



# **10 QUESTIONS TO ASK WHEN GETTING A MORTGAGE...**

Getting a mortgage is a big commitment and likely one of the largest loans you'll take out in your lifetime. That is why it's important to find a person you can trust to guide you through the homebuying process.

For some people, that's a direct lender, such as a bank. Direct lenders offer their own products and rates, and all communication goes directly to the lender and its in-house team of underwriters, the people who approve or deny your application.

Homebuyers can also use a mortgage broker, who works as an intermediary, connecting a buyer with many lenders to find the best mortgage rate and terms.

No matter the mortgage professional you choose, it's vital that you understand the associated costs and potential pitfalls of mortgages. Here is a list of questions you should ask your mortgage broker or direct lender to start the conversation. You'll likely have far more than 10 questions, so remember to ask every single one of them! The more you know, the more prepared you will be.

## 1. WHAT ARE THE FEES FOR YOUR SERVICES?



Using a mortgage broker is generally free. But brokers need compensation for their services, too.

The lender typically pays the mortgage broker a commission for referring the borrower and managing the application. Moreover, the mortgage broker only gets paid once the deal is closed.

Direct lenders, however, collect an origination fee, a charge similar to an administration fee for processing the loan. The lender also earns interest on the principal of the loan and any additional charges, like late fees, for example.

## 2. HOW MUCH MORTGAGE AM I PRE-APPROVED FOR?



It is wise to speak to a mortgage broker or lender before looking for a home. A mortgage pre-approval gives you an idea of how much you can afford. Although, you will still need to do some number crunching of your own. If a mortgage broker or lender says that you can afford a maximum purchase price for a home, you should consider if that amount makes financial sense for your lifestyle. Focus on the estimated monthly or biweekly mortgage payment and work back from there. Putting in an offer at your maximum purchase price may leave you stretching your funds every month.

Keep in mind that a mortgage pre-approval doesn't guarantee mortgage financing.

Adding a financing contingency to your home purchase offer can protect you if your mortgage application is denied for whatever reason.

Suppose you waive the condition of financing, which many buyers are risking in this hot market. In that case, you would be on the hook for the home deposit regardless of your mortgage application status and risk being sued by the seller if financing falls through.

### 3. WHICH MORTGAGE TYPE SHOULD I GET?



This question depends on your financial situation and your goals.

Fixed-rate mortgages are generally seen as risk-averse and predictable, as customers lock in a rate for the duration of their term (usually five years), meaning payments stay the same. However, if the homeowner needs to break their mortgage (pay off the loan before the end of their term), they may be subject to higher prepayment penalties. With a variable mortgage, the interest rate is subject to change throughout the term, depending on the Bank of Canada's interest rate announcements. Therefore, the percentage of your payment that goes toward the interest and the principal will fluctuate.

The penalty for breaking a variable mortgage is usually equal to three months' interest on your loan.

So, if your property is not your forever home or you plan to move in, say, three years when you have a five-year term, a variable mortgage could save you money. But you have to consider that there is a certain amount of risk.

## 4. HOW MUCH DO I NEED FOR A DOWN PAYMENT?



In Canada, the minimum down payment a buyer requires depends on the purchase price of their home.

You need only 5% of the purchase price for a home that costs \$500,000 or less. For homes between \$500,000 and \$999,999, you would need 5% of the first \$500,000 and 10% of the portion above that amount. Buyers must pay a 20% down payment on homes that cost \$1 million or more. Suppose you have a down payment of less than 20% of the property's value, you will have less than 20% equity, and over 80% of the property will be mortgaged. In this case, your application will be a high-ratio mortgage, and you will be required to have Canada Mortgage and Housing Corporation (CMHC) mortgage loan insurance.



## 5. WHEN SHOULD I GATHER MY DOWN PAYMENT?



While it's customary to give the seller a deposit, generally around 5% of the purchase price, within 24 hours of accepting your offer, you won't need to supply the rest of your down payment until shortly before your closing date.

You will, however, need to know where you will get the money. According to a Mortgage Professionals Canada survey from March, 33% of recent first-time homebuyers got help from family. If you are doing the same, you will need a mortgage gift letter from your donor stating that you will not need to repay the funds. Your lender will want to ensure you aren't taking on additional debt. Getting all these documents in order will help make your closing day successful.

Next, consider if some of your down payment will come from the Home Buyers' Plan (HBP). This government program allows you to withdraw up to \$35,000 from your registered retirement savings plans (RRSPs) to buy or build a qualifying home. Any money you withdraw must have been in your RRSP for at least 90 days.

Additionally, the financial institution you bank with may cause delays. While online banking often provides great rates since there are fewer overhead expenses, there is one drawback — no branches. Factor in the time it may take you to get a bank draft for your down payment. Instead of talking directly to a teller, you may have to wait for the bank draft to arrive in the mail.

## 6. SHOULD I GO WITH A LONG OR SHORT AMORTIZATION PERIOD?



An amortization period is the length of time it will take to pay your mortgage in full, not to be confused with the mortgage term, which is how long your rate is guaranteed. The most common amortization schedule is 25 years. Nevertheless, if you have a down payment of at least 20%, you can go up to 30 years, and sometimes longer.

A shorter amortization schedule can encourage you to pay off your mortgage faster and pay less interest on the principal. However, a longer amortization period can spread your payments over an extended period and lower the amount you pay monthly.

## 7. WHAT PAYMENT SCHEDULE SHOULD I CHOOSE?



Many people choose to align their mortgage payments with their pay schedule; however, more options are available. You can typically choose to pay your mortgage monthly, twice a month, biweekly, or weekly.

If you pay your mortgage every two weeks, you will pay 13 full payments rather than the usual 12 by the end of the first year. Speeding up your payments will reduce the amount of interest you pay on the principal loan.

## 8. WHAT OTHER HOMEBUYING COSTS SHOULD I EXPECT?



Saving for a home is no small feat, and unfortunately, there are plenty of other costs you will need to factor in on top of the home's purchase price. Closing costs will usually include fees for appraisal, title insurance, mortgage default insurance (for high-ratio mortgages), default insurance sales tax, legal fees, property tax, maintenance fees (condominiums), and land transfer tax. Legal fees alone will cost you anywhere from \$1,200 to upwards of \$2,000. Fortunately, first-time homebuyers get incentives in many provinces. In Ontario, first-time homebuyers may be eligible for a refund of all or part of the provincial land transfer tax. Some cities, like Toronto, also have a Municipal Land Transfer Tax (MLTT), which can add thousands of dollars to your closing costs if you aren't a first-time purchaser.

## 9. WHAT ARE THE FEES FOR BREAKING MY MORTGAGE EARLY?



If you need to break your mortgage before your term is up, the lender will recuperate some of the interest income they are losing by charging a prepayment penalty. Your lender will disclose any prepayment penalties when you sign your mortgage documents, so nothing should be a surprise.

The penalty amount will depend on several factors, including the type of mortgage, mortgage balance, interest rate, and the remaining duration of your term.

For a variable mortgage, the penalty is usually equal to three months' interest on your loan.

The penalty for breaking a fixed-rate mortgage is generally the greater of three months' worth of interest or the interest rate differential (IRD).

This calculation considers your current mortgage principal and the remaining term, which can cause significantly higher penalties. Breaking a fixed-rate mortgage shortly after signing could cost you tens of thousands of dollars. In one instance, an American woman living in Toronto had to pay \$47,291 in penalties when she sold her house after only two years.

When you ask about penalties, you should also ask about privileges. A prepayment privilege is the amount of the principal a mortgage lender will allow you to pay without incurring a penalty.

### **PREPAYMENT PRIVILEGES MAY INCLUDE:**

- Making lumpsum payments (sometimes limited to once a year)
- Doubling up your payments
- Increasing your regular payments by a certain percentage (e.g., up to 20%)

Every mortgage will have different terms and conditions. Still, paying off your mortgage faster can ensure you pay less interest on the principal.

## 10. IS THERE ANYTHING I SHOULD AVOID DOING BEFORE MY CLOSING DATE?

Lastly — and this is very important — you should avoid doing any of the following things unless you want to cause mortgage delays or jeopardize your application's approval.

**Close accounts:** It can be hard to prove where funds originated if you close an account. Your mortgage broker or lender will want to verify your assets during the application process and request three to six months' worth of account statements.

**Change jobs:** Your salary is one of several factors that determine the amount you can borrow. Having a steady income is crucial. Getting a promotion can be beneficial with a raise; however, quitting your job or taking a pay cut would be counterproductive.

**Apply for credit or financing:** Taking on new debts will impact your credit rating and debt-to-income ratio. It will also send red flags to your lender.

If you avoid drastic changes of any kind and are transparent about your finances, your closing date should go smoothly.





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