



Shopping Around for a Mortgage

WHAT IS A MORTGAGE AND WHERE CAN YOU GET ONE?

A mortgage is a loan that is designed to help you purchase a home or a piece of property and is secured on real property. You can get a mortgage from lenders such as a bank, an insurance company, a trust and loan company, a credit union, a *caisse populaire* or a mortgage broker.

How can you get a mortgage?

To see if you qualify for a mortgage, a lender will look at your current assets, your current level of debt, your income, your past record of paying bills and repaying loans, and, where applicable, your down payment on the home or property that you want to mortgage. Lenders will use this information to determine whether or not they will approve your application for a mortgage, and how much money they will lend you.

Most lenders will also provide you the option to “pre-qualify” for a mortgage amount, which will allow you to begin shopping for a home or property sooner.

How does a mortgage work?

Once a lender approves your application for a mortgage, you will have to negotiate the terms and conditions. This means determining how often you will make payments; how many years it will take to pay the mortgage off in full — this is called the “amortization period”; the interest rate that applies to your mortgage; and for what period of time this interest rate applies — the “term” of the mortgage.

If you are purchasing a property, the lender will advance the amount of the mortgage to a solicitor who will disburse the funds to the seller. You will then have to start making payments (including interest) on your mortgage, in keeping with the terms and conditions you negotiated with the lender.

At least once a year, you will receive a statement from your lender outlining the balance remaining on your mortgage. It will include details about how much money you have paid towards the principal and the interest of the mortgage.

Your mortgage is due at the end of your mortgage term, and your lender may require that you pay any balance remaining on the mortgage at that time. However, in most cases, the lender will offer to renew your mortgage on the same or different terms and conditions for a further period of time. At this point, you may review all of your options, including mortgage type, mortgage term and available rates. Remember, you are not obligated to remain with that lender. Shop around and see if you can borrow the remaining balance from another lender at a better interest rate or with features that you prefer.

What are the advantages of a mortgage?

- A mortgage enables you to buy a house without having to pay the entire amount when you buy.
- It generally offers lower interest rates than other types of loans, since you use your house as security.

- Even if your home has a mortgage, you still own your home. Increases in the value of your home and/or payments made towards your mortgage help build your assets. Once you have paid your mortgage in full, you own your home free and clear.
- You can repay a mortgage over a long period of time.
- There are a number of mortgage options available to choose from.
- There are several ways to pay your mortgage off faster and save on interest charges.
- Mortgages are usually “portable” from one home or property to another.

What are the disadvantages of a mortgage?

- You have to pay interest on a mortgage. The longer you take to pay off your mortgage, the more interest you will pay.
- If you can't make your payments, you may damage your credit rating. If your mortgage goes into default, you could lose your house.
- If you break your mortgage contract before the scheduled maturity date, you may have to pay a penalty.

Tips to help you shop around for a mortgage

Ask yourself:

- How much can I afford to borrow?
- Will I be able to make the payments required while still being able to pay for utilities, and property and land transfer taxes?
- What is the interest rate? What is the term?
- How much will I have to pay in legal fees? What services do these fees cover?
- How much are the property appraisal fees?
- What options do I have if I want to pay my mortgage off early? What kind of penalty will I have to pay if I break my mortgage contract before the maturity date?
- Have I shopped around to find the best combination of interest rate and features for my needs?
- What is the current interest rate environment? Will rates rise or fall?
- If I sell my house or property and buy another one, is my mortgage “portable”?
- How can I save on interest charges? What options do I have?
- How can I increase my down payment and save on interest charges?
- When I apply for a mortgage, what are my rights?

Where to go for more information

The Financial Consumer Agency of Canada (FCAC) provides timely, objective information to help consumers choose the best banking products and services for their needs. FCAC also informs Canadians of their rights and responsibilities when dealing with financial institutions and makes sure that banks and federally regulated trust, loan and insurance companies respect the laws and agreements that protect consumers.

You can reach us by phone through our toll-free Consumer Contact Centre at 1-866-461-3222 (our TTY number is 613-947-7771 or, toll-free, 1-866-914-6097), or by visiting our Web site at www.fcac.gc.ca.

If you would like more information about mortgages, see our publication *The ABCs of Mortgages*, our on-line mortgage calculators or other mortgage tools.