property value coverage:

- **Replacement value** (recommended): When applying for the comprehensive home owners' insurance cover, clients should ensure that they are covered for the replacement value (the cost to rebuild the building “as is”).
- **Cover mortgage debt:** Insuring the property to cover the value of the debt only, leaves the home owner exposed in the event of damage to the property.
- **Inclusion of out-of-pocket expenses:** When selecting insurance coverage, one should also consider the other expenses that are likely to be incurred in the event of damage to property, including:
  - o Rental of alternate premises while the property is under construction;
  - o Demolition of the existing structure (where applicable);
  - o Removal of rubble from site.
- **Individual or group plans provided by mortgagee:** Some mortgage lenders have developed group plans that cover all risks associated with the property, and this is generally more cost effective than providing an individual policy to cover the risks.

## **SOME WAYS OF REDUCING INSURANCE COSTS:**

- Negotiate a deductible that you can afford
- Use one insurance company
- Ask about other discounts to which you may be entitled
- Do not buy coverage you do not need; and
- Reduce your home owner's risk; e.g. burglar proofing, fire alarms, etc.

### **I. Deductible**

Your deductible, sometimes referred to as “excess”, is the amount you agree to cover/pay for yourself before the insurance company starts paying on a claim. It is best to decide on an amount that you can afford to meet out of your pocket (from the sum allocated to contingencies, emergencies in your budget). It does not make sense to have too low a deductible, as this will affect the premium you would pay; the lower the deductible, the higher the premium and vice versa. The deductible on property insurance for allied perils, such as earthquake and hurricane, is usually 2% of the sum insured with a minimum that differs from one insurance company to another. There is no deductible if the claim is for loss caused by fire.

Insurance will not cover all of the costs of restoring your property but it will go a long way towards helping. You will need to decide how much risk you are willing to assume. Be aware of the risk involved in covering your property for less than 100% of the replacement value (under-insure). This would actually work against you as the average clause of the policy will apply.

The formula used for determining the amount of settlement is as follows:

$$\frac{\text{Amount of settlement:}}{\text{Sum insured}} \times \text{Amount of loss} = \text{Amount of settlement}$$

Replacement value

If you decide that you are only going to insure your property at 50% of its replacement value, the insurance company will take for granted that you have assumed 50% of the risk and will pay you only 50% of the amount of the loss suffered in the event of a claim.

For example, if the replacement value of your property is \$100,000.00 and you decide to insure it for 50% of the value or \$50,000.00, and the property is totally destroyed, the insurance company will pay you only the sum insured of \$50,000, calculated as follows:

$$\frac{\text{Sum insured } (\$50,000)}{\text{Replacement value } (\$100,000)} \times \text{Loss } (\$100,000) = \$50,000$$

This is 50% of the replacement cost or loss suffered. Although you can expect to get the full sum insured of \$50,000 because you suffered a total loss, you will still have to find the other 50% or \$50,000 to restore the property.

Let us take the example of a partial loss. Assuming you had only a partial loss that would cost you \$80,000 to restore your home you can expect to receive only:

$$\begin{array}{l} \text{Sum insured (\$50,000)} \\ \text{Replacement value (\$100,000)} \end{array} \times \text{Loss (\$80,000)} = \$40,000$$

This is 50% of the loss suffered. You will have to find the other \$40,000 to restore your property.

However, if you had insured your home at the full replacement value or \$100,000, you would have received the full amount of the loss suffered.

By the same token, do not over-insure your property as you would not be entitled to more than the replacement cost of your property.

It is therefore very important that you pay close attention to the replacement cost of your property when the policy is to be renewed and ensure that the sum insured is close to the replacement cost. If it is not, you will have to pay the shortfall.

*Ensure that your insurance coverage always reflects the updated valuation of your property.*

**TIP**

## **2. Use one insurance company**

Consider purchasing your home and car insurance from the same insurance company – you may be entitled to a discount.

## **3. Ask about other discounts to which you may be entitled**

Ensure that you are not paying too much for your insurance. Discounts may be available because you have fire extinguishers on your property, or smoke detectors or deadbolts on all external doors. Do not forget that there may be discounts available for individuals over 50 years of age who have membership in retirement organizations. You do not actually have to be retired to enjoy the benefits.

#### **4. Do not buy coverage that you do not need**

It does not make sense for you to purchase coverage against landslides if you do not live in an area that could be affected by such an occurrence.

#### **5. Reduce your home insurance risk**

You can reduce your home insurance risk by taking the time to invest in a few relatively inexpensive safety devices you can reduce the likelihood of an unfortunate event occurring. Examples of safety devices include:

- o Adequate burglar proofing;
- o Smoke detectors in your house;
- o Easily accessible and functional fire extinguisher in your house; and
- o Home security systems.

*Mortgage Indemnity Insurance does not cover the mortgaged property (the building) and its contents. Mortgage Indemnity Insurance covers the lender while Homeowner's Insurance covers the home.*

**TIP**

## 6. RENTING

### **RENTAL AGREEMENTS**

A lease or rental agreement is a contract. It forms the legal basis for your relationship with your landlord by setting out important issues such as:

- The length of your tenancy;
- The amount of rent and deposit(s) you are required to pay;
- The number of people who can live in the rental property;
- Who pays for utilities;
- Whether you may have pets;
- Whether you may sublet the property;
- The landlord's access to the rental property;
- Whose job it is to maintain and repair the premises.

It is always wise to have your lease or rental agreement in writing so that both the landlord and tenant can sign as agreeing with the contents of the document. The signed, written agreement protects both landlord and tenant as the terms and conditions of the rental; the rights and responsibilities of both parties are spelled out and can be used as a source of reference for the settlement of disputes that may arise between the two parties.

### **REASONS FOR CONSIDERING RENTING**

Buying or building is usually the best long-term investment, but you can consider renting if:

- You do not have the funds and cannot obtain a loan to build or buy your home;
- You do not have the down payment needed in order to qualify for a loan;
- Your rent is very low and you are saving to build or buy a home.

## **THINGS TO LOOK FOR PRIOR TO ENTERING INTO A RENTAL AGREEMENT**

The tenant should examine the following before entering into a rental agreement:

1. The physical condition of the rental property;
2. Level of security;
3. Health, safety and sanitary conditions;
4. Availability of electricity, water and sewer services;
5. Deliverables stated in the agreement are in working condition.

## **TERMINATION OF RENTAL AGREEMENT**

A rental agreement is valid for the term specified in the agreement. The landlord and tenant may choose to enter into a new agreement, but there is no obligation on the part of either party. The landlord or tenant may choose to give prior notice of intentions to renew or not renew the agreement.

An agreement may be terminated before the term specified where there is a breach of the terms and conditions by either party.

### **Rent-to-Own**

The biggest argument against renting is that rent payments do not contribute to your purchase of the asset, unless special arrangements are made to achieve this, for example, the Rent-to-Own option as offered by the Housing Development Corporation (HDC). This Programme was developed as an initiative to target the lower income segment of society that may be unable to service a mortgage. It can be seen as well too, as an attempt to bridge the gap between renting and owning property, the latter of which was further explored earlier in this booklet. Further information on this initiative can be obtained by contacting the Housing Development Corporation.

## OPTIONS, ISSUES, PROS AND CONS OF RENTING

The following table provides additional useful information for persons who are inclined to renting:

<b>You are required to pay</b>	<ul style="list-style-type: none"><li>• An initial security deposit (normally refundable);</li><li>• Monthly rental;</li><li>• Utility bills;</li><li>• Contents insurance (optional).</li></ul>
<b>Pros</b>	<ul style="list-style-type: none"><li>• Shelter that is affordable and readily available even though you cannot afford to own a home;</li><li>• Structural maintenance of the premises are normally done by the landlord;</li><li>• Ease of relocating when the rental agreement expires.</li></ul>
<b>Cons</b>	<ul style="list-style-type: none"><li>• Rent is consumption spending for shelter as you do not build equity in the property;</li><li>• The landlord may opt to increase your rent at the end of your agreement;</li><li>• Increases in rental rates are normally larger than increases in your income;</li><li>• On retirement your income normally decreases but rental rates tend to continue increasing;</li><li>• No security of tenure; when your rental agreement expires, it may not be renewed by the landlord;</li><li>• You may have to accept several restrictions, for example:</li></ul>

**Cons (*continued*)**

- Limited ability to personalize space (structural changes).
- Pets may be prohibited.
- Limits on entertaining (parties etc.).
- Children may not be allowed.
- Accommodation may be limited to singles, married couples, etc.

# GLOSSARY

## GLOSSARY OF KEY MORTGAGE MARKET TERMS

**Bridging Finance** is the manner in which funds are advanced on a phased basis for building or construction projects by a financial institution based on the progress of work being done.

**Builder's Contract** is a contract signed between the person who has purchased land for constructing a house and the builder selected to construct the house (contractor).

**Certificate of Title** is a legal document which states the ownership of the identified property.

**Completion Certificate** is a document issued by the Town and Country Planning Division of the Ministry with responsibility for planning. This document states that the house or building has been successfully constructed in accordance with the approved plans of that agency.

**Contents Insurance** provides for damage or loss of your personal possessions located within your residence.

**Contractors All Risk Insurance** is taken out by the Contractor and provides for all risks (theft, fire, injuries, etc.) that could occur on a work site.

**Covenant** is a formal agreement, contract or written promise between two or more individuals. Covenants can be concurrent (mutual promises to be performed at the same time), dependent (one promise needs to be performed if the other party performs his/hers), or independent (a promise to be honored without reference to any other promise.)

**Conveyancing** is a written document which transfers (conveys) real estate property or real property interests from one party to another e.g. the method by which land is transferred from one person to another.

**Credit History** is a report on a borrower's payment history. It reflects outstanding loan balances for a variety of financial institutions and hire purchase companies and usually contains a rating for the borrower's credit worthiness.

**Credit Worthiness** is an assessment by a financial institution of the likelihood that a borrower will be able to honour his/her debt obligations.

**Debt/Service Ratio** is a measure utilized by financial institutions to reflect the variance between how much an individual earns and how much that persons owes to creditors. The standard ratio used is thirty per cent (30%) of your total income.

**Deed of Conveyance** transfers ownership of a property from the owner to the purchaser.

**Deed of Gift** is a legal document that transfers ownership of a property without any requirement of a purchase price.

**Deed of Release** is a deed that is evidence of the release of a property from a lien.

**Defects Liability Clause** is used when construction contracts include a defects liability period during which the contractor is responsible for repairing or rectifying defects that appear in the works. The period usually commences upon practical completion of the works and runs for a specified time frame. A defects liability clause will set out the length of the defects liability period, the scope of defects the contractor is obliged to remedy and any part of the contract sum retained by the employer as surety for the performance of the remedial work.

**Down-Payment** is the contribution (financial) made by the borrower when attempting to access loan facilities offered by a financial institution.

**Encumbrance** is any claim or lien on a property which includes mortgages and judgments.

**Escalation clause** is a provision in a contract that allows for changes in the contracted price due to fluctuations in market prices.

**Escrow** refers to a financial instrument held by a third party on behalf of the other two parties in a transaction.

**Fair market value** is the market value of your property based on an appraisal conducted by an independent third party.

**Fixed-Rate Mortgage** is characterized by an interest rate that is constant over a specified term of the mortgage.

**Foreclosure** is the legal process by which your right to a property is terminated.

**Gross Income** refers to an individual's total income before any deductions have been made.

**Guarantor** is the person who guarantees that a loan or other type of debt will be paid and agrees to pay another person's debt or perform another person's duty if that person should fail to do so.

**Home acquisition facility** is a mortgage facility for the purchase of a house.

**Home Equity** refers to the money value of your home in excess of any outstanding debts such as mortgages or liabilities.

**Home Equity Loan** is a loan facility offered by a financial institution in which equity in your property is used as collateral.

**Homeowner's Comprehensive policy** 1. provides the owner of the property with coverage for the estimated cost of repairing or replacing the structure in the event of loss or damage.

2. allows the owner of the property to receive compensation in the event of any loss or damage to said property.

**Householder's Comprehensive policy** provides the policyholder with coverage for the contents of his/her home in the event of loss or damage. Items usually insured include inter alia furniture, appliances, clothing and furnishings.

**Judgments** are formal rulings given by a court.

**Legal Covenant** is an agreement, contract or written promise between two or more individuals to do or refrain from doing something.

**Lessor** is the landlord or the person who rents land or property to a **lessee** (tenant).

**Lien** is the right to retain the lawful possession of the property of another until the owner fulfills a legal duty to the person holding the property, such as the payment of lawful charges for work done on the property.

**Lis Pendens** refers to pending litigation or having a matter in Court that may relate to or involves a property.

**Loan to Value (LTV) Ratio** is a lending risk assessment ratio used by financial and other lending institutions in approving a mortgage.

**Mortgage** is a contract that creates a claim upon real estate as security for the payment of a specified debt.

**Mortgage Indemnity Insurance** is a form of insurance designed to reimburse the financial institution in the event that you are unable to maintain repayments.

**Mortgagee** is the institution that offers/extends the loan facility to the borrower.

**Mortgagor** is the person who borrowed money from a financial institution in order to acquire property.

**Pre-Qualification Assessment** is an initial evaluation of the credit worthiness of a potential borrower that is used to determine the estimated amount that the person can afford to borrow.

**Principal** is the total amount of money being borrowed or loaned excluding interest.

**Purchase Agreement** is a contract for the purchase of a property and sets out the terms and conditions for that transaction.

**Quantity Surveyor** is a professional employed in the construction/building industry whose business is estimating building costs.

**Quantity Surveyors Fees** are fees charged for the services offered by quantity surveyors, usually in the construction process.

**Real Property Ordinance (RPO)** relates to the registration of titles to land.

**Rental Agreement** is a contract between a landlord and tenant.

**Restrictive Covenant** is a private agreement usually in the form of a deed or lease that restricts the use or occupancy of real property.

**Return of Ownership Form** shows the change in ownership for the purpose of property taxes.

**Root of Title** is the sum total of legally recognized rights to the possession and ownership of a property.

**Share Certificate** is a written document signed on behalf of a corporation and serves as legal proof or ownership of the number of shares indicated.

**Stamp Duty** is a tax which must be paid to the Board of Inland Revenue in order to enable registration of deeds. E.g. Conveyance and mortgages.

**Title Search** is conducted to discover whether there are any defects in the ownership of a particular tract of land. An **Abstract of Title**, prepared by the examiner subsequent to such an investigation, is a condensed history of the title to the land.

**Total Debt Service Ratio** is a tool that is used by all financial institutions to determine your eligibility for a loan. These institutions ensure that you have the ability to repay the loan before the loan is granted to you.

**True replacement cost** is the actual cost to repair or replace your home at current market prices.

**Valuation** is a written estimate of the market value by a qualified appraiser.

**Valuation Fees** are fees calculated at a percentage of the value of the property being purchased or assessed.

**Variable-Rate Mortgage** is an agreement whereby the rate of interest is adjustable at any time during the life of the mortgage.

**Water and Sewage Authority Clearance Certificate** is a legal document that states that the purchaser of the property has no outstanding rates or charges payable to the Water and Sewage Authority. This ensures that the property is free of encumbrances from that agency for a period of three months.

# USEFUL INFORMATION

## USEFUL INFORMATION

- **Gross Monthly Income** can also be referred to as **Combined Gross Monthly Income**. Some financial institutions use this figure as a guide, and will take into account other factors, e.g. credit score and other loan commitments. Therefore when considering buying a home, you the prospective buyer ought to meet with representatives from various financial institutions to determine how much they may be prepared to lend you, the rate of interest payable, the monthly installment, the number of mortgage payments to pay off the mortgage loan and a schedule of all fees due.
- It is your responsibility to register the **Deed of Release** or you may opt to have the financial institution request the release on your behalf. Also, it is advisable to not release your property until you are absolutely sure you no longer require the financing, where the property will be held in support of the credit request. If you release the property and then determine you wish to undertake Equity Financing or Home Renovations then you will have to pay the cost to mortgage your property for a second time.
- **The Credit Check Report** does not necessarily rate your credit as good or bad. It simply provides a history of your borrowings and the manner in which it was re-paid.
- **Insurance** is only paid on the occurrence of an 'insurable event' covered by the insurance policy.
- Most mortgage loans in Trinidad and Tobago are in fact of a variable rate nature. However, these rates generally do not reflect wide variations over short periods of time since most financial institutions attempt to match medium or long term funding sources with mortgage lending. Mortgage rates often vary less than retail lending rates.

- It is advisable to ensure that your application for a **mortgage is approved before making your ten percent (10%) deposit** on any property, as this can be forfeited should you, the buyer, be in default.
- When making a deposit on a property, you may encounter the term **Escrow**. An escrow is a written agreement (or property or money) delivered to a third party, or put in trust by one party to a contract, to be returned after a specific condition has been fulfilled.
- When conducting title searches, you may be provided with an **Individual Survey Plan** that outlines the dimensions of the property as provided by a surveyor. This plan is actually a sample taken from the **Cadastral Sheet**. This is basically a map that shows the ownership of properties in a particular area. It is issued by the Land and Surveys Division of the Ministry of Food Production, Land and Marine Affairs.
- Original deeds are stored at the **Registrar General's Office** of the Ministry of the Attorney General and Legal Affairs. Searches are conducted in the registry to trace the Vendor's title and for determining how the vendor acquired ownership of the property being sold.
- If the property you are purchasing/have purchased has a **Restrictive Covenant**, it means that there are restrictions and rules that state what you are/are not allowed to do with the property, and what kind of building you are /are not allowed to construct. If you are purchasing property that has a restrictive covenant, you have to abide by those restrictions.
- A **Memorandum of Transfer** is a document that transfers titles of land from one party to another.
- There are three **types of Deeds** in Trinidad and Tobago:
  - **Common Law Deed**. This is characterized by a new Deed being made up every time a particular property changes ownership. Unless there is a restricted covenant, only the Vendor has to sign the conveyance at the time of closing the sale.

- o **Real Property Ordinance (R.P.O. Deed).** Under the R.P.O. the same deed goes from owner to owner. All land or property transactions under the R.P.O. are recorded on a document called a Certificate of Title. The original of this document is kept at the Registrar General's Office, and the duplicate of the same is kept by the owner of the property or any other party who has an interest in the property.
- o **Leasehold Deed.** Leasehold land is held for a term of years ranging from twenty-five (25) to a maximum of nine hundred and ninety nine (999) years. This deed is typically one in which the person (s) whose name (s) is/are on the deed are the owners for the duration of the lease. Leasehold Deeds usually have restrictive covenants.
- Attorneys' fees charged for any conveyance are stipulated in the **Legal Profession Act Chapter 90:03 – The Attorneys-at-law (Remuneration) (non-contentious) Business Rules, 1997.**
- Deeds are typically registered over three (3) to six (6) months, however, you become the official owner of the property from the moment the balance of payment is made and the owner signs the Deed over to you.
- A **search of title** indicates the history of the property and manifest whether it is subject to any encumbrance. This search usually takes between two to three weeks, and costs between \$500- \$1000 depending on the amount of years that have to be searched.

- **Residential Real Estate Mortgage Market Guideline**

After consultation with the Bankers Association of Trinidad and Tobago (BATT), the Central Bank issued the Residential Real Estate Mortgage Market Guideline which specifies a minimum set of information that licensees must provide to mortgagors on the terms and conditions of their mortgage contracts. Greater disclosure by licensees will help mortgagors make more informed decisions and facilitate financial planning. Increased transparency will also improve the operations of the mortgage market by increasing competition among lenders. The Guideline is applicable to all financial institutions licensed (licensees) under the Financial Institutions Act, 2008 (FIA) that are engaged in residential real estate mortgage lending.

The Guideline contains two important features: 1) the requirement for licensees to provide a “Disclosure Statement” to customers; and 2) the introduction of a “Mortgage Market Reference Rate” (MMRR).

- **Disclosure Statement**

At the time of signing of the mortgage contract, licensees will also be required to provide a Disclosure Statement to their customers (Refer to Sample Disclosure Statement on page 67). The Disclosure Statement should be written in plain language and must contain, at a minimum, the following information:

- i. The type of residential mortgage contract granted (fixed, adjustable or variable);
- ii. The principal amount of the residential mortgage;
- iii. The term of the residential mortgage;
- iv. The MMRR used to price or re-price the residential mortgage and the margin;
- v. The mortgage rate that is applicable at the time of signing of the mortgage contract and the period for which this rate applies (e.g. One (1) year, three (3) years, etc);
- vi. The terms and conditions governing pre-payments and accelerated payments, including fees and charges;
- vii. The monthly instalment and the date the instalment is due. In the case of a fixed-rate mortgage, the

- instalment is fixed for the life of the mortgage. In the case of variable- and adjustable-rate mortgages, the instalment remains unchanged until the next re-pricing date; and
- viii. An amortization schedule showing how instalments would be split between principal and interest repayments over a twelve-month period until the mortgage is re-priced.

- **Mortgage Market Reference Rate (MMRR)**

The Mortgage Market Reference Rate (MMRR) is the benchmark interest rate on which your mortgage interest rate will be based. The actual mortgage rate charged to consumers will be the most recent MMRR plus a margin determined by the licensees. The margin to be set by the licensees will reflect, inter alia, the borrowers' credit rating, the amount of the down payment and the location of the property. The MMRR will be used to determine the initial mortgage rate on all residential mortgages and for re-pricing variable- and adjustable-rate mortgages. The Residential Real Estate Mortgage Market Guideline introduces the new reference rate – the residential Mortgage Market Reference Rate (MMRR) – which will be computed quarterly by the Central Bank of Trinidad and Tobago based on information supplied by the licensees.

Name: John Doe Date: 15 - Dec - 2011  
 Address: #4 Street, Woodbrook Account Number: #1001  
Port of Spain

## Mortgage Agreement Disclosure Statement

### Information Box - Part 1

Location: Port of Spain

Type of Property: Land Only Land and Building

Type of Mortgage: Fixed Rate Mortgage Adjustable Rate Mortgage Variable Rate Mortgage

### Information Box - Part 2

Date of Advance: 1 - Jan - 2012 Statement Date: 15 - Dec - 11  
 Initial Principal Amount: \$850,000.00 Outstanding Principal: \$850,000.00  
 Term of Mortgage: 20 years Amortization Period: 20 years  
 Instalments: \$7,109.74 Frequency: Monthly

### Information Box - Part 3

Date of Next Interest Review: 15 - Dec - 2012  
 Mortgage Interest Rate: 8.00% Margin: 4.00%  
 Mortgage Interest Rate = Reference Rate + Margin  
 Mortgage Market Reference Rate (MMRR) : 4.00% Mortgage Interest Rate Cap: 3.50%

### Information Box - Part 4

Prepayment Privileges:

Lumpsum payments of not less than \$10,000.00 are permitted at the end of any month without penalty or notice.

Prepayment Charges:

None.

Default Insurance:

None.

Other Fees:

Late payment fee applicable.

## Sample Amortization Schedule

Date	Outstanding Mortgage Balance (Start of Month)	Monthly Interest Payment	Principal Repayment	Monthly Instalments	Outstanding Mortgage Balance (End of Month)
Jan-12	850000.00	5666.67	1443.07	7109.74	848556.93
Feb-12	848556.93	5657.05	1452.69	7109.74	847104.23
Mar-12	847104.23	5647.36	1462.38	7109.74	845641.85
Apr-12	845641.85	5637.61	1472.13	7109.74	844169.72
May-12	844169.72	5627.80	1481.94	7109.74	842687.78
Jun-12	842687.78	5617.92	1491.82	7109.74	841195.96
Jul-12	841195.96	5607.97	1501.77	7109.74	839694.19
Aug-12	839694.19	5597.96	1511.78	7109.74	838182.41
Sep-12	838182.41	5587.88	1521.86	7109.74	836660.56
Oct-12	836660.56	5577.74	5577.74	7109.74	835128.55
Nov-12	835128.55	5567.52	5567.52	7109.74	833586.33
Dec-12	833586.33	5557.24	5557.24	7109.74	832033.84

## Mortgage Definitions

### Information Box – 1

**Fixed rate mortgage (FRM)** – This is a loan that is secured by a claim or liens on real estate in which the rate of interest remains unchanged throughout the entire term of the mortgage loan.

**Adjustable rate mortgage (ARM)** – This is a loan that is secured by a claim or liens on real estate in which the rate of interest charged is fixed for a specified period but is subject to change thereafter, as outlined in the mortgage agreement.

**Variable rate mortgage (VRM)** – This is a loan that is secured by a claim on real estate in which the rate of interest charged is subject to change during the term of the loan.

### Information Box – 2

**Date of Advance** – This is the date on which the principal amount was loaned, and is the date on which interest charges begin.

**Initial Principal Amount** – This is the original sum of money borrowed.

**Term of Mortgage** – This is the initial life of the mortgage.

**Instalment Payment** – This is the amount payable over specified intervals (for example, monthly) over a given period and is comprised of both interest and principal repayments.

**Outstanding Principal** – This is the value of the loan which is owed to the mortgagee as at the statement date.

**Amortization Period** – This is the length of time your mortgage will be paid off based on interest and monthly instalment payments.

### Information Box – 3

**Mortgage Interest Rate** – This is the interest rate applicable to your mortgage loan. This interest rate is charged to the principal outstanding amount (i.e. reducing balance).

**Mortgage Market Reference Rate** – This is the benchmark interest rate upon which your mortgage interest rate will be based.

**Margin** – This is the difference in the interest rate applicable to your mortgage and the mortgage reference rate and includes components such as credit and term premiums.

**Interest Rate Cap** – This is the maximum interest rate that can be charged on your mortgage.

### Information Box – 4

**Prepayment Privileges** – These are the conditions under which you may repay a greater portion of the loan than required in any given period without incurring penalty charges for the prepayment of the loan.

**Prepayment Charge** – This is the amount of the penalty charges, if any, for prepayment of the loan.

**Default Insurance** – This is the amount of charges for insurance against default on a high-ratio mortgage.

**Other Fees** – These are the various amounts of other fees that are applicable to your mortgage, other than interest charges, for example late payment fees.







## CONTACT INFO

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The National Financial Literacy Programme

Central Bank of Trinidad and Tobago

Eric Williams Plaza

Independence Square

Port of Spain.

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**Fax:** 623-6514

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**Facebook pages:** [www.facebook.com/pages/NFLPs-Youth-on-the-Money](http://www.facebook.com/pages/NFLPs-Youth-on-the-Money)  
and [www.facebook.com/pages/NFLPs-Managing-Your-Future](http://www.facebook.com/pages/NFLPs-Managing-Your-Future)

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