Take your pick
Find your perfect mortgage option

Should I refinance?
The benefits of changing things up

MEDIA PLANET

June 2011

MORTGAGES

3 TIPS

FOR PICKING YOUR BEST MORTGAGE OPTION

SAGE ADVICE FOR FIRST TIMERS

"Property Virgins" host **Sandra Rinomato** dishes up a dose of reality

MAIN PHOTO: HGTV

CHALLENGES

TIP 1

RESEARCH YOUR OPTIONS AS MUCH AS POSSIBLE

Purchasing a home is one of the largest **financial decisions** facing Canadians today, and one that many may not feel qualified to make. Fortunately, there are many **options available** to help would-be home owners find their fit.

A changing reality for home owners

Economic circumstances around the world over the past few years have brought focus to mortgages and lending practices, including here in Canada. Although our country did not suffer the same challenges as others, we nevertheless experienced change in the way mortgages are underwritten.

Stricter borrowing rules

The main changes are related to insured mortgages—those where the mortgage is more than 80 percent of the value of the home. Maximum amortizations were lowered from 40 to 35 years and then again from 35 to 30 years. Insured mortgages are also required to have a minimum down payment of 5 percent. Qualifying for a variable rate mortgage or a mortgage with a term of less than five years, now requires qualifying assuming a payment based on the five-year fixed posted rate. Changes to the minimum credit scores were also introduced. For borrowers that wish to refinance, they can no longer borrow more than 85 percent of their home value. In addition, investment or rental property purchases can no longer be funded unless there is a 20 percent down payment.

These changes were measured and prudent, and will work to ensure maintenance of a healthy mortgage market in Canada. The changes will also offset the impacts of the historically low interest rates which, over the past two years, had made it easier for individuals to qualify for larger mortgages.

Increasing payment options

Lenders continue to develop new products and features for Canadians. Borrowers have options to pick open or closed mortgages, variable rate, fixed rate or a combination of fixed and variable. They can also add a secured line of credit to their mortgage. Lenders also offer a variety of prepayment allowances and options to increase regular payments, which can greatly impact costs to borrowers should they need to change their mortgage contract. Consumers can also choose from a number of payment frequencies.

Lenders also provide options to port (take your mortgage with you to a new property) or have your mortgage assumed (a buyer takes over your mortgage when you sell your home), but conditions for these features vary across lenders.

Buying a home or obtaining a mortgage also leads to other considerations. Life and disability insurance needs should be assessed to ensure borrowers have the support they require should health issues arise. Estate planning needs should also be considered with any changes to your home circumstances.

Banking on a big decision

Purchasing or refinancing a home is the most important financial decision a consumer is likely to make. With the complexities of the mortgage market, it is important that consumers research as much information as possible. To help assess their options, borrowers should work with mortgage professionals.

There are two ways to get a mortgage in Canada—from a lender directly or from a licensed mortgage professional. When dealing with a lender directly, they are able to offer consumers a variety of products from their particular institution; licensed mortgage brokers are similar to insurance brokers and have the ability to offer consumers mortgage products from many different lenders including credit unions, trust companies and financial institutions.

Purchasing a home for the first time, taking out equity for investment or pleasure or refinancing a home are important financial decisions. Making the wrong or uninformed mortgage choice can cost thousands of extra dollars. Borrowers need to ensure their buying decision is an educated one by using the services of a mortgage professional.

Geoff Parkin
President,
MBABC

MY BEST TIPS

Picking a mortgage

- Understanding each step of the mortgage process is key to ensuring the biggest investment of your life is the right one for you. There is no substitute for being prepared. Educate yourself and get the facts you need to make the right mortgage decision and increase your home buying confidence.

The first steps

- Know your credit score.
- Save for a down payment.
- Learn key mortgage terminology.
- Determine how much you can afford.
- Get pre-qualified.
- Talk to a mortgage professional.

Keeping tabs on rising rates

Canadians have been tempted in recent years with exceedingly low interest rates, but with an improving economic outlook, the signs are all there for the Bank of Canada to increase its overnight rate, which currently stands at one percent.

There was some speculation that this would happen in April, but with the federal election that was put on hold, and while some economists still think there's a possibility the Central Bank will increase its rate in July, others aren't so sure given a number of geo-political factors that may temper the Canadian economy.

Cameron Muir
Chief Economist,
BC Real Estate Board

"It's not a question of if, but when the rates will rise."

Prepare for the unevitable

"It's not a question of if, but when rates will rise," says Cameron Muir, chief economist with the BC Real Estate Board. "It's extremely likely that the Bank will increase its rate in the latter half of the year, but with the high dollar and an economy that is still sputtering along, and some uncertainty in Europe and the U.S., there is little incentive to raise rates at the moment."

When the Bank of Canada's overnight rate moves up and down, so too does the Prime Rate, which impacts those with variable mortgage rates, and unsecured lines of credit. Long-term, fixed mortgage rates key off the Bond Market, and thus are not directly affected by the Bank of Canada rate, though Muir sees a gradual normalization of those rates over the next two years. He suggests that the five-year posted rate will be about 6 percent by the end of 2011, and maybe increase to 6.5 percent sometime in 2012.

Incremental increases

Benjamin Tal, CIBC's deputy chief economist, echoes Muir's projections and adds that because Canadians are highly leveraged, interest rates won't rise too rapidly or it would have a drastic impact on the consumer industry. "We're carrying a lot of debt," Tal says. "And while small increases in interest rates won't cause people to default on their loans, they will be paying more in debt servicing and less on other things."

It's expected that the higher interest rates will cool the housing market somewhat, and slow the economy, which is a good thing. If the economy grows too fast, inflation can be a problem, forcing rates even higher. "Inflation in Canada has crept up in recent months," says Muir, "but if you look at core inflation, taking out the cost of energy and food, it's still relatively low." Yet another sign that interest rates aren't likely to rise sharply.

Tips for Consumers

- Don't count on your home for savings. Canadians have been lulled in recent years into becoming passive savers, relying on the value of their home as savings. People need to become active savers and start putting money aside.
- Reduce reliance on debt, because interest rates will rise.
- Many economists think that we've reached the bottom of where interest rates will go, which means that if your mortgage is coming up for renewal and you are considering a new home, you might want to take a hard look at a fixed rate to insulate yourself from any increases.

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WE RECOMMEND

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Don't get locked down
Take your pick of today's mortgage options.

"It used to be that if you wanted a mortgage, your only choice was to get a variable rate or lock in for a longer term."

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TIPS

Angela Calla
Host,
The Mortgage Show
Catch it on
CKNW AM980.

A buyer's market

Get it while it's good

1 Interest rates are currently sitting at historic levels, which should help you more easily obtain financing—as well as save you a significant amount of money throughout the term of your mortgage.

Prime percents

2 Right now, borrowers can lock into a five-year mortgage below 3.5 percent. In 2001, you would have locked in at around 7 percent. In 1982 it would have been 18 percent.

Cold hard cash

3 The cash-back option has been available for quite some time, but never at the record low interest rates that we have today.

The time is now

4 Balanced markets don't last long, so it's important to look at your options before interest rates and home prices rise.

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INSPIRATION

TIP 2

BE REALISTIC ABOUT THE EXPECTATIONS FOR YOUR PRICE POINT

Purchasing your first home can be a daunting experience and fraught with conflicting advice. Host of **"Property Virgins" Sandra Rinomato** counters this by offering first timers a dose of reality.

Serving up fresh advice for first timers

LEADER TO LEADER

Be willing to make sacrifices, temper expectations and ask yourself what is truly important—that's the advice Sandra Rinomato, real estate guru and host of the popular HGTV show "Property Virgins", has for first-time home buyers.

Along with her lively and dynamic personality, Rinomato brings more than 15 years of experience in real estate, as she helps property virgins find their first home. After 130 episodes, it is still one of HGTV's most popular programs.

TIPS

- **Get a credit check** and correct any errors that may exist.
- **Know how your finances** and credit will affect your mortgage.
- **Use the services** of a mortgage consultant.
- **Take the time** to consider the things that you truly want in a new home.
- **Be open** to compromise.
- **Think about how** you will use the property, especially important if a couple are buying a home for the first time.
- **Don't underestimate** the commute to work.

"One of the big injustices is that we don't do a good job at teaching young people to manage credit."

Sandra Rinomato
Host,
Property Virgins

A dose of reality

While Rinomato can get just as excited about finding a home as her clients do, she's not afraid to offer up some blunt advice for them. If their wish list is out of whack with reality, she tells them straight up. "In Toronto for example, where I live, everyone wants to be within walking distance of the subway," she says. "Well, if your budget is $350,000 and you don't want to live in a condo, then it's probably not going to happen."

Rinomato says that many first-time buyers often have a distorted perception of what neighbourhood they can live in and the type of house they can afford. This is because they haven't had a lot of experience in real estate, or toured a lot of homes, or may not have had the guidance of an experienced realtor.

Firm up your finances

But her first piece of advice for any prospective buyer is to get a credit check long before you even start looking at homes. It's important to correct any errors that may exist on your credit before applying for a mortgage. Next she suggests using the services of a mortgage consultant, who will not only help navigate the myriad of choices in choosing the right mortgage, but can also help manage your credit, and consolidate it if need be, so that you can put yourself in the best position when you do apply for a mortgage. "One of the big injustices is that we don't do a good job at teaching young people how to manage credit," Rinomato says. "Banks in Canada are very prudent, which is one of the reasons we didn't have the kind of banking collapses we saw in the U.S.—but it means that banks will only lend so much, and if you have car and other personal loans, that will impact the amount of a mortgage you can get."

Keep your cool

While many first-time buyers can often be influenced by emotion, Rinomoto encourages prospective buyers to take a deep look at their values and determine what is truly important. "A lot of people don't understand this, but people need to ask themselves if the granite countertops, stainless steel appliances and beautiful art are necessary, or is this about trying to impress others?" she says. "There's a sense among many young buyers that they want all of this now and aren't prepared to set some of these aside as goals and work toward them."

Before buying a home, Rinomato coaches her clients to look at how they will use a property, and not to underestimate the commute to work. "Maybe that extra bedroom isn't as important as you first thought, and by compromising on that, it means you can live closer to work or closer to your friends and family," she says. "But I've learned that my opinion means nothing. I give people the information and then let them decide."

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INSPIRATION

1. Sandra on the set of her show "Property Virgins". 2-3. Posing in front of one of the home she helped a first-time home buyers purchase.

PHOTOS: HGTV

DON'T MISS!

What you need to know about mortgage brokers

Moving into a new home brings with it a grocery list of things to worry about—but one of the biggest concerns for today's homebuyer is finding the right mortgage.

Mortgage brokers act as a liaison between lenders and the homeowner, negotiating payment methods for their client and helping select the best interest rates. In turn, the lender pays the broker a referral fee.

Sound like tricky business? Not if it ends up saving the homebuyer money. All mortgage brokers in British Columbia are licensed by the Financial Institutions Commission of BC. But before snapping up the first mortgage broker you find, follow these tips for getting that perfect match.

- Mortgage brokers should have an established place of business showing their commitment to the industry.
- Mortgage brokers should carry a wide array of products from independent sources to "the big guys" and should be well-versed in the consumer's needs.
- And, most importantly, picking a mortgage broker is choosing someone you can build a strong interpersonal rapport with.

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INSIGHT

TIP 3

ALWAYS ASK FOR AN EXPERT SECOND OPINION

Don't get locked down—take your mortgage pick

It used to be that if you wanted a mortgage your only choice was to get a variable rate or lock in for a longer term.

But given the competitive nature of the financial services industry and a commitment to wanting to meet the needs of customers, a host of new and unique mortgage products are being introduced regularly. "We've launched more new products in the last three to four years than we have in the past decade," says Katie Archdekin, head of mortgages for BMO Bank of Montreal.

Mixer mortgage

Do you wish that you and your roommate weren't renting and you could own a place instead? It's easier than you imagined with Vancity's Mixer Mortgage, which was designed so more people can afford to buy a home, especially in Metro Vancouver. The Mixer allows people—friends, roommates, family—to share a mortgage. A mortgage consultant walks the applicants through a checklist and will refer to them to a lawyer for a co-ownership agreement. "This can be the thing that helps someone buy a home," says Ryan McKinley, Vancity's mortgage development manager. "Two roommates renting in downtown Vancouver probably can't afford a $500,000 condo

Ryan McKinley
Mortgage Development Manager
Vancity

"This can be the thing that helps someone buy a home."

on their own, but with this, each could put 5 percent down and have a mortgage for $250,000." Adding to the flexibility is that the mortgage terms can be different for both parties. One could choose a variable rate, while the other a fixed rate, or even different amortization periods.

Looking ahead

Have you ever locked your mortgage into a long-term rate and then regretted it, wishing that you had gone with a variable rate? Vancity's FutureFit allows you to split up your mortgage into variable and fixed rates, so you're not as exposed if rates increase.

You're the boss

You've always wanted to be the boss. Now Coast Capital lets you be the boss of your mortgage. Don't want to be tied into a fixed rate, but you don't want the uncertainties of a variable rate? Try the Half & Half Rate, which is lower than a fixed rate, but won't rise (or fall) as a variable. If the prime rate changes, then your rate will only change by half as much. Have you ever wanted to put a little extra money on your mortgage? Go ahead, you're the boss.

Eco smart

Everyone wants to be environmentally friendly. In fact, in a survey commissioned by BMO Bank of Montreal, 89 percent of Canadians believe it's important to have an energy efficient home, and almost half plan to make energy efficient upgrades to their home. This is what led BMO to introduce the Eco Smart Mortgage. To qualify for this full-featured mortgage with a discounted rate, your home must meet the requirements in the Eco Smart Checklist, and be confirmed by a third party appraiser.

Financial institutions have come to understand that everyone's needs are different, and in response have created some very unique mortgage products. And while finding the right mortgage may feel overwhelming, using the services of a mortgage broker can ease a lot of those worries.

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NEWS

Deciding whether or not to refinance

Question: What options do homeowners have when it comes to their mortgages?

Answer: Borrowers may find themselves in better standing after making a few tweaks to their finances.

When it comes to life, sometimes things don't go quite as planned.

Structuring a mortgage, in some ways, requires you to look into that crystal ball and hope future ambitions for your house fit in line with your mortgage contract. That said, the lending system isn't so unforgiving that it won't offer a few checks and balances to help protect your home's equity. That's where refinancing and renewing your mortgage come in.

David Stafford, managing director of real estate secured lending for Scotiabank, notes that people often focus on rates and neglect to consider the time commitments.

"Life events rarely happen at five year intervals," says Stafford. "Whether it's refinancing or renewal people should ask themselves more often—how long do I want to do this?"

He says people often lean towards a five-year term but if they're planning on going through life changes within three years, then naturally a three-year mortgage makes more sense.

"It's a term loan and generally speaking both sides are locked in," says Stafford, pointing out that "the lender has less opportunity than the borrower in most cases" to adjust the terms of the mortgage.

Why refinance?

So once you're in, you're in—right? Well, not necessarily. In most cases, mortgages offer an exit strategy, but it might cost you. One might break their mortgage for a number of reasons.

According to a survey released by the Canadian Association of Accredited Mortgage Professionals (CAAMP) in May, "Thirty four percent of those who most recently renewed or renegotiated their mortgages did so before their term expired. The average time to pay off a mortgage is 7.4 years less than the original amortization."

Feisal Panjwani, accredited mortgage professional for Invis—Feisal and Associates, points out that people break their mortgages for several reasons.

"In the market we're in right now, the most common would be to get a better rate," says Panjwani. "But it's important for the borrower to be left in a better place by breaking the current mortgage."

Another common reason Panjwani comes across is homeowners looking to consolidate their debt.

"(When) rolling debt into your mortgage, likely the interest will be a bit lower," says Panjwani of the consolidated debt.

But he says one of the most common reasons people refinance is to gain funds for home renovations.

CAAMP's survey also showed signs of this trend: "Equity takeouts amount to $26 billion annually, with most funds used for renovations ($9.4 billion), followed by investments ($5.0 billion)."

Consider the variables

Regardless of your reasoning, most in the industry offer a resounding "weigh your options."

"Don't focus on the rate all the time," says Panjwani. "It's not always the most important factor in a mortgage. Refinancing in the name of a lower rate or "no frills" mortgage can leave a borrower trapped in mortgage with few options.

You never know, something like portability might be more important than you think if you decide to skip out on the bustle of the city and head up the coast.

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Turned down? You have options

Purchasing a new home can be an overwhelming experience, but for the 20 percent of Canadians who don't qualify for a mortgage from a traditional financial institution, it can be even more so.

Being new to Canada, self-employed, having no credit history, or a bruised one are often reasons for being turned down for a mortgage from a traditional lender. But the solution can often be found through an alternative lender, and utilizing the help of an accredited mortgage broker will make it even easier.

The process in applying for a mortgage is the same as if one were going through their bank, with the stipulation that a 20 percent down payment is required.

Recreating credit

Using an alternative lender will not only get a mortgage, but will also help repair or create a credit history that will make someone more marketable, so they can be approved for a mortgage with a traditional bank. "The average client will stay with us for about two years," says Pino Decina, senior vice president of mortgage lending at Home Trust, Canada's largest alternative lender. "The scenarios that prevented someone from being approved for a mortgage at a traditional lender can be fixed within two years."

A hidden option

Because Home Trust and others like it aren't set up on every street corner, people aren't aware of their options. One of the myths that some have of alternative lenders is that they will have to pay more in fees and interest rates, but Decina says this isn't the case. "If a five-year rate is offered to someone with an A credit rating at 3.99 percent, an alternative lender would offer the same, but maybe for a one or two year term," he says. "And all they need is two years to build up a good credit history, and then they can apply for mortgage at a traditional bank."

ING Direct recently launched a product, which aims to help the 250,000 people who move to Canada each year get a mortgage. "Many people come from places where credit bureaus don't exist," says Martin Beaudry, vice president of lending at ING Direct. "They will still have to prove a stable source of income, but we want to shift the emphasis away from one's credit history."

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DON'T MISS!

Jim Murphy
President
Canadian Association of Accredited Mortgage Professionals

New government, new rules—how will they affect you?

As the debt crisis continues to roll across Europe, one can't help but look to fortune on the home front.

It would be absurd to say the recession wasn't felt throughout most Canadian households, but the economic crises' effects in Canada were diluted compared to many countries thanks to stability in the housing market.

The power of prudence

Riding on the back of their recent shift from minority to majority government, Harper's Tories have fully instated changes to the mortgage insurance guarantee framework.

"Canada's well-regulated housing sector has been an important strength that allowed us to avoid the mistakes of other countries and helped protect us from the worst of the recent global recession," says Canadian Finance Minister Jim Flaherty in a press release highlighting the changes. "The prudent measures announced today build on that advantage by encouraging hard-working Canadian families to save by investing in their homes and future."

The new measures include: reducing the maximum amortization period to 30 years from 35 years for new government-backed insured mortgages with loan-to-value ratios of more than 80 percent; lowering the maximum amount Canadians can borrow in refinancing their mortgages to 85 percent from 90 percent of the value of their homes; and withdrawing government insurance backing on lines of credit secured by homes, such as home equity lines of credit.

Setting the standard

Jim Murphy, president of Canadian Association of Accredited Mortgage Professionals (CAAMP), says that although his organization "supports measures that strengthen owners' equity in their homes as well as those that encourage the reduction of their mortgages," CAAMP does have a few qualms with the changes.

"This is the third set of changes the government has made in the last three years," Murphy says. "There needs to be some stability out there."

He says rather than reducing the amortization period to 30 years from 35, CAAMP would have preferred that the government had required those people seeking 35 year amortizations to meet the same qualifying standards as those with a shorter amortization.

"We think it's important to have those options," says Murphy adding that he "hopes the government will revisit those changes in the future."

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