

Moneywatch: Mortgages are about more than just the rate

Check all terms before you sign

By FIONA ANDERSON, Vancouver Sun September 28, 2010 [Be the first to post a comment](#)

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With interest rates still near all-time lows, despite the recent increases in the Bank of Canada's overnight target rate, it may be time to rethink mortgages, not just the rates, but every element of them.

Photograph by: Tyler Anderson, Postmedia News

With interest rates still near all-time lows, despite the recent increases in the Bank of Canada's overnight target rate, it may be time to rethink mortgages, not just the rates, but every element of them. Because with rates still low — the best five-year rate with Invis this week is 4.09 per cent — the only way rates are likely to move in the long term is up. That means perks like portability and assumability may become more popular.

Rate should never be the only thing a homebuyer looks at but it often is, said Feisal Panjwani, senior mortgage consultant with Invis — Feisal & Associates Mortgage Consulting in Cloverdale.

“There's lots of lenders out there who may have great rates but rate is not the most important thing,” Panjwani said. “You've got to look at everything.”

Recently, as rates dropped, some borrowers found that out the hard way, having locked themselves into mortgages whose terms included huge penalties to get out of, even if they were selling. Others who wanted to re-mortgage to take advantage of lower rates, or to add a bit of money to help them through the tough times, found their mortgage didn't allow that.

So the terms of a mortgage can be very important, Panjwani said. For example, make sure you know what that penalty to prepay the mortgage is. Most mortgages will charge the borrower the greater of three months' interest or the interest differential to pay off the mortgage before the term is up. It's the interest differential — the difference between what you would have paid in interest for the remainder of your mortgage term and what the lender can get by re-lending the money to a new borrower for that time period — that can add up and that can differ among lenders who use may use different rates for the calculation.

That means, if you want to sell and pay off your five-year mortgage two years after taking it out, the lender could charge you the difference between your rate and the rate on a current three-year mortgage, which is always lower than a five-year.

As interest rates rise that penalty is less likely to be enforced, and lenders will instead ask for three months' interest. But borrowers should know what the penalty is before they borrow the money.

And while pre-payment penalties may become less important as rates rise, terms like portability and assumability will become more important, he said

Portability lets you take your mortgage with you if you sell your home and buy something new. That could mean a lot if rates have gone up significantly, Panjwani said. Some lenders only let you port the exact amount remaining in the first mortgage so if you need more funds you may have to take out a second mortgage, which would be at a higher rate, or do what's called a “blend and extend” where money is added to the existing mortgage and the going rate is averaged with the existing lower-rate mortgage. But in the end, a borrower whose mortgage is portable should end up with a rate lower than the current market rate at the time of the new purchase.

But even if a mortgage is portable, there may be limits to when it can be ported, Panjwani said. For example, some lenders, like smaller credit unions, will only lend if the home is within a certain geographical area. So if you are moving outside the area, you lose the portability.

Assumability is another perk in times of rising rates. Assumability lets the buyer of your property assume your mortgage, provided they qualify with your lender. So if your mortgage rate is below the market rate at the time you sell — which will be the case if rates go up between the time you buy and the time you sell — then having a cheap mortgage to offer along with

the house can be quite attractive to potential buyers, Panjwani said.

“If the rate is below market, the purchaser would likely be willing to pay more money for the property,” he said.

Also by passing off the mortgage the seller wouldn’t have to pay the penalty for breaking it, and the buyer would take over all responsibility under the old mortgage, Panjwani added.

Some mortgages have absolutely no frills, with no ability to pre-pay, no portability, nothing, Panjwani said. And lenders offering those mortgages often say only a small percentage of people use those features anyway.

“But that’s not the case,” Panjwani said.

In fact, on average, people change their mortgage every three years, he said.

So make sure you know the terms of the mortgage you’re signing.

“Don’t just look for a mortgage based on rate,” Panjwani said. “A lot of people make that mistake.”

Next: Should you go long? And what about fixed versus variable.

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