

# Finding The Right Mortgage

By Douglas Gray

When you are searching for the right mortgage for your needs, there are many different factors to keep in mind. You want to obtain the right mortgage at the right price and with the right terms. Here is a discussion of some of the key issues to consider.

## **Lending Institution vs Mortgage Broker**

You want to make sure you get the best interest rate. If you just go to the financial institution you are currently dealing with, you will probably be quoted the “posted rate”. This rate is generally up to 1% higher than you should have to pay. You can try to negotiate a lower rate, but lack of experience in dealing with financial institutions, lack of competitive market research, and lack of time, could mean you still end up paying more.

One way around this problem is to deal with independent mortgage brokers. You can find them in the Yellow Pages of your telephone directory or on the Internet. They know which institutions are giving the best interest rate deal at any given time, so they comparison shop for you. They also know who is flexible in the income criteria used for approving a mortgage, whether you are employed or self-employed. The other good news is that you don't pay for their services. They receive a finder's fee from the institution that ends up giving you the mortgage.

## **Pre-Approved Mortgage vs No Pre-Approval**

Ideally, you want to know exactly how much money you can eligible to obtain for your mortgage at the outset. Normally, pre-approvals are held for a 90-day period with an interest rate guarantee. If the rate goes down on the day of closing, you will receive the lower rate. However, if the goes up, you will only pay the pre-approved rate.

If you don't obtain the pre-approved mortgage, you would be searching for a home without any realistic sense of whether you could obtain a mortgage for it or not. If you wait until you submit an offer, and make it subject to financing approval, the vendor may object to waiting a week or two for you to find out, or you may not be approved.

Mortgage brokers can also arrange a pre-approved mortgage for you.

## **Open vs Closed Mortgage**

When selecting a mortgage, you can choose to pre-pay it in part or full at any time without any penalty. This is called an “open” mortgage. Alternatively, you can lock a mortgage for period of time at the same rate, eg. for 3 or 5 years. This is called a “closed” mortgage. You pay a lightly higher rate for an open mortgage, as the lender has no certainty if you will pay it off before the end of the term. Lenders have a penalty if you pre-pay a closed mortgage before the term is over. However, most lenders permit you to pay from 10-20% of the mortgage down annually without a penalty.

### **Fixed vs Variable Interest Rate**

When you take out a mortgage, it could be at a fixed interest rate for the duration of the mortgage term, eg 5% for the 5-year term, or it could be at a variable rate. If a variable rate, generally it is set at the prime bank rate or below that, and can vary weekly based on any changes in the prime rate. Generally, a variable mortgage is lower than a fixed mortgage. Some people prefer rate certainty for the term so they can budget accordingly. Others prefer to monitor mortgage rates and convert to a fixed rate mortgage if the rates start going up.

### **Conventional vs High Ratio Mortgage**

A conventional mortgage covers up to 75% of the purchase price. If you require more mortgage financing than that, eg up to 95%, it is called “high ratio”. It means the ratio of debt to equity is higher than 75%. In that event, you are required to have it insured for default, by CMHC (Canada Mortgage and Housing Corporation), or GE Capital. You will pay a premium for that coverage.

### **Monthly Payments vs. Accelerated Mortgage Payments**

Many people routinely pay their mortgage payments monthly. However, if you pay more frequently than that, eg every 2 weeks or every week, your savings on interest over time is phenomenal. Get the financial institution to provide you with a printout of the benefits to demonstrate the benefits.

### **Bank Mortgage Insurance vs Private Term Insurance**

You may consider mortgage life insurance to clear off the mortgage in the event of death of the person or persons on the mortgage. If you obtain this through the financial institution, the premium is considerably higher than if you take out private term life insurance through an independent insurance broker. The additional advantages of using an insurance broker are that you could obtain term life insurance on both mortgage holders individually for less money, you have the control and flexibility of continuing that insurance after the mortgage is paid off. This is important in case you or the other mortgage holder otherwise might not be medically insurable for new insurance coverage at that point.

### **Mortgage Incentives**

Ask about incentives from the lender. Some lenders offer free property appraisals, free property inspections, and contribution to legal fees up to a certain amount, eg. \$500.

Take your time when doing your research and considering all the above options. It will save you a lot of money.

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