Financial Consumer Agency of Canada
Agence de la consommation en matière financière du Canada

BUYING YOUR FIRST HOME: THREE STEPS TO SUCCESSFUL MORTGAGE SHOPPING

MORTGAGES

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A STEP-BY-STEP GUIDE TO MORTGAGE SHOPPING

Buying a home is probably the biggest financial decision you will ever make, and for most people, it requires getting a mortgage.

Before you start shopping around, you need to know what you can afford. It's important to have a realistic budget.

Some questions you need to ask yourself before and during the mortgage process include:

- How much of a down payment do you have?
- What price range for a home is within your budget?
- Have you considered all the costs involved with owning a home, such as mortgage payments, utility costs, property taxes, and maintenance costs?
- Are you expecting any big changes that will affect your household budget in the near future? For example, do you plan to start a family or add other expenses, such as car payments, that would affect your budget?

This publication outlines three steps you can take to get the mortgage that's best for you:

- *Step 1:* Figure out what features you need and want in a mortgage
- *Step 2:* Shop around and get pre-approved
- *Step 3:* Learn about the extra costs to buy a home and understand your rights and responsibilities related to mortgages.

Words and phrases shown with this symbol throughout the text are defined in the Glossary at the end of the publication.

STEP 1: KNOW WHAT YOU NEED AND WANT IN A MORTGAGE

A mortgage is probably the single largest amount you will ever borrow.

Before you shop around for a mortgage, it is important to know:

- how mortgages work
- what amount fits comfortably within your household budget
- what features in a mortgage you should consider looking at.

Down payment

A *down payment* is the amount of money that you pay at the time of purchase toward the price of your home. Your mortgage loan covers the rest. You should have a good idea of how much you can put toward the down payment *before* talking to a potential lender or mortgage broker.

The minimum down payment is *at least 5% of the purchase price*. For example, to buy a home that costs $250,000, you will need a minimum of $12,500 as your down payment.

When you are ready to make an offer to buy a home, you will need to provide a *deposit*. The deposit forms part of your down payment, with the rest to be paid when you "close" the purchase of your new home.

In some cases, the minimum down payment can be higher than 5%. For example, if you are self-employed or have a poor credit history, you may be required to provide a higher down payment.

TIP: *Save as much as you can for your down payment. A larger down payment means you need a smaller mortgage, which will save you thousands of dollars in interest charges.*

If your down payment is less than 20% of the price of the home, you will have to purchase mortgage default insurance. For more information on mortgage default insurance, **see page 21**.

EXAMPLE:

The following table shows how the size of your down payment affects the total costs to borrow for a mortgage. For information on *amortization periods*, **see page 10**. For information on payment frequency, **see page 18**.

Assumptions:

- *Interest rate:* 5% (constant for entire amortization period)
- *Purchase price of home:* $250,000
- *Amortization period:* 25 years
- *Payment frequency:* Monthly

Note: Any mortgage default insurance premiums have been added to the mortgage loan.

Down payment	Down payment amount	Mortgage loan required (including mortgage default insurance premium)	Mortgage default insurance premium	Total mortgage cost (principal & interest) after 25 years
5%	$12,500	$246,050	$8,550	$429,312
10%	$25,000	$230,400	$5,400	$402,005
20%	$50,000	$200,000	Not required	$348,963

Normally, the minimum down payment must come from your own funds. You may be eligible for other loans to help you come up with the down payment. However, it is always better to save for a down payment to minimize your debts.

You may be able to use funds from your Registered Retirement Savings Plan (RRSP) for your down payment with the Home Buyers' Plan (HBP).

Home Buyers' Plan

The *Home Buyers' Plan* (HBP) allows you to withdraw money from your Registered Retirement Savings Plan (RRSP) tax-free to use for a down payment.

You must meet certain conditions to be eligible for the HBP. For more information, contact the Canada Revenue Agency (CRA) at www.cra.gc.ca.

How much can you withdraw?

- You can withdraw up to $25,000 from your RRSP. Contributions must be in your account for at least 90 days before they can be used for the HPB.
- If you buy the home together with your spouse, partner, or someone else, each of you can withdraw up to $25,000.
- The withdrawal from your RRSP does not need to be included in your income on your annual income tax return, and no tax is taken off the money you withdraw.

What is the payback period?

- Starting the second year following your withdrawal, you must pay back all withdrawals from your RRSP within 15 years by making RRSP deposits each year. CRA will determine what your minimum yearly repayment will be and will notify you once you need to start repaying the amount.
- If you do not repay the amount due in a given year, it is included in your taxable income for that year and you'll have to pay income tax on this amount.

EXAMPLE: HBP REPAYMENT

In 2013, Martin withdraws $15,000 from his RRSP to participate in the HBP to buy a home. Martin's minimum yearly repayment to his RRSP, starting in 2015 (two years after purchase), will be $1,000 ($15,000 ÷ 15 years).

If Martin decides not to make any reimbursement in 2015, he will have to include $1,000 in his income when he files his 2015 income tax return. His minimum yearly HBP repayment, however, will remain at $1,000 for the following years.

On the other hand, if Martin decides to make a HBP reimbursement of $3,000 to his RRSP in 2015, his minimum yearly repayment for 2016 and the following years will be $857.14 ([$15,000 - $3,000] ÷ 14 years).

Questions you should ask yourself

- *Will you be able to make the repayments?*
  If not, using your RRSP funds to purchase a home can end up costing you a lot in income tax.
- *Can you use the HBP to avoid having to buy mortgage default insurance?*
  If you can use your RRSP investments to increase your down payment to at least 20% of the purchase price of the home, the savings may be significant. See the section on mortgage default insurance **on page 21** for more information.
- *How will withdrawing the funds impact your retirement savings plan?*
  Although you will need to repay the funds in the future, you will lose out on any growth while the funds are withdrawn.

Mortgage payments: interest versus principal

- *Payments are split between interest and principal*. For each mortgage payment you make, the money is first used to pay the interest on your mortgage loan. The rest of your payment is then used to reduce the principal, which is the amount that you borrowed from the lender.
- *At first, most of your payments go towards the interest.* In the first years of the mortgage, the principal, or the amount that you owe, may decrease by only a small amount. As the ortgage balance decreases over time, more of your payment is used to pay off the principal. During a 25-year mortgage, depending on the interest rates charged on your mortgage, the total amount of your payments could be double the amount that you originally borrowed, or even more.
- *The key to saving money is to pay off the principal as fast as possible.* If your household budget allows you to make larger payments, you can reduce the time needed to pay your mortgage in full. This could save you thousands, or even tens of thousands of dollars in interest charges.

You can learn more about some payment options that will help you pay off your mortgage faster in the pages that follow.

Mortgage types: open or closed

Most lenders offer two types of mortgages: open and closed.

The main difference between open and closed mortgages is the amount of flexibility you have in making extra payments on the principal or in paying off the mortgage completely. These types of extra payments are called prepayments.

Open mortgages allow you to make prepayments whenever you want. Closed mortgages often include prepayment privileges, which give you the option to make prepayments up to a certain amount.

By making prepayments, you can save thousands of dollars in interest charges by paying down your mortgage faster.

However, if you have a closed mortgage and want to make a prepayment that is more than your privileges allow, your lender will generally require you to pay a prepayment charge. These charges can cost thousands of dollars, so it is important to know when they can apply and how they are calculated.

For terms longer than five years: if you want to break your mortgage and *at least five years have passed*, your lender is only allowed to charge three months' interest on the remaining mortgage balance. This may be less costly than other methods of calculating a prepayment charge.

When you shop around for a mortgage, look carefully at the prepayment privileges and charges as you consider your options.

For more information, see *Mortgage Prepayment: Know Your Options*.

Open mortgages

- You can make prepayments at any time during the term, or even pay the mortgage off completely before the end of the term, without having to pay a prepayment charge
- The interest rate on an open mortgage is usually *higher* than on a closed mortgage with a comparable term length
- An open mortgage may be a good choice if:
  - you plan to sell your home soon
  - you intend to make large prepayments that would be more than the amount you would be allowed to prepay with a closed mortgage term.

Closed mortgages

- The interest rate on a closed mortgage is usually *lower* than on an open mortgage with a comparable term length
- Your mortgage contract will usually include prepayment privileges, which vary from lender to lender. For example, one lender might let you make a lump sum payment equal to 20% of the original mortgage loan every year, while another might only let you pay down 10% every year. A lender might also allow you to increase the amount of your regular payments.
- If you want to change your mortgage agreement during the term (for example, to take advantage of lower interest rates), you will usually have to pay a prepayment charge to break your mortgage agreement
- A closed mortgage may be a good choice if:
  - the prepayment privileges provide enough flexibility for the prepayments you expect to make
  - you are planning to stay in your home for the remainder of the term of your loan.

Amortization period

The *amortization period* is the length of time it takes to pay off a mortgage in full.

The amortization period is *not* the same as the mortgage term, which is the length of time your mortgage agreement will be in effect (for example, five years).

If your down payment is less than 20% of the purchase price of your home, the longest amortization period allowed is 25 years.

Although a longer amortization period means lower mortgage payments, *it is to your advantage to choose the shortest amortization period—that is, the largest mortgage payments—that you can comfortably afford*. You will pay off your mortgage faster and will save thousands or even tens of thousands of dollars in interest in the long run.

The following table shows how much interest is paid (over different amortization periods) on a $200,000 mortgage, assuming a constant annual interest rate of 4.5%.

How amortization affects the interest you will pay

Mortgage amount	Amortization	Monthly payment	Total interest paid
$200,000	25 years	$1,107	$132,084
$200,000	20 years	$1,261	$102,594
$200,000	15 years	$1,526	$74,633
$200,000	10 years	$2,069	$48,251

IN THE ABOVE EXAMPLE:

- increasing your payment by just $154 from $1,107 to $1,261 per month means you would be mortgage-free *five years* earlier and save nearly *$30,000 in interest*.
- increasing the monthly payment by $419 from $1,107 to $1,526 would allow you to be mortgage-free *10 years* earlier and save over *$57,000 in interest*.

There are other ways to pay less interest, such as using your prepayment privileges and choosing an accelerated payment frequency. You can find more details about payment frequency **on page 18**.

Mortgage term

The mortgage *term* is the length of time your mortgage agreement, including the interest rate, will be in effect. Terms can range from just a few months to five years or longer.

Most borrowers require multiple terms to complete the amortization period and repay their mortgage loan in full.

At the end of each term, you will need to renew or renegotiate your mortgage, unless you are able to pay it off fully at that time.

If you pay off your mortgage or break your mortgage contract before the end of your term, you may have to pay a prepayment charge depending on the type of mortgage you have.

Short-term mortgages

- may be a good choice if:
  - you plan to change your mortgage within the next couple of years—for example, if you expect to move to another city
  - you expect interest rates to go down soon
- can help you avoid prepayment charges—a shorter term means you will not have to wait as long until your term's maturity date, when you can negotiate your mortgage or go to a different lender without triggering any prepayment charges.

Long-term mortgages

- help with budgeting, since you will know for certain what your housing costs will be for a longer period
- may be a good choice if:
  - you want to "lock in" a current low interest rate for a longer period
  - you do not plan to make any changes to your mortgage for several years.

Convertible terms

- Some lenders also offer short-term "convertible" mortgages that can be extended to a longer term.
- When converted, the interest rate will also change to the rate offered by the lender for the longer term.

Interest rates: fixed, variable or hybrid

When you apply for a mortgage, lenders may offer you options with either fixed or variable interest rates. Some lenders also offer a "hybrid" option that combines fixed and variable portions in the same mortgage.

Note: The interest rate option (fixed, variable or hybrid) is decided separately from the mortgage type (open or closed) described in the previous section.

Fixed interest rate mortgages

- You will know in advance the amount of interest you will have to pay (assuming you don't make any prepayments), and therefore how much of the original loan amount will be paid off during the term.
- The interest rate is set or "fixed" when you apply for a mortgage. This interest rate remains the same for the entire term.
- The amount of your regular mortgage payments is also fixed.

Variable interest rate mortgages

- The interest rate can increase or decrease during the term. The interest rate varies with changes in market interest rates.
- How changes in the interest rate affect your payments will depend on whether your payments are fixed or adjustable:

Fixed payments

You pay one set amount with each payment.

If the interest rate goes down, more of the payment applies to the principal and you will pay off your mortgage faster.

If the interest rate goes up, more of the payment applies to interest, and less to the principal. Your lender may require you to increase your payments so that your mortgage will be paid off within the amortization period you had originally agreed to in your mortgage agreement.

With fixed payments, you don't know in advance how much of the principal will be paid off at the end of the term.

Adjustable payments

Your payment amount changes if the interest rate changes. A set amount of each payment is applied to the principal, and the interest portion fluctuates depending on changes to the interest rate.

If the interest rate goes down, your payments will decrease.

If the interest rate rises, your payments also increase. This can make it more difficult to plan your mortgage payments over the term of the agreement, so you need to be sure you can adjust your budget to make higher payments.

With adjustable payments, the amortization period stays the same. You can tell in advance how much of the mortgage will be paid off at the end of the term, because you pay whatever amount is needed to add up to the agreed amount.

Hybrid mortgages

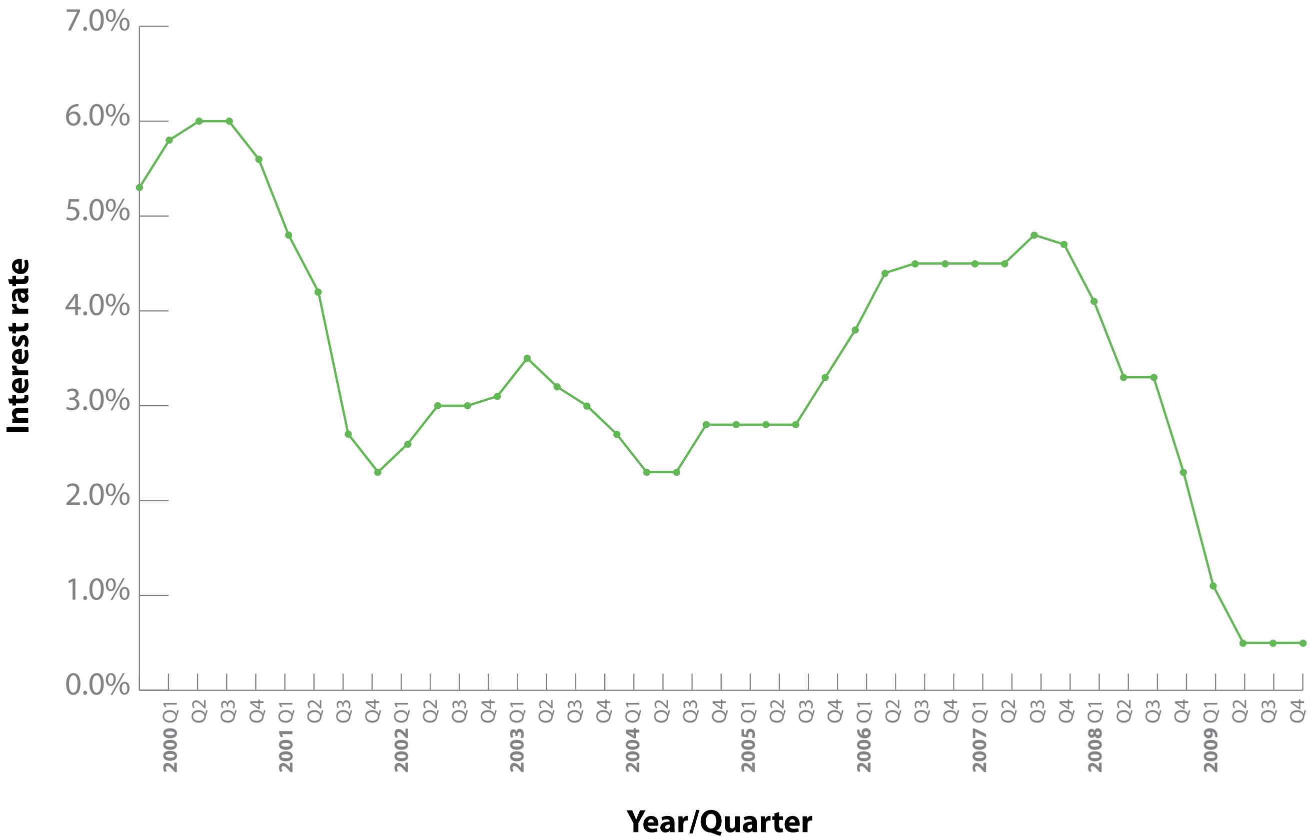
- Some lenders offer "*hybrid*" or combination mortgages—part of the mortgage is financed at a fixed rate and part is financed at a variable rate.
- The fixed portion gives you partial protection in case interest rates go up, and the variable portion provides partial benefits if rates fall.
- The portions may have different terms. For example, a hybrid mortgage may include a two-year term for the variable portion and a three-year term for the fixed portion.
- Hybrid mortgages that include portions with different terms may be difficult to transfer to another lender.

The interest rates on variable rate mortgages are often lower than on fixed interest rate mortgages with the same term length when you sign your mortgage agreement. This may make variable interest rate mortgages attractive in the short term.

However, whether you are better off with a variable interest rate mortgage compared to a fixed interest rate mortgage depends on whether the market interest rates go up or down during your term. This movement is difficult to predict. For example, between 2000 and 2012, the Bank of Canada Bank Rate, which impacts mortgage rates, varied from 0.5% to 6.0%.

For more information on current interest rates, visit the Bank of Canada's website at www.bankofcanada.ca or your lender's website.

Interest rates from 2000 to 2009



SOURCE: BANK OF CANADA, BANK RATE

EXAMPLE: FIXED RATE COMPARED TO VARIABLE RATE MORTGAGE

Samantha is buying a new home and requires a $200,000 mortgage. She is trying to decide between a fixed rate and a variable rate mortgage.

- Samantha has chosen a 25-year amortization period, with the goal of being mortgage-free as soon as possible.
- She decides to get a five-year term.
- The lowest fixed interest rate she is offered is 4.0%, with a payment of $1,052 every month.
- The current variable rate she can get is 3.5%, with a payment initially set at $999 every month.

The lender uses adjustable payments for its variable rate option and explains to Samantha that her payments could go up and down with the interest rates. If Samantha decides to go with a variable interest rate with adjustable payments, *she will need to budget for the possibility that her mortgage payments may increase*.

To help her decide if getting a variable interest rate is right for her, she looked at the following scenarios.

Variable interest rate

	Scenario 1: interest rate increases by 2% during 5-year term		**Scenario 2: interest rate increases by 4% during 5-year term**	
	Interest rate	**Monthly payment**	**Interest rate**	**Monthly payment**
Year 1:	3.5%	$999	3.5%	$999
Year 2:	4.0%	$1,050	4.5%	$1,103
Year 3:	4.5%	$1,101	5.5%	$1,209
Year 4:	5.0%	$1,152	6.5%	$1,316
Year 5:	5.5%	$1,202	7.5%	$1,423
		Over 5-year term		
Total payment		$66,044		$72,607
Total interest paid		$41,620		$50,830
		Outstanding balance after 5 years		
		$175,576		$178,223

EXAMPLE *(continued)*

Over the life of the 5-year term:

- **Scenario 1:** Samantha's payments would increase by $203 (from $999 to $1,202)
- **Scenario 2:** her payments would increase by $424 (from $999 to $1,423).

Scenario 3: fixed interest rate option at 4%

- Samantha's monthly payments would be $1,052.
- Her total payments during the 5-year term would be $63,122.
- She would pay $37,230 in interest during that period.
- Her outstanding balance after 5 years would be $174,108.

Samantha will have to consider whether she is comfortable with the possibility of interest rates increasing and if her budget could handle higher payments. If not, a fixed rate mortgage term may be in her best interest.

Variable interest rate: how to protect yourself

Some lenders offer *interest rate caps or convertibility features* on their mortgages. These features can offer some protection if interest rates go up. You can get these features only when you sign a new mortgage agreement.

An *interest rate cap* is the maximum interest rate that can be charged on a mortgage, regardless of the rise in interest rates.

If your mortgage has a *convertibility feature*, you can "convert" or change it to a fixed interest rate mortgage during the term. Although the lender will usually not require you to pay charge for the mortgage conversion, certain conditions apply — check with the lender.

REMEMBER

The fixed interest rate could be higher when you convert the mortgage than the variable interest rate you had been paying.

Making a decision between fixed and variable interest rate mortgages

A fixed interest rate mortgage may be better for you if:	A variable interest rate mortgage may be better for you if:
• you want to know that your interest rate and the amount of your regular payments are not going to change over the term of your mortgage • you prefer knowing in advance how much of your mortgage will be paid off at the end of your term • you think there is a good chance that market interest rates will rise over the term of your mortgage.	• you are comfortable with the possibility that: – your mortgage payments could increase (if you have adjustable payments) – your amortization period could increase, meaning you would have to make additional payments (if the amount of your payments is set and interest rates rise) – you could pay more in interest over the term of your mortgage than you would have paid with a fixed interest rate • you think there is a good chance of interest rates staying the same or dropping over the term • you follow interest rates closely, which can be important if your mortgage has a convertibility option.

Payment frequency

Payment frequency refers to how often you make your mortgage payments. Options include:

Less frequent	monthly
↓	semi-monthly
	biweekly
	accelerated biweekly
	weekly, and
More frequent	accelerated weekly.

Your payment frequency is set when your mortgage is first arranged, but you may be able to change it afterwards, usually without having to pay a fee.

Accelerated payment options

Accelerated weekly and *accelerated biweekly payments* can save you thousands, or even tens of thousands in interest charges, because you'll pay off your mortgage much faster using those options.

The reason is that with the "accelerated" options, you make the equivalent of one extra monthly payment per year. Regular weekly and biweekly options do not provide the same benefits.

Payment options details

Payment frequency	Description
Monthly	One payment per month for a total of 12 for the year.
Semi-monthly (twice a month)	Two payments per month for a total of 24 for the year. With this option, the total amount you pay over the year is the same as with the monthly payment (monthly payment ÷ 2).
Biweekly (every two weeks)	A payment every two weeks. Since there are 52 weeks in a year, the total number of payments over the year is 26 (52 ÷ 2). This option keeps the total payment over the year the same as with the monthly payment (monthly payment x 12 months ÷ 26).
Accelerated biweekly	A payment of half the monthly payment every two weeks. Since there are 52 weeks in a year, you will make 26 payments a year (52 ÷ 2). To calculate the amount of your accelerated biweekly payments, divide your monthly payment by two (for example, $1,000 ÷ 2 = $500). With this payment frequency, you will make the equivalent of one extra monthly payment per year. *You will pay off your mortgage faster and save on interest charges.*
Weekly	One payment per week for a total of 52 payments for the year. The total annual payment remains the same as with the monthly payment (monthly payment x 12 months ÷ 52).
Accelerated weekly	A payment of one quarter of the monthly payment every week. To calculate the amount of your accelerated weekly payments, divide your monthly payment by four (for example, $1,000 ÷ 4 = $250). With this payment frequency, you will make the equivalent of one extra monthly payment per year. *You will pay off your mortgage faster and save on interest charges*.

EXAMPLE: MONTHLY VS. ACCELERATED BIWEEKLY

John is trying to decide between paying his mortgage monthly and paying accelerated biweekly.

Details

- Mortgage principal: $200,000
- Amortization: 25 years
- Interest rate: 4.5% for the entire mortgage amortization period

Monthly and accelerated biweekly payment comparison

	Monthly	Accelerated biweekly
Number of payments per year	12	26 (52 weeks a year ÷ 2)
Payment	$1,107	$553
Total payments per year (principal and interest)	$13,283	$14,390
Interest paid over the amortization period	$132,084	$112,053
Interest saved	**–**	**$20,031**
Number of years to repay the mortgage	**25.0**	**21.7**
Years saved	**–**	**3.3**

With accelerated biweekly payments, John will pay off his mortgage 3.3 years faster and save more than $20,000 in interest.

Mortgage calculator tool

Use FCAC's Mortgage Calculator tool at itpaystoknow.gc.ca to find out how these payment options will affect the length of time it takes you to pay off a mortgage loan and how much interest you could save.

Mortgage default insurance

Mortgage default insurance (sometimes called mortgage loan insurance) protects the mortgage lender in case you are not able to make your mortgage payments. It does not protect you.

You must pay for mortgage default insurance if your down payment is *less than 20%* of the purchase price of your home. This is called a high-ratio mortgage. Your mortgage costs will be higher if you need to get mortgage default insurance.

The maximum amortization period is 25 years for mortgages with mortgage default insurance.

Mortgage default insurance is only available for high-ratio mortgages if the purchase price of the home is less than $1 million.

If you can put *at least 20%* of the purchase price of your home as a down payment, you will have what is called a conventional mortgage. In this case, mortgage default insurance is generally not required. There are exceptions to this—for example, where your salary is not paid on a regular basis.

Who offers mortgage default insurance?

Mortgage default insurance is provided by insurers such as:

- Canada Mortgage and Housing Corporation (CMHC)
- Genworth Canada
- Canada Guaranty Mortgage Insurance Company.

Your lender will make the arrangements for the mortgage default insurance if it is needed.

How much are the premiums?

The premium—that is, the cost of mortgage default insurance—will vary depending on the down payment: the bigger your down payment, the lower your mortgage default insurance premium. Usually, mortgage default insurance premiums vary from 0.6% to 3.85% of the borrowed amount.

The premium can be added to your mortgage loan and included in your mortgage payments, or you can pay for it upfront in a lump sum. If the premium is added to your mortgage, you will pay interest on it at the same interest rate you pay on the principal amount of your mortgage.

Some provinces apply provincial sales tax (PST) to mortgage default insurance premiums. Provincial taxes on premiums cannot be added to your mortgage loan. You must pay these taxes when your lender funds your mortgage.

EXAMPLE: MORTGAGE DEFAULT INSURANCE PREMIUMS

Paula's down payment of $35,000 is 17.5% of the $200,000 purchase price of the home. Because her down payment is less than 20%, she will need to get mortgage default insurance.

Assumptions:

- Mortgage amount: $165,000
- Premium is added to the mortgage amount
- Insurance premium rate: 1.8%
- Amortization period: 25 years
- Interest rate: 5%
- Payment frequency: Monthly

The mortgage default insurance premium will cost $165,000 x 1.8% = *$2,970*

The total mortgage loan would then be $165,000 + $2,970 = *$167,970*

In addition to the cost of the premium, Paula will have to pay more in interest charges because the mortgage default insurance will increase the amount of her mortgage loan. Over the amortization period, the mortgage default insurance would cost her an additional *$2,212* in interest.

In total, Paula will pay an additional *$5,182* because she did not save a down payment of 20%.

Other insurance options

Mortgage life insurance

Mortgage life insurance pays the balance on your mortgage to the lender in the event of your death. This can be useful if you have dependants or a spouse who might like to stay in the home after your death, but who might not be able to continue making the same mortgage payments as before.

Remember that your home can be sold to pay back the mortgage, so mortgage life insurance may not be necessary for you.

Term or permanent life insurance could be an alternative to mortgage life insurance. If you die, your beneficiaries can use the insurance money to pay for the mortgage.

Mortgage disability or critical illness insurance

Mortgage disability or critical illness insurance will make mortgage payments to your lender if you cannot work due to a severe injury or illness. Most insurance plans have a number of conditions attached to them, including a specific list of illnesses or injuries that are covered or excluded. *Pre-existing medical conditions are usually not covered*. These terms and conditions of insurance are listed in the insurance certificate, so ask to see it before you apply so that you understand exactly what the insurance covers.

Before you buy mortgage disability or critical illness insurance, check whether you already have insurance coverage that meets your needs.

Title insurance

Title insurance provides coverage for losses related to title fraud, survey issues, problems with the title on your property and challenges to the ownership of your home.

Title fraud can happen when criminals steal your identity in order to get a new mortgage on your property, or when they fraudulently transfer your title to themselves and then either sell it or mortgage it. For more information, see *Protecting Yourself from Real Estate Fraud*.

One example of the types of problems covered by title insurance is an error revealed by a new survey, such as a deck or garage that is actually on a neighbour's property.

There are two types of title insurance:

- *lender title insurance*, which protects the lender until the mortgage has been paid off, and
- *homeowner title insurance*, which protects you as the homeowner from losses as long as you own the home, even if there is no mortgage.

Cost of insurance

The cost of mortgage life, disability or critical illness insurance, called the premium, is charged on an ongoing basis. The cost of the premium depends on your mortgage amount and your age.

The premium for title insurance is a one-time cost that is generally paid when you purchase the property in the case of homeowner title insurance, or when you close on your mortgage in the case of lender title insurance. If you do not purchase title insurance when you buy your home, you can purchase it at a later date from most title insurance companies. The cost is based on the value of your home.

Where can you get these products?

You can buy mortgage life and disability insurance through your mortgage lender, or through another insurer or financial institution. It is a good idea to shop around to make sure you are getting the best insurance to meet your needs.

If your mortgage lender is a federally regulated financial institution, such as a bank, it is not allowed to require you to buy mortgage life insurance as a condition for approving your mortgage. For more information, see the section called "Coercive tied selling" **on page 45**.

Title insurance is available from your lawyer (or notary in Quebec and British Columbia), title insurance companies, insurance agents and mortgage brokers.

Mortgage security registration: standard charge or collateral charge

When you are shopping around for a mortgage, ask each lender you contact whether they will register the mortgage security as a standard charge or a collateral charge. Standard charges are also known as conventional charges, non-collateral charges, traditional charges, traditional residential mortgages, residential mortgages, deeds of hypothecary loan and retail mortgages.

Some lenders in Canada register *all* mortgage loans with collateral charges, some only use standard charges and others use both types, depending on the mortgage product.

Ask how the charge will be registered *before* you make a final decision so you have time to discuss the potential advantages or drawbacks of the different types of charges, and to choose the option that best suits your needs.

As of September 1, 2014, members of the Canadian Bankers Association that offer residential mortgages have committed voluntarily to provide information on mortgage security. The information provided to consumers under this Commitment will help consumers understand the differences between the types of security.

What is a charge?

All mortgage loans are secured by real property (or in Quebec, an immovable), such as a house. This means that a "charge" (or "hypothec" in Quebec) is registered against your property in the applicable province or territory and it gives the lender certain rights, including the right to sell the property if the loan is not repaid as agreed.

What is a discharge?

A discharge (also known as a "release" in Quebec) is the removal of a charge from the title of your property. After you pay off a mortgage loan and any other loans secured by the real property, the registered charge can be removed from the title of your property. Check with your lender for the steps involved with discharging your mortgage. There may be costs to discharge your mortgage.

Types of charges

There are two types of charges that lenders use: a standard charge or a collateral charge. There are differences between the two that you should consider *before* you enter into a mortgage loan agreement.

Standard charge

With a *standard charge*, the specific details of the mortgage loan, such as the amount, term and interest rate, are included in the charge that is registered on the title to the property. A standard charge only secures the mortgage loan that is detailed in the document, and not any other loans you may have with your lender, such as a line of credit. The lender must provide all of the details of your mortgage, such as payment and prepayment privileges, in a separate credit agreement.

Collateral charge

With a *collateral charge,* the specific details of the mortgage loan might *not* be included in the charge that is registered on the title to your property. A collateral charge can be used to secure multiple loans with your lender, including a mortgage or a line of credit. A separate credit agreement contains the specific terms of the mortgage loan.

What you should know about standard charges

Registration amount: The charge is registered for the actual amount of the mortgage loan. For example, if you require a mortgage loan of $240,000 to buy a home that costs $300,000, the lender will register the standard charge for the *actual* amount of the mortgage—in this example, $240,000.

Borrowing additional funds: If you want to borrow more money in the future, then you might be able to get it using your home to secure the new loan.

- You will need to apply for the additional funds and re-qualify based on the lender's current criteria, the property value and your ability to repay the new loan amount.
- You will need to register a new charge. There may be costs such as legal, administrative, discharge and registration costs. Talk to your lender for full details.

Switching lenders: If you want to switch your mortgage loan to a different lender at the end of your term without changing the loan amount, then it may be possible to do so by assigning your mortgage to your new lender. This is referred to as an *assignment* (or a subrogation in Quebec): the existing charge is assigned to the new lender rather than being discharged and replaced with a new charge. Talk to your lender for full details.

- You may need to apply to the new lender and re-qualify based on the lender's current criteria, the property value and your ability to repay the new loan amount.
- Typically, at the end of your term, other lenders will allow you to switch your mortgage to them at little or no cost to you. Check with your lender for details.
- An assignment is not possible if you want to borrow additional funds when you are switching lenders. You will need to discharge your existing charge and register a new one. See "Borrowing additional funds" above.

What you should know about collateral charges

Registration amount: The charge can be registered for an amount that is higher than your actual mortgage loan to allow you to potentially borrow additional funds in the future if you want to. For example, if you require a mortgage loan of $240,000 to buy a home that costs $300,000, the lender may register the charge for $300,000 (or more). Talk to your lender for more details.

- You only have to make payments and pay interest on the money you actually borrow, as described in the credit agreement, not on the amount of the registered charge.

Borrowing additional funds: If you want to borrow more money from your lender later, then you may be able to do so without having to discharge your current charge, register a new charge and pay the associated legal and other costs. This is possible because the charge might have been registered for an amount higher than your original mortgage loan, or because you have paid down your loan and it can now go back up to the higher amount set out in the charge.

- Access to additional funds is not automatic. You will need to apply for the additional funds and re-qualify based on the lender's current criteria, the property value and your ability to repay the new loan amount.
- A new charge will only be required if the amount you wish to borrow is more than the amount that is registered on the original charge.

Switching lenders: If you want to switch your mortgage loan to a different lender at the end of your term without changing the loan amount, other lenders may not accept the transfer of your collateral charge mortgage. Instead, you will likely need to discharge your existing mortgage and register a new mortgage with the new lender.

- You may need to apply to the new lender and re-qualify based on that lender's current criteria, the property value and your ability to repay the new loan amount.
- You may have to pay fees, such as legal, administrative, discharge and registration costs. Check with your lender for details and whether any discounts are available to you.
- To discharge your collateral charge mortgage, all loan agreements secured by the collateral charge, such as car loans or lines of credit, must be repaid in full or transferred to the new lender.

Other points to consider:

- A bank cannot provide you with a mortgage loan for more than 80 percent of the value of your home unless you have mortgage default insurance. As you pay down your mortgage or as the value of your home increases, you may be able to borrow additional funds up to the maximum of 80 percent of your home's value, or higher if the new loan is insured for default.
- As with any loan, even though you may qualify to borrow more money, make sure that you can comfortably repay the additional amount.
- If you are making changes to your mortgage or ending it before the end of the term, there may be prepayment charges.

Key differences between standard charges and collateral charges

	Standard charge	Collateral charge
Registration amount	• Amount registered is the same as the actual amount of your mortgage loan.	• Amount registered may be higher than the actual amount of your mortgage loan.
Borrowing additional funds at the end of the term	• You will need to register a new charge. • There may be legal, administrative, discharge and registration costs.	• You may not need to register a new charge if the total amount of all loans is equal to or less than the registered amount of the charge. • There may not be any legal, discharge or registration costs.
Switching lenders at the end of the term (without borrowing additional funds)	• Typically, at the end of your term, other lenders will accept an assignment at little or no cost to you.	• Other lenders may not accept an assignment. • You will likely need to discharge your existing charge and register a new charge with the new lender. • All loan agreements secured by the collateral charge, such as a line of credit, must be repaid in full or transferred to the new lender. • There may be legal, administrative, discharge and registration costs.

Home equity lines of credit (HELOC)

A home equity line of credit (HELOC) is a revolving line of credit secured by your home. You can borrow money up to the credit limit, which is usually a percentage of your home's value.

A HELOC is an option for borrowing on your home's equity, which is the difference between the value of your home and the unpaid balance of any current mortgage. For more information, see *Borrowing on Home Equity*.

It is also possible to get a HELOC *instead* of a traditional mortgage. These products may be split into portions that you repay in different ways. For example, a HELOC may have a portion with a fixed interest rate and another portion with a variable interest rate.

Key points

- *Registered with a collateral charge:* After a HELOC is set up, you do not need your lender's approval to borrow funds up to the credit limit, subject to the terms of the HELOC agreement.
- *Additional funds can be advanced:* You can borrow money up to the credit limit on the HELOC, which is usually a percentage of your home's appraised value. After you make repayments, the funds become available for you to borrow again.
- *Variable interest rate:* The interest rate for a HELOC is usually variable, so your payments may increase if rates rise.
- *Interest-only payment option:* You may have the option to just pay the interest due on a HELOC instead of a set payment amount. However, be aware that making interest-only minimum payments will increase the overall cost of your loan and the time you need to repay it since you are not paying off the principal.
- It can be very easy to borrow more money than you can comfortably afford to repay with a HELOC. Make sure you will be able to handle repayments if interest rates and your payments increase in the future.
- *Ability to make prepayments:* You can generally prepay any amount whenever you want on the HELOC portion without the need to pay a prepayment charge. Note that prepayment charges may apply to any other portions that have a closed term.

The features and characteristics of individual lenders' products may vary. Check with the lender.

Mortgage options

Portable mortgages

Porting a mortgage refers to transferring some or all of the terms and conditions and outstanding balance of the mortgage on your existing home to a new property while remaining with the same lender.

Homeowners often port their mortgages when they have a lower interest rate on their existing mortgage than is available for a new mortgage.

By porting your mortgage to your new property, you can usually avoid prepayment charges for breaking your mortgage contract early.

Check with your lender to see whether your mortgage is eligible for porting and whether any conditions or restrictions apply.

Assumable mortgages

An *assumable mortgage* allows a home buyer to take over the seller's existing mortgage along with the property. The terms of the original mortgage must stay the same. In most cases, the lender must approve the transfer as well as the buyer who wants to assume the mortgage.

If approved, the buyer will take over the remaining mortgage payments to the lender. Lenders may charge the buyer a fee to assume the mortgage.

Important: In some provinces, the seller may remain liable for the mortgage after it has been assumed by the buyer. However, some lenders may agree to release the seller from any personal liability if the buyer meets the lender's qualifications.

Cash back

Cash back is an optional feature that provides you with a percentage of your mortgage amount in cash right away.

While it can help you pay for things you'll need when getting a new home, such as legal fees or furniture, you usually have to pay a *higher interest rate* to get a cash back option on your mortgage. The interest charges you will pay due to a higher interest rate could cost you more than the money you receive as cash back.

The lender can impose certain restrictions on the cash back. You may not be allowed to use cash back funds as part of your down payment. If you decide to renegotiate, transfer or renew your mortgage before the end of the term, you may be asked to *repay some or all of the cash back amount.*

Shop around and ask about all the conditions before applying for cash back on a mortgage.

STEP 2: SHOP AROUND AND GET PRE-APPROVED

Make sure you shop around to save money and get the terms that best match your needs.

Getting pre-approved will allow you to find out how much a mortgage lender is willing to lend you and at what interest rate.

Check your credit report first

Before you start shopping around for a mortgage, you should order a copy of your credit report to make sure it does not contain any errors. A credit report is a summary of your financial history. It shows your previous and current debts, and whether or not you've had any problems in the past paying off those debts.

A potential lender will look at a copy of your report before approving you for a mortgage loan, so it is important that your report be accurate. You can order a copy of your credit report for free by mail, fax, telephone or in person from the two major credit reporting agencies in Canada: Equifax Canada (www.equifax.ca) and TransUnion Canada (www.transunion.ca).

You can ask the credit reporting agencies to correct any errors you find on your credit report. It may take some time to look into and resolve any errors, so check your report at least three months before you plan to start shopping around for a mortgage.

A lender will also want to check your credit score, which is a three-digit number that shows your likeliness to pay off future debts. The score is based on the information in your credit report. The lender may use the credit score provided by the credit reporting agency, or may use its own formula to calculate your score, based on the information in your credit report. As a result, if you order your credit score, the number you receive could be different from the one the lender is using, but they should generally be in the same range.

If you do not have a good credit score, the mortgage lender could refuse to approve your mortgage, or may decide to approve it for a lower amount, and/or a higher interest rate. Some lenders may only consider your application if you have a large down payment, or if you have someone co-signing with you on the mortgage.

For more information

To find out how to get a copy of your credit report, what it contains and how to correct errors in your report, see *Understanding Your Credit Report and Credit Score*.

Understanding the pre-approval process

A *pre-approval* is a preliminary discussion with a potential mortgage lender to find out the maximum amount they will lend you and at what interest rate. With a pre-approval, you can do the following:

- *Lock in an interest rate* in case interest rates rise before you purchase a home. The length of the interest rate guarantee varies by financial institution and usually ranges from 60 to 120 days.
- If interest rates fall before you purchase a home, you *may or may not* be able to get the lower rate, depending on the lender's policies for pre-approvals.
- *Estimate your mortgage payment,* so that you can include it in your budget.
- *Know the maximum amount of a mortgage* that you qualify for, so that you don't waste time looking for homes that are too expensive.

A pre-approval does *not* guarantee that you will get the mortgage loan. Once you have a specific home in mind, the lender will want to verify that the home or property meets certain standards (such as the condition or market value of the home) before approving your loan. At that point, the lender could decide to refuse your mortgage application, even though you had received a pre-approval for a certain amount.

What to consider when you are shopping around and getting pre-approved

Keep in mind that the pre-approved amount is the *maximum* you could receive. It may be a good idea to look at homes in a lower price range so that your budget will not be stretched to the limit. Remember to include in your budget any additional costs you expect in the near future, such as starting a family or buying a car. Also remember to factor in closing costs and moving costs. See "Other costs to consider" **on page 37** for more details.

When you shop for a mortgage, compare the whole package each lender offers: whether the mortgage is registered with a standard charge or a collateral charge, interest rates as well as features and services that are important to you, such as the ability to make lump-sum prepayments or to increase your regular payments.

Don't underestimate a small difference in interest rates between offers. A difference that might seem small, such as half a percent, can add up to a significant amount of interest over the length of a mortgage.

Remember that interest rates are often negotiable. Don't accept the first offer made to you. Make sure you have explored other offers to find one that best meets your needs.

Where can you get pre-approved?

You can get pre-approved by mortgage lenders or mortgage brokers.

Mortgage lenders

Mortgages are available from several types of lenders, such as:

- banks
- mortgage companies
- insurance companies
- trust companies
- loan companies
- credit unions, and
- *caisses populaires*.

Different lenders may have different interest rates and conditions for similar products. Talk to several lenders to make sure you're getting the best product for your needs. You will also get a feel for the lender and you will be able to determine which one you would rather have the long-term relationship with. Although you can decide to switch lenders later, it is important to be comfortable with the lender and the mortgage options offered to you right from the start.

Mortgage brokers

Another option is to talk to a mortgage broker. Rather than lending money directly to you, brokers arrange transactions by finding a lender for you. Since brokers have access to a number of lenders, they may give you a wider range of mortgage products and terms to choose from.

However, mortgage brokers do not all have access to the same lenders, so the available mortgages vary from broker to broker. When you are considering a mortgage broker, ask which lenders they deal with.

Some lenders only offer their products directly to borrowers, while some mortgage products are only available through brokers.

Mortgage brokers generally do not charge fees for their services. Instead, they usually receive a commission from the lender when they arrange a transaction.

To get a list of mortgage brokers in your area, visit the website of the Canadian Association of Accredited Mortgage Professionals at www.caamp.org, or call them toll-free at 1-888-442-4625.

Mortgage brokers are provincially regulated. If you want to confirm that a broker is licensed, or if you have a complaint, contact your provincial government. You can find a list of regulators on FCAC's website at itpaystoknow.gc.ca.

What you should bring to a pre-approval interview

When you are speaking to a potential mortgage broker or lender, it is a good idea to have the following information handy:

- identification
- proof of employment:
  - proof of current salary or hourly pay rate (for example, a current pay stub and a letter from your employer)
  - position and length of time with the organization
  - if self-employed, bring your Notices of Assessment from Canada Revenue Agency from the past two years
- proof you can pay for the down payment and closing costs:
  - recent financial statements (bank accounts, investments)
- information about your other assets, such as a car, cottage or boat
- information about your debts or financial obligations:
  - credit card balances and limits, including those on store credit cards
  - child or spousal support amounts
  - car loans or leases
  - lines of credit
  - student loans
  - other loans.

Questions to ask

- Do you automatically get the lowest rate if interest rates go down while you are pre-approved?
- How long is the pre-approved rate guaranteed?
- Can the pre-approval be extended?

Qualifying for a mortgage

Mortgage lenders or brokers will use your financial information, including your income and debts, to determine how much they can lend you. They will use two financial formulas to help them:

Gross debt service ratio

Gross debt service ratio (GDS) is the percentage of your gross income (before deductions such as income tax) required to cover home-related costs, such as:

- mortgage payments
- property taxes
- heating, and
- 50% of condo fees (if applicable).

As a general rule of thumb, the GDS ratio should not be more than *32%* of your gross income.

Total debt service ratio

Total debt service ratio (TDS) is the percentage of gross income required to cover home-related costs (mortgage payments, property taxes, heating, and 50% of condo fees, if applicable), plus *all* of your other debts, such as:

- credit card payments
- car payments
- lines of credit
- student loans
- child or spousal support payments
- any other debts.

Generally, the TDS ratio should not be more than *40%* of your gross income.

Qualifying rates for certain types of mortgages

Federally regulated lenders, such as banks, will see whether you qualify for a mortgage based on the Bank of Canada's five-year benchmark rate or the interest rate in your mortgage contract, whichever is higher, if you have less than a 20% down payment and you:

- apply for a variable interest rate mortgage, or
- apply for a fixed interest rate mortgage with a term that is less than five years.

You must qualify at this rate even if you are planning on getting a shorter term with a lower interest rate.

If you are applying for a fixed term of five years or longer, the lender can use the actual interest rate in your contract to see if you qualify.

Calculating your GDS and TDS ratios

You can see your GDS and TDS ratios by using FCAC's Mortgage Qualifier Tool at itpaystoknow.gc.ca.

Or, you can estimate the maximum costs you can afford based on your income and debts.

If you are buying the home with a partner, or someone else, combine your incomes to accurately reflect the household income.

1. Calculate your monthly gross income

Gross income is your income before income taxes and other deductions.

$$\text{Monthly gross income} = \frac{\text{annual gross income}}{\text{12 months}}$$

EXAMPLE

Let's say your income is \$54,000 a year, before income taxes and other deductions.

$$\text{Monthly gross income} = \frac{\$54{,}000}{\text{12 months}} = \$4{,}500.00$$

2. Calculate the maximum amounts you can spend on home costs

Maximum GDS home costs = monthly gross income x *32%*

Maximum TDS home costs = monthly gross income x *40%*

Note: Write percentages as decimals. For example, 32% = 0.32

EXAMPLE

With a gross monthly income of $4,500.00, here are the maximum amounts you can afford to spend per month on home costs:

Maximum GDS home costs = $4,500.00 x 0.32 = $1,440.00

$1,440.00 represents the *maximum* amount you can spend on mortgage payments, property taxes, heating and 50% of condo fees (if applicable).

Maximum TDS home costs = $4,500.00 x 0.40 = $1,800.00

$1,800.00 represents the *maximum* amount you can spend on mortgage payments, property taxes, heating, 50% of condo fees (if applicable), but also credit card payments, car payments, child or spousal support, student loans and other loan payments.

It is important to understand that maximum amounts you calculate may actually overestimate what you can actually afford. GDS and TDS ratios do not include the extra costs associated with buying a home and unexpected expenses and major home repairs, such as replacing a roof or furnace.

3. Compare the results with the estimated costs for your new home

Estimate what the costs will be for your new home, including all the ones described in the GDS and TDS ratios. If the total costs you estimate are lower than the maximum amounts you calculated, you will probably qualify for a mortgage loan with the lender.

If you find that your debt service ratios are higher than you'd like, some of your options include:

- looking at homes in a lower price range
- saving for a larger down payment
- reducing your debts.

For more on managing your debt, see the "Debt Management" section of FCAC's website at itpaystoknow.gc.ca.

STEP 3: MAKE THE RIGHT DECISION FOR YOUR NEEDS

The third step in shopping around for a mortgage is to make your final decision. Before you decide, you will need to:

- consider the other costs to close your agreement to buy the home
- know what your rights and responsibilities are and what your lender must provide in the mortgage agreement.

Other costs to consider

Closing costs

Closing costs are upfront costs that you must pay when you purchase a home, usually before you move in. Your lawyer can help explain these costs. In addition to your down payment, you must have funds available to cover these extra costs.

They usually range from 1.5% to 4% of the purchase price of the home. For example, if you buy a $300,000 home, your closing costs could range from $4,500 to $12,000.

Closing costs may include, but are not limited to:

- legal fees (or notary fees in Quebec)
- land registration fees (sometimes called a land transfer tax, deed registration fee, tariff or property purchase tax)
- township or municipal levies (may apply to new homes in subdivisions)
- mortgage default insurance premium (if paying premium up front instead of adding it to mortgage loan)
- provincial sales tax on premiums for mortgage default insurance (applicable in some provinces)
- appraisal fee
- home inspection fee
- title insurance
- property tax and utility adjustments (to repay the seller for prepaid bills)
- interest adjustments (for the period between your purchase date and your first mortgage payment)
- survey or Certificate of Location cost
- estoppel certificate (for condominium units)
- water tests
- septic tank tests (if applicable).

For more information on closing costs, visit the Canada Mortgage and Housing Corporation's website at www.cmhc.gc.ca, or call them toll-free at 1-800-668-2642.

Other up-front costs

Before moving in, you may have to pay for:

- moving costs
- storage costs
- real estate costs for selling your home (if applicable)
- redirecting mail.

Costs you may have shortly after moving in can include:

- utility hook-up fees
- basic furniture and appliances
- painting and cleaning.

Ongoing costs related to owning a home

Ongoing costs related to owning and maintaining a home will probably be the largest part of your monthly budget once you've settled in. These can include:

- mortgage payments
- condo fees (if applicable)
- property taxes
- utilities
- property insurance
- renovation costs
- landscaping
- maintenance and repairs.

Planning ahead

For a list of costs that can apply before you buy and after you've moved in, see the Monthly Housing Expenses Worksheet **on page 48**.

Plan for these expenses by including them in your budget. For more information on making a budget, see *Making a Budget and Sticking to It*.

Your rights and responsibilities

Your rights

Federally regulated financial institutions (such as all banks, as well as some insurance companies and trust and loan companies) must provide you with certain important information about your mortgage, in clear language, in or with your mortgage agreement. Depending on what type of mortgage you get, the information required can vary. The most important information will be summarized in a box like the examples below and on the **page 41**.

Your responsibilities

Before signing, you have a responsibility to read and understand the terms and conditions of your mortgage agreement. Ask questions about anything that is not clear.

For many people, a mortgage is the most significant financial decision they will make in their lives. It's important to understand a commitment that can last this long.

Information box: Fixed interest rate mortgage

This is a sample of the information box that must be at the beginning of a fixed interest mortgage agreement.

Principal Amount	**$255,000.00**
Annual Interest Rate	**4.00%** Fixed rate per year. This interest is compounded twice per year but charged on each regular payment date.
Annual Percentage Rate	**4.00%** The interest rate for a whole year (annualized) including applicable fees such as service charge, loan origination fees or administrative fees when applicable.
Term	**5 years** The term of the loan is closed for the whole five years, which means that you cannot pay down more than your prepayment privilege without paying a charge.
Date of Advance	**May 1, 2013** This is the date your funds will be advanced. Interest will be calculated and charged from this date on.
Payments	**$870.41 every two weeks** Your accelerated biweekly payment is payable every two weeks. It includes payment toward the principal amount, the accumulated interest and your biweekly property tax portion.

Amortization Period	**20 years** Based on the current terms and conditions, your mortgage will take 20 years to pay in full.
Prepayment Privilege	**“20+20”** Without paying a charge, you may once per year: • increase your monthly payment by 20% of the original payment • pay a lump sum of 20% of the original mortgage amount toward your outstanding balance.
Prepayment Charges	You will be required to pay a charge if you pay more of your mortgage than the prepayment privilege allows. If you want to pay out all or part of your mortgage before the end of your term, you will also pay a charge. Your charge will be the greater of: • three months interest, or • the interest rate differential: the difference between your mortgage rate and the rate of a mortgage that is closest to the remainder of your term, multiplied by the outstanding balance of your mortgage for the time that is left on your term. It is calculated on the amount being prepaid.
Default Insurance	**$5,450.00** ($5,000 is included in your principal amount) Insurance premium: $5,000.00 Tax (9%): $450.00 Total: $5,450.00
Other Fees	Discharge fee: **$200.00** Default charge: **$50.00** Returned or refused payment due to insufficient funds: **$40.00**

Additional information for fixed interest rate mortgages

When you sign a fixed rate mortgage agreement, the mortgage lender must provide you with additional information, including but not limited to the following:

- the total amount that you will have paid at the end of the term
- of that total, how much you will have paid in interest charges at the end of the term
- the fact that your payments will be applied first to cover interest and other charges, and then to the outstanding principal
- the optional services (such as mortgage disability or mortgage life insurance) you accepted, how much they cost, and what will happen, in terms of rebates, charges and penalties, if you decide to cancel these services
- a description of the property being provided as a security for the loan
- whether any fees paid by the financial institution to a broker were included in the amount lent to you.

Information box: Variable interest rate mortgage

Below is a sample of the information box that must be at the beginning of a variable interest mortgage agreement.

Principal Amount	**$255,000.00**
Annual Interest Rate	**3.50%** Variable rate per year. This interest is compounded twice per year but charged monthly.
Determination of Interest	Your interest rate is expressed as today's (name of bank) prime rate* plus an adjustment factor. Your interest rate is the prime rate + 0.50% As of April 15, 2013, the prime rate is 3.00% Your interest rate will vary automatically if and when the (name of bank's) prime rate varies. *The prime rate means the variable annual interest rate that (name of bank) publishes from time to time as a point of reference.
Annual Percentage Rate	**3.50%** The interest rate for a whole year (annualized), including applicable fees such as service charges, loan origination fees or administrative fees when applicable.
Term	**5 years** The term of the loan is closed for the whole five years, which means that you cannot pay down more than your prepayment privilege without paying a charge.

Date of Advance	**May 1, 2013** This is the date your funds will be advanced. Interest will be calculated and charged from this date on.
Payments	**$837.80 every two weeks** Your accelerated biweekly payment is payable every two weeks. It includes payment toward the principal amount, the accumulated interest and your biweekly property tax portion.
Amortization Period	**20 years** Based on the current terms and conditions, your mortgage will take 20 years to pay in full.
Prepayment Privilege	**"20+20"** Without paying a charge, you may once per year: • increase your monthly payment by 20% of the original payment • pay a lump sum of 20% of the original mortgage amount toward your outstanding balance.
Prepayment Charges	You will be required to pay a charge if you pay more of your mortgage than the prepayment privilege allows. If you want to pay out all or part of your mortgage before the end of your term, you will also pay a charge. Your charge will be the greater of: • three months interest, or • the interest rate differential: the difference between your mortgage rate and the rate of a mortgage that is closest to the remainder of your term, multiplied by the outstanding balance of your mortgage for the time that is left on your term. It is calculated on the amount being prepaid.
Default Insurance	**$5,450.00** ($5,000 is included in your principal amount) Insurance premium: $5,000.00 Tax (9%): $450.00 Total: $5,450.00
Other Fees	Discharge fee: **$200.00** Default charge: **$50.00** Returned or refused payment due to insufficient funds: **$40.00**

Additional information for variable interest rate mortgages

When you sign a variable rate mortgage agreement, the lender must provide you with additional information, including but not limited to the following:

- based on that interest rate, an estimate of the total amount you will pay by the end of your term
- an estimate of the total amount of interest you will pay during the term
- if interest rate variations are linked to another rate, such as the prime rate, the financial institution must provide you, *at least once a year*, with a disclosure statement containing the following information:
  - the interest rate and outstanding balance at the beginning and end of the period covered by the statement
  - the amount of each instalment payment for the upcoming period, based on a forecast using the interest rate in effect as of the date of the disclosure statement.

For variable rate mortgages with fixed payments, the lender must also include the following details in the agreement or disclosure document:

  - the annual interest rate that would result in your mortgage payment not covering the interest due for the period (sometimes called the "trigger rate"), and
  - the fact that if the interest rate increases during your term, your amortization period will be longer.

  Notes:

  - If the interest rate reaches the "trigger rate", your lender may require you to increase your payments. Check the terms of your agreement.
  - If your amortization period has become longer, your mortgage lender may require you to increase your payments at the next renewal period to get your amortization back in line with the original amortization period.

Voluntary Code of Conduct on prepayment

Federally regulated financial institutions, such as banks, must outline mortgage prepayment privileges and charges in an information box at the beginning of your mortgage agreement.

Some financial institutions have also agreed to provide additional information on prepayments under a Voluntary Code of Conduct. As of March 2013, banks that are members of the Canadian Bankers Association have agreed to comply with this Code.

Lenders following the Code have agreed to provide information that includes (but is not limited to):

- *information to help you understand the factors that can affect a prepayment charge* so that you can make informed decisions. It should cover the following topics:
  - the differences between:
    - fixed-rate and variable-rate mortgages
    - open and closed mortgages
    - short-term and long-term mortgages
  - ways you can pay off a mortgage faster without having to pay a prepayment charge
  - ways to avoid prepayment charges
  - how prepayment charges are calculated, along with examples of charges
  - actions that may result in your having to pay a prepayment charge

Lenders may make this information available to you online or upon request at their places of business in Canada.

- *online financial calculators* to help you estimate a prepayment charge that could apply if you pay off your mortgage in full or prepay more than your prepayment privileges allow
- *toll-free telephone access* to knowledgeable staff who can tell you the actual prepayment charge that would apply at the time of your call. You can also ask for a written statement with the amount of the charge.
- *an annual statement* that sets out your prepayment privileges and how the lender would calculate a charge, as well as information about your mortgage that you can use to estimate a charge, among other details
- *a written statement* if you confirm you will be making a prepayment that will result in a prepayment charge. Among other details, it must include the actual prepayment charge amount.

For full details on the information to be provided under the Voluntary Code of Conduct, visit itpaystoknow.gc.ca.

Voluntary commitment on mortgage security

As of September 1, 2014, banks that offer residential mortgage loans and that are members of the Canadian Bankers Association have agreed to adopt a voluntary *Commitment to Provide Information on Mortgage Security*.

The information can help you understand the differences between the types of mortgage security used for mortgage loans – standard charges and collateral charges. This can help you make an informed decision when choosing your mortgage lender and mortgage product.

For full details on the information to be provided under the voluntary Commitment, visit itpaystoknow.gc.ca.

Coercive tied selling

Coercive tied selling happens when a mortgage lender pressures or forces you to buy another of its products as a condition for approving your mortgage loan. *For federally regulated financial institutions (such as banks), this is against the law.* For example, the lender may not require you to purchase mutual funds through them to get a mortgage.

If this happens to you, contact FCAC so that FCAC can investigate your complaint.

What is <u>not</u> coercive tied selling

The following situations are not considered coercive tied selling:

- when a lender offers you other products and services (for example, home insurance, life or disability insurance, or a line of credit) in addition to your mortgage but not as a condition for getting it
- when a lender offers you better conditions on your mortgage if you take mortgage life insurance through them, instead of through another insurer, or if you transfer your investment portfolio to them. Although such offers may seem interesting, it is a good idea to get quotations from other providers of these services and products to make sure you get the best deal.

Summary: Three steps to successful mortgage shopping

Step 1

Know what you need and want in a mortgage

Before you start shopping around for a home or a mortgage, understand the following:

- the minimum down payment required to buy a home
- the down payment amount that you will need to avoid having to pay for mortgage default insurance
- how the Home Buyers' Plan (HBP) can help you make the down payment on your home
- the difference between:
  - open and closed mortgages
  - shorter and longer terms
  - term and amortization period
  - fixed, variable and hybrid interest rate mortgages
  - standard or collateral charge mortgages
- how accelerated payment options can help you save money in interest and shorten the time it will take you to pay off your mortgage
- the prepayment privileges you might like to have on a mortgage and the prepayment charges you could be required to pay
- optional insurance available on mortgages, such as:
  - mortgage life insurance
  - mortgage disability or critical illness insurance
  - title insurance.

Step 2

Shop around and get pre-approved

Before shopping around:

- Check your credit report. Make sure it does not contain any errors. Lenders will check your use of credit.
- Take stock of your financial situation. Determine how much you can afford for the down payment and regular mortgage payments.

Key tips while you are mortgage shopping:

- Shop around at a few different lenders and brokers to obtain pre-approvals for a mortgage before you start looking for a home. *Keep in mind that the pre-approved amounts can overestimate what you can comfortably afford to pay.*
- Bring all the information that you may need during the pre-approval interview with a lender.
- Know how much you can afford to borrow by calculating the maximum home costs based on your income and current debts. Use the GDS and TDS formulas.
- Don't accept the first offer made to you—explore your options.
- Ask whether the mortgage on offer will be registered with a standard charge or a collateral charge.
- Be sure that the pre-approval contains the terms that you want. For example, the prepayment privileges that you want to be able to use to pay off your mortgage faster.
- Remember that a small difference in interest rates can have a major impact on the amount of interest you will have to pay over the lifetime of your mortgage.

Step 3

Make the right decision for your needs

Before signing a mortgage agreement:

- Budget realistically for the extra costs that you must pay when you buy a home, including closing costs, moving costs and other costs related to owning and maintaining a home.
- Read the terms and conditions carefully. Ask questions about anything you don't understand.
- Don't forget that federally regulated financial institutions (such as banks) cannot use coercive tied selling to force you to get another product.

Monthly Housing Expenses Worksheet

One-time expenses		Estimated amount
Before moving in		
Down payment		
Closing costs (*budget for 1.5% to 4% of the purchase price of the home*):		
– legal fees (or notary in Quebec)		
– land registration fees (also called land transfer taxes)		
– township/municipal levies		
– mortgage default insurance premium *(if not included in payments*)		
– PST on mortgage default insurance premium		
– appraisal fee		
– home inspection fee		
– title insurance fee		
– property tax and utility adjustments		
– interest adjustments		
– survey or Certificate of Location		
– water and septic tank tests (*if applicable*)		
– deposits to builders (*if applicable*)		
Moving expenses/storage expenses		
Other expenses:		
Shortly after moving in		
Hook-up costs (*cable, satellite, phone, Internet*)		
Basic furniture/appliances/window coverings		
Other expenses:		
TOTAL one-time costs		
Subtract amount of money already saved	-	
Balance to be saved		
Divide by the number of months before your home purchase	÷	
Monthly savings target for budget	=	

Ongoing expenses	**Estimated monthly amount**
Regular expenses	
Mortgage payments	
Mortgage default insurance (*if required and not included in mortgage payments*)	
Optional – mortgage life, disability or critical illness insurance (*if not included in mortgage payments*)	
Home/property insurance	
Utilities: – Heat/electricity	
– Water/sewer	
Telephone/Internet	
Cable/satellite	
Property taxes (*if not included in mortgage payments*)	
School taxes (*if paid separately from your property taxes*)	
Condominium fees (*if applicable*)	
Cleaning supplies/service	
Repairs/maintenance – (for example, roof repairs, painting, plumbing, etc.); as *a general guide – budget 1% to 3% annually of the value of the home, then divide by 12.*	
Other day-to-day expenses:	
Occasional expenses (*divide yearly costs by 12 for a monthly number*)	
Landscaping/lawn service	
Snow removal service	
Additional furniture and appliances	
Other occasional expenses:	
Monthly ongoing expenses (*use this total and enter it into your monthly budget*)	

GLOSSARY

Amortization period
The period of time it will take to pay off a mortgage in full. Not to be confused with the *term* of the mortgage.

Cash back
An optional feature that pays you a percentage of your mortgage amount in cash right away. While it can help you pay for things you'll need when getting a new home, such as legal fees or furniture, you usually have to pay a higher interest rate in order to get a cash back option on your mortgage.

Closed mortgage
A mortgage agreement that cannot be changed before the end of the term. Your lender may let you make certain prepayments without paying a charge, but you will usually have to pay a charge to break or change your mortgage agreement.

Closing costs
Costs in addition to the purchase price of the home, such as appraisal fees, legal fees or prepaid property taxes. These costs must be paid before you take possession of your home. They range from 1.5% to 4% of a home's selling price.

Coercive tied selling
An illegal practice where a lender pressures or forces you to buy another of their products as a condition for giving you the mortgage loan. This is against federal law. However, your lender can offer you, in conjunction with one of their products, another product or service on more favourable terms than they normally would provide – for example, a lower mortgage rate if you have investments with the same financial institution.

Collateral charge mortgage
A type of mortgage whose features may include the ability to potentially borrow additional funds, subject to your lender's approval, without the need to discharge your mortgage, register a new one and pay legal fees. If you want to switch your existing mortgage to a different lender at the end of your term, note that other lenders may not accept the transfer of your mortgage. This means you may need to pay fees to discharge your mortgage and register a new one in order to change lenders. *See also: standard charge mortgage.*

Conventional mortgage
A mortgage loan of up to a maximum of 80% of the purchase price of a home. Mortgage default insurance is not required for conventional mortgages.

Credit report

A summary of your credit history and one of the tools lenders use to decide whether or not to give you credit. You can request a free copy of your credit report from the two credit reporting agencies, Equifax and TransUnion.

Credit score

A three-digit number that is calculated using a mathematical formula based on information in your credit report. Businesses use it to see how risky it would be for them to lend you money. The credit reporting agencies, Equifax and TransUnion, use a scale from 300 to 900. The best score is 900.

Down payment

The amount of money you deposit when you first buy your home. It must be at least 5% of the purchase price, but can be more. The down payment will help determine how much you need as a mortgage loan, and whether or not you will have to pay mortgage default insurance, which is required if you have a down payment of less than 20% of the purchase price.

Fixed interest rate mortgage

A mortgage loan where the interest rate and payment amount do not change for a specific term.

Gross debt service (GDS) ratio

The percentage of your gross income (before deductions such as income tax) required to cover home-related costs, such as mortgage payments, property taxes, heating and 50% of condo fees (if applicable). Generally, the GDS ratio should not be more than 32% of your gross income. *See also: total debt service (TDS) ratio.*

High-ratio mortgage

A mortgage for more than 80% of the purchase price of the home. Mortgage default insurance is required for high-ratio mortgages.

Home equity line of credit (HELOC)

A line of credit secured by your home. You can borrow money up to the credit limit, which is usually a percentage of your home's value.

Interest

The amount paid by a borrower to a lender for the use of the money.

Mortgage loan

A loan secured by real estate in which the lender can take possession of the property if the loan is not repaid on time. Payments include the principal and the interest and may also include a portion of the property taxes.

Mortgage broker
A person or organization that offers the mortgage products of different lenders.

Mortgage default insurance
Insurance that protects the mortgage lender if you cannot make your mortgage payments. It does not protect you. It is required by law if your down payment is less than 20%. This should not be confused with mortgage life insurance or home, property, fire and casualty insurance, which typically protect the home owner.

Open mortgage
A mortgage that can be prepaid at any time during the term, without paying a prepayment charge. The interest rate on an open mortgage may be higher than on a closed mortgage with a similar term.

Prepayment
Payment of an additional portion or all of the principal balance before the end of your term. Lenders may require you to pay a charge and fees when you use a prepayment option under a closed mortgage agreement.

Prepayment charge
Your lender may require you to pay a charge if you want to make a prepayment greater than the amount allowed in your mortgage agreement, or pay off or break a closed mortgage before the end of the term. Sometimes also called a penalty.

Prepayment privileges
Terms of your mortgage contract that allow you to pay an amount toward a closed mortgage on top of your regular payments, without triggering a prepayment charge. For example, you may be allowed to make lump sum payments up to a certain amount or increase the amount of your regular mortgage payments.

Principal
The amount of money that you borrowed from a lender to pay for your home.

Real property
Includes land and anything growing on or permanently attached to or built on that land, such as a building, and any associated rights and interests in the land. The term "immovable" is used in Quebec.

Standard charge mortgage
A type of mortgage that is usually registered for the actual amount of your mortgage loan. If you want to switch your existing mortgage to a different lender at the end of your term, it is generally possible to do so by transferring your mortgage. If you want to borrow additional funds, you will likely need to pay fees to discharge your existing mortgage and register a new one. *See also: collateral charge mortgage.*

Term

The period of time your mortgage agreement will be in effect, including your interest rate and terms and conditions. At the end of the term, you pay off the mortgage in full, renew it or possibly renegotiate your mortgage agreement (for example, decrease your amortization period). Terms are generally for six months to 10 years. Not to be confused with the *amortization period.*

Title insurance

Insurance that provides coverage for losses related to title fraud, survey issues, problems with the title on your property and challenges to the ownership of your home.

Total debt service (TDS) ratio

The percentage of gross income (before deductions such as income tax) required to cover home-related costs, such as mortgage payments, property taxes, heating and 50% of condo fees (if applicable), plus all your other debts, such as credit card payments, car payments, student loans or lines of credit. Generally, the TDS ratio should not be more than 40% of your gross income. *See also: gross debt service (GDS) ratio.*

Variable interest rate mortgage

A mortgage with an interest rate that can increase or decrease during the term. The interest rate varies with changes in the market interest rates. The mortgage payments can be fixed, or adjustable (meaning they could change with interest rates), or a combination of both fixed and adjustable payments.

Notes

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