MORTGAGE GUIDE

YOUR ESSENTIAL MORTGAGE GUIDE

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TYPES OF MORTGAGE LENDERS

A LENDERS

- These are banks, monolines, trust companies and credit unions
- A lenders can offer insured mortgages with less than 20% down payment and insurable transfer mortgages in addition to all conventional mortgages
- These lenders typically have the lowest interest rates and no lender fees
- A lenders have the hardest stress test ratios to approve files and are limited to what type of income and credit the borrowers require

B LENDERS

- Also known as alternative lenders
- These can be separate trust companies, monolines or B lending arms of banks.
- B lenders cannot offer mortgages with less than 20% down or any insurable transfers. They do offer conventional mortgages.
- These lenders typically have a slightly higher interest rate than A lenders and a 1% lender fee.
- B lenders have higher stress test ratios to approve files and can consider mortgage files with income or credit that does not fit an A lender

TYPES OF MORTGAGE LENDERS

PRIVATE LENDERS

- These can be Mortgage Investment Companies (MIC) or direct private lenders
- They will consider files with income and credit that is not suitable for A or B lenders and often require less documentation when completing a mortgage
- Private lenders can usually close much faster than A or B lenders and are often used for short term financing situations such as deposit loans or construction financing
- These lenders will have higher interest rates and fees than other lenders and will set the rate and fees on the risk of the file.

MORTGAGE PRODUCTS

Mortgage: A mortgage is a legal agreement by which a bank or other creditor lends money at interest to allow someone to buy a home or property. This loan agreement is secured by the title of the borrower's property, which is transferred to the purchaser once the loan is paid in full. At that point, the lender provides a discharge for the mortgage

Home Equity Line of Credit (HELOC): A revolving line of credit that allows you to borrow against the equity in your home, typically at a much lower interest rate than a traditional line of credit (or other forms of credit, such as a credit card). Interest is paid monthly on the amount withdrawn, and you have flexibility in repaying the amount borrowed (which is in addition to your monthly mortgage payments). A HELOC may allow you to borrow up to 80% of the purchase price or appraised market value of the property if combined with your existing mortgage, or up to 65% if a 'stand alone' line of credit.

Bridge Financing: This is a way to borrow the down payment money for a purchase from a property for sale during a window where both houses are owned during a gap in closing dates. Many of our lenders offer this service on purchases.

MORTGAGE PRODUCTS

Second Mortgage: Financing placed behind a first mortgage. Typical use of money obtained for a second mortgage would be to pay out debts or obtain funds for home improvements or investment. These loans often come with higher interest rates due to the higher risk to the lender.

Construction Loan: Funds issued to the borrower, in stages, throughout the construction (or major renovation) of a home.

Rate Hold/Pre-Approval: The locking in of a specified mortgage rate for a set period of time provided all the conditions and parameters of the file outlined to the lender do not change. This is typically offered by lenders for 90-120 days and will need to close during that period or it would expire.

Commercial Mortgage: Financing on a commercial property are typically medium to long-term loans that can be used to fund the purchase of business premises, or to buy an existing business.

COMPONENTS OF A MORTGAGE

Term: A mortgage term is the period of time a current financing agreement covers (not the same as amortization, which is the overall length it will take to pay off the mortgage). Terms available are: 6 month, 1 ,2 ,3 ,4 ,5 ,6 ,7, or 10 years. Your interest rate type, either fixed or variable, is set for the length of that mortgage term.

Payment: The required amount of money that will be paid to the lender on each payment. This typically consists of some principle repayment and some interest to the lender.

Payment Frequency: How often payments are made to pay off your mortgage loan. Monthly payments are the standard, with Semi-Monthly, Biweekly, Biweekly Accelerated, Weekly and Weekly Accelerated being the other options.

Amortization Period: The number of years it takes to repay the entire mortgage loan through a schedule of pre-determined payments that combine interest and principal amounts. The current standard amortization is 25 years, and having more time to pay off your mortgage is an extended amortization.

Interest Rate: The price you pay to borrow money, typically expressed as a a percentage.

INTEREST RATE TYPES

MORTGAGE INTEREST RATES CAN BE FIXED VS VARIABLE

Fixed

- Rate and payment remain the same for the term of the mortgage
- A fixed rate will offer more stability and consistency with your payments

Variable (VRM)

- Can be variable or adjustable
- Interest rate is based on lender prime rate +/- ((tied to the Bank of Canada's trendsetting overnight rate).
- Variable rate mortgage has payment amount that is fixed at the start of the term and the principle & interest amount fluctuates inside that payment. A VRM typically comes with a trigger rate or trigger point in case your variable rate increases to the point that your payment is only covering the interest.
- Adjustable rate mortgage has a payment that adjusts up or down with any lender prime rate change

Fixed rates are set based on the lenders cost of funds which are typically tied to the bond yield. Whereas VRM rates are tied to the BOC prime rate and based on the economic outlook & indicators. This is why fixed and variable rates sometimes move in opposite directions & are not always doing the same thing at the same time.

WHAT DO YOU NEED TO LOOK AT IN ADDITION TO RATE?

When your Mortgage Broker looks at their 58 different lenders typically 30 of them all have the same best rate for you. Your mortgage professional is also looking at other aspects of your mortgage that can save or cost you money in addition to rate.

Here is a example to consider, on a $500k mortgage:

- 0.25% rate difference - $29.38/biweekly - $19 101 total interest
- 5 year amortization - $122.46/biweekly - $42 553 total interest
- $100/biweekly extra payment - $100/biweekly - $24 515 total interest

If other items matter why do we only look at rate when we look at a mortgage product?

Media and advertising lead people to believe that a low rate is the only aspect of their mortgage that will save them money. In fact, a low rate often seems like a bragging right! By concentrating on rate alone, you could unknowingly sign up to spend thousands of dollars in unnecessary interest to the lender.

WHAT DO YOU NEED TO LOOK AT IN ADDITION TO RATE?

1. LOAN TO VALUE (LTV)

This is the total mortgage amount divided by the appraised value (current value) of the home.

High Ratio Mortgage

- LTV = greater than 80%
- Insured by CMHC, Genworth or Canada Guarunty
- Offered lower rates from lenders as the risk for them is lower
- Only available as a purchase or transfer, not a refinance
- 25 year amortization

Conventional Mortgage

- LTV = less than 80%
- Offered higher interest rates from lenders
- 30 year amortization allowed

WHAT DO YOU NEED TO LOOK AT IN ADDITION TO RATE?

2. MORTGAGE TERM

The length of the commitment or lock in period that you are committing to your lender at the specified terms and rate in your contract.

1 & 2 year mortgage terms

- Shorter terms will typically (although not always) come with higher interest rates
- May have you paying closing costs more often (lawyer, appraisal, etc.)

5 year mortgage term

- Most common term in Canada typically
- May carry higher penalties to break than the shorter terms

10 year mortgage term

- This option may be the right choice depending on the clients future plans
- Typically much higher rates than the shorter terms

WHAT DO YOU NEED TO LOOK AT IN ADDITION TO RATE?

3. AMORTIZATION PERIOD

This is the lifetime of your mortgage so the overall number of years you plan for it to take you to repay the mortgage in full. The amortization affects how much you actually pay the bank as much or more than the interest rate and it is KEY to saving money on your mortgage.

Amortization Period (Years)	Monthly Payment	Interest Paid to Lender Over 5 Years	Total Interest Costs Over the Life of the Mortgage
25	$1350	$35 111	$104 965
22	$1482	$34 596	$91 373
20	$1594	$34 165	$82 466
18	$1730	$33 635	$73 683

Example: A client purchases a new home with a mortgage of $300 000 at 2.5% interest for a 5 year term. This is what some of their amortization options look like.

WHAT DO YOU NEED TO LOOK AT IN ADDITION TO RATE?

4. PREPAYMENT OPTIONS

Can you pay more of the principle you owe faster without a penalty? All mortgages have different options in terms of how much you can pay before you will be penalized.

Double Up Payment Options

- You can pay double your mortgage payment on any given payment date

Increasing Your Payment

- You can change your payment to automatically pay more towards your principle each payment

Lump Sum Payment

- You can place a single payment towards your principle
- Some lenders have restrictions on when you can do this (e.g. only on your mortgage anniversary date)
- A great option for people who receive bonus income

Accelerated Payments

- This option allows you to slightly increase your regular mortgage payment
- Just a fancy way of increasing your payment
- Accelerating payments will reduce your amortization by an average of 2 years

WHAT DO YOU NEED TO LOOK AT IN ADDITION TO RATE?

5. DISCOUNTED RATES

While every mortgage has a contract interest rate, every lender records this in their paperwork differently. This recording difference can have a HUGE impact on the exit cost associated with your mortgage should you break it.

Contract Rate

- The interest rate you pay the lender to borrow the mortgage money (e.g. your rate is 2.8% and they record your rate as 2.84%)

Discounted Rate

- Some lenders record that they have given you a “discount” from their posted rate when they offer you the contract rate for your mortgage (e.g. your rate is 2.84% but they record that they provided you a 2% discount from your posted rate which is 2.84%, this comes in to play when calculating IRD penalties on fixed rate mortgages with these types of lenders and can cost you THOUSANDS!!!)

WHAT DO YOU NEED TO LOOK AT IN ADDITION TO RATE?

6. PREPAYMENT PENALTIES

The top reasons people break their mortgage are divorce, illness, job loss & death. This is the item that can cost you the most out of your entire mortgage contract. The prepayment penalty will be the amount you are charged should you need to break your mortgage early. It will be one of the following:

3 Months Interest

- Typical penalty for variable rate mortgages

Interest Rate Differential (IRD)

- Each lender has their own unique way of calculating it
- Some lenders calculate your “discount” from the posted rate into this penalty, these are the mortgages that come with very high penalties when you go to break them. They are typical to fixed rate mortgages at lenders using a posted rate.
- Monolines typically do not use a posted rate for their fixed rate mortgages.

WHAT DO YOU NEED TO LOOK AT IN ADDITION TO RATE?

More on the IRD Differential Calculations across lenders (because they are not all the same)

In the example below we consider two different IRD penalty calculations in a situation where client is 3 years in to a 5 year mortgage and needs to break due to divorce. Their contract rate is 2.99% and the current interest rate in the marketplace on the day they break the mortgage is 3.04%. The balance of the mortgage is $250000. The example shows how different lender IRD penalty calculations can change what the penalty charged to the client is.

	Interest rate of client	IRD Calculation	Actual Numbers in this example	Penalty
Lender A	Contract rate 2.99%	(Contract rate – rate of rest of term) x balance x remaining months	(2.99% - 2.79%) x $250000 x 2 years	$1000
Lender B	Discounted rate of 1.8% from the posted rate or 4.79% (which works out to 2.99% the same as lender A)	(Contract rate – discount received) x balance x remaining months	[2.99% - (3.04 – 1.8%)] x $250000 x 2 years	$8750

WHAT DO YOU NEED TO LOOK AT IN ADDITION TO RATE?

Why should you pay attention to the penalties?
Around 65% of Canadians unexpectedly break their mortgage early. Some common reasons people break their mortgage early are:

- Sale of a home
- Take out equity for investment
- Pay out debt using equity in home
- To get a better interest rate
- Change in marital status
- Change in employment status
- To remove someone from title of the home
- To restructure their mortgage
- To pay the mortgage off completed

WHAT DO YOU NEED TO LOOK AT IN ADDITION TO RATE?

7. MORTGAGE CHARGE TYPE

There are 2 ways for a lawyer to register your mortgage on the title of your home. It is important to know the pros and cons of each option in order to ensure that you are getting the mortgage that best fits your needs.

Standard Charge Mortgage

- Amount of money you borrow for your mortgage is what is registered on title
- Simple to move to another lender later and typically has lower penalty costs if you need to break it

Collateral Charge Mortgage

- Higher amount than what you borrow is registered on the title so that you can have more than one product without paying additional lawyer fees
- Typically looks like a mortgage plus a line of credit
- Common title charge to be used at most banks

How do you know if you need a collateral mortgage? Here are some things to consider before you decide:

Will you need access to additional funds in the near future

- Are you planning to launch a new business?
- Do you have renovations planned for your home you will need to fund?

WHAT DO YOU NEED TO LOOK AT IN ADDITION TO RATE?

You will need to break your mortgage early

- See section on penalties. You may be surprised what the statistics say.

Your current mortgage balance

- If your mortgage is low then your penalty might also be low and therefore not as big of a deterrent.

You have/need other debt products that may be replaced by a collateralized product

- If you have a lot of unsecured debt it may cost you more in interest and a secured product may be able to save you a lot of money.

More expensive to break and less options should you want to go to a different lender once you have completed your current term.

WHAT DO YOU NEED TO LOOK AT IN ADDITION TO RATE?

8. TRANSFER OPTIONS

Having a mortgage that is flexible can save you from being on the hook for a large penalty. These are some options that some mortgages have for their clients.

Portable

- The lender will allow you to take your mortgage with you should you sell your current property and buy another
- The closing dates of both properties typically need to be within 90 days of one another
- The new property needs to be desirable to the lender

Assumable

- The lender will allow you to transfer the mortgage to the people who purchase your home when you sell it
- The people who are taking your place on the mortgage would need to qualify and be desirable clients for the lender

HOW DOES THE STRESS TEST WORK?

Lenders are looking at many aspects of a borrower to determine creditworthiness. The most important factors they use to determine this are your debt service ratios. The mortgage stress test dictates what interest rate will be used when calculating the payment for the debt service ratios. The rate used is the higher of the minimum qualifying mortgage rate or 2% higher than the contract rate offered on the new mortgage. The mortgage stress test has the lenders qualify at a rate higher than the current rate to be able to insure that borrowers can still afford their mortgage should interest rates increase.

Here is how the ratios are calculated:

Gross Debt Service Ratio (GDS) considers the affordability of payments associated with your household.

$$\text{GDS} = \frac{\text{monthly mortgage payment + monthly property taxes + monthly heating costs x 100}}{\text{Your monthly gross income}}$$

HOW DOES THE STRESS TEST WORK?

Total Debt Service Ratios (TDS) estimates how much you can afford to put towards your mortgage while considering other debts.

$$TDS = \frac{\text{monthly mortgage payment} + \text{monthly property taxes} + \text{monthly heating costs} + \text{other debts} \times 10}{\text{Your monthly gross income}}$$

Mortgage lenders and sometimes specific mortgage products had specific debt service ratio limits. For most A lender mortgages the GDS limit is 39% and the TDS limit is 44%. B lender debt service ratios and some special products from A lenders have higher debt service ratio limits. A typical B lender can often go to 48-50% for both GDS and TDS limits. This is why some clients may only qualify at some lenders or can qualify for a higher mortgage with a B lender than an A lender.

DOWNPAYMENT OPTIONS

SAVINGS OR SHORT-TERM INVESTMENTS

If you've saved for your down payment, you may need to show three or more months of banking history, and explain any large deposits during this time period. Copies of statements for other investments and savings accounts may also be required.

MONETARY GIFT LETTER

If you have been gifted your down payment, you may have to provide a letter stating that the gift given is from an immediate relative (parent or sibling) and that the gift is not repayable. You also need to confirm that the funds are in your possession at least 15 days prior to closing. See our sample "Gift Letter" in the Appendix.

PROPERTY SALE

When your down payment comes from a property sale, you must provide a firm offer to purchase, along with a mortgage statement showing the balance owing.

DOWNPAYMENT OPTIONS

FIRST HOME SAVINGS ACCOUNT (FHSA)

The First home savings account (FHSA) is a government program that allows first-time homebuyers to save up to $40,000 tax-free that can be used towards a down payment for a home in addition to the HBP below. To take advantage of this program you need to be at least 18 and have not owned a home where you lived or at any time in the preceeding four calendar years.

For more information: https://www.canada.ca/en/department-finance/news/2022/08/design-of-the-tax-free-first-home-savings-account.html

RRSP HOME BUYERS' PLAN

You can use your RRSP savings as a down payment. The Home Buyers' Plan (HBP) is a government program that allows first-time homebuyers to borrow up to $35,000 from their registered retirement savings plans (RRSPs) to buy or build a principal home. The money you withdraw is not subject to tax but must be paid back to the RRSP account over a 15-year period.

** Minimum annual repayments are required. Visit the Canada Revenue Agency's website for more detailed information, including a detailed guide and the required forms:*
http://www.cra-arc.gc.ca/tx/ndvdls/tpcs/rrsp-reer/hbp-rap/menu-eng.html

BORROWING DOWN PAYMENT

You can borrow your down payment (e.g., personal loans, lines of credit, lender cash-back incentives), although there are typically increased insurance premiums or fees and higher credit criteria. Any funds borrowed for down payment will need to be counted as debts in your debt service ratios and will decrease the amount of money you qualify for. If you expect to borrow money for down payment or closing costs you must let your Mortgage Broker know so they can ensure you still qualify when these debts are added to your stress test.

CLOSING COSTS

MOST COMMON CLOSING COSTS

When you purchase a home there are additional costs that need to be paid as part of your fees at closing. These are largely made up of land transfer tax and legal fees. Then there are some additional smaller expenses that can also be applicable. Buyers should be made aware that they will need to reserve enough money to pay these costs at closing in addition to their down payment money. These typically include:

- land transfer taxes
- legal fees
- applicable taxes
- any adjustments to the seller for items that were already paid (like property taxes or hot water tank rentals)
- broker fee (if applicable, such as a private mortgage)

CLOSING COSTS

LAND TRANSFER TAX

When you buy a property in Canada, you need to pay a land transfer tax to the government, and sometimes to the local municipality as well. The amount of this tax depends on your property's value and varies by province. In some places, the tax goes up as your property's price increases, while in others, it's a fixed rate. You can easily figure out your land transfer tax using our Land Transfer Tax Calculator.
If you're a first-time homebuyer in Ontario, Prince Edward Island, or British Columbia, you may be eligible for a land transfer tax rebate. For example, if you're buying a $500,000 home in Toronto for the first time, you could save $8,475.

LAWYER AND LEGAL FEES:

When you buy a home, you'll need a real estate lawyer to help with the legal stuff. In places like Ontario and Alberta, it's a must to have a lawyer. The lawyer's fees can range from $500 to $2,500, depending on the complexity of the work, and that includes taxes
Default Mortgage Insurance and tax on the insurance:

If you're buying a home and your down payment is less than 20%, you'll need to get mortgage insurance. You can get it from CMHC, Sagen, or Canada Guaranty. You'll only pay the sales tax upfront, which is a part of your closing costs. The actual insurance cost can be added to your mortgage.

CLOSING COSTS

The exact closing cost for CMHC insurance depends on where you live, how much you're borrowing, and your down payment. In some provinces like Manitoba, Québec, Ontario, or Saskatchewan, you'll also pay provincial sales tax on the insurance premium, based on your province's tax rate.

If your down payment is 20% or more, you don't need mortgage insurance, so it won't be a closing cost for you.

NON-RESIDENT SPECULATION TAX (NSRT)

If you're not a Canadian citizen or permanent resident and you want to buy a home in Canada, there are some extra taxes and rules to consider, mainly in Ontario and British Columbia.

In Ontario, there's something called the Non-Resident Speculation Tax (NRST), which is 25% of the property's value. But you can get a full refund if you become a permanent resident within four years, study here for two years as an international student, or work in Ontario as a foreign national for one year.

In British Columbia, there's a 20% tax on properties for foreign buyers. But in some areas like Metro Vancouver and others, it's 20%, and in rare cases before February 20th, 2018, it was 15%. If you have a work permit from the BC Provincial Nominee Program, you don't have to pay this extra tax.

CLOSING COSTS

GST/HST ON NEW CONSTRUCTION HOUSING

When you buy a newly built or significantly renovated home, you might have to pay a sales tax on top of the home's price. This tax includes a federal part and a provincial part. In some places, they're separate, while in others, they're combined into something called the Harmonized Sales Tax (HST).

But here's the thing: you might not always have to pay this tax yourself because sometimes the builder covers it. If you're not sure, check with your seller or lawyer to see if you need to pay the GST/HST.

If your new home costs less than $450,000, you could get some of the federal (GST) and sometimes the provincial part of the tax back through the GST/HST New Housing Rebate. There are two types of rebates with different rates: one for homes you build yourself and another for homes you buy from builders. You can ask your lawyer for all the details on who's eligible.

CLOSING COSTS

INTEREST ADJUSTMENTS

When you buy a house, the day you complete the purchase matters. Let's say you buy a house on August 2nd, but your first mortgage payment is due on August 15th. During those 13 days in between, you'll owe some interest to your lender. This interest amount is called the 'interest adjustment,' and it's a closing cost. How much you pay depends on your mortgage terms, how many days are left in the month before your first payment, and your mortgage rate. You can ask your lender for the exact amount.

PROPERTY TAX AND OTHER ADJUSTMENTS BASED ON PRE-PAYMENTS BY THE SELLER

If you are buying a resale home, the previous owner will likely have already paid property tax for the year. You may need to reimburse a portion of the tax to the previous property owner. The amount repaid will depend on the property tax amount and the length of time remaining until the end of the year. Similar adjustments could be made for prepaid charges that the previous homeowner has paid for, such as utilities.

Other fees you may see including in closing costs are property survey, appraisal fee, home inspection fee, title insurance, government registration fees and status certificate fee.

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