

Costly (to you) Games Banks Play

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In January of this year, CBC Marketplace looked into why bank fees are so high and their findings are rather interesting. If you didn't catch the episode on TV, you can still watch it at <http://www.cbc.ca/marketplace/episodes/2013/01/busting-the-banks.html>

This inspired me to highlight a few other practices that some banks carry on that are largely unknown or misunderstood by their clients. Some of these practices I have discussed in earlier commentaries. This again highlights why rate is not everything when considering a mortgage provider.

- 1) Variable Rate mortgage Lock in options – If you are in a variable rate mortgage you have the option of converting it anytime to a fixed rate mortgage at no cost. The issue is that not all lenders will offer you the lowest fixed rate upon conversion. A number of lenders will disclose that they will give you a percent lower than their current posted rate. Sounds pretty good until you do the math and find that even this rate is higher than their lowest rate offered to new clients.
- 1) Payout penalty calculation – This is never typically discussed when applying for a mortgage but can have very expensive consequences. If you are in a fixed rate mortgage and decide to pay it out early, your lender will perform two calculations. The first is to determine what three months interest is. The second one is called Interest Rate Differential (IRD). Whichever calculation results in the greater charge (benefit to the lender) is the one that applies. Here is where knowing how the lender calculates IRD is so important. Some lenders compare your contract fixed rate against their current discounted rate and others compare it against their posted rate. It is to your advantage that it is against the discounted rate.
- 2) Renewal rates – some lenders, even after you have been a loyal client for five years will offer you their higher posted rates upon renewal. Too me this is a slap in your face for being such a good client. Unfortunately eighty six percent of mortgage clients blindly sign these high rate renewal offerings. (Always feel free to contact me upon renewal to ensure you are getting the best possible rate)
- 3) Mortgage Registration – I have discussed this one previously and the CBC also refers to it in the Marketplace documentary. When a mortgage is registered as a mortgage, upon renewal you can switch your mortgage to a new lender to get a better rate and the new lender covers any appraisal and legal costs. TD Bank

registers their mortgages as collateral charges. Upon renewal, if you switch lenders, you pick up the appraisal and legal costs.

As you can see, getting a mortgage is not all about rate and really should be professionally handled with the assistance of an Accredited Mortgage Professional (AMP).

An **Accredited Mortgage Professional** is a professional who has passed a national proficiency standard for mortgage professionals in Canada. We are members of the Canadian Association of Mortgage Professionals, an organization of over 12,000 members throughout the country.