



Nine Common Mortgage Mistakes

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By not paying attention to a few simple steps, many Canadians who apply for mortgages end up losing money because of these costly mistakes.

Procrastination

To some extent, we all procrastinate. And occasionally we benefit from it. This doesn't apply when arranging for a mortgage. Believe it or not, some apply for a mortgage just days before their closing or mortgage renewal dates. This is simply wrong.

As soon as you start thinking about buying, you should talk to your bank or mortgage broker. This process is called getting a pre-approved mortgage. This guarantees the best rate for up to 120 days even though the rate may fluctuate higher during that time. If during this time you find a better rate elsewhere, you can also apply for it. The pre-approval is not an obligation to borrow; it is the lender's obligation to provide you with the best rate.

Do not shop around

You might be happy with your own bank branch's services and mortgages. But are they competitive? Other lenders may offer better plans. One strategy is to begin mortgage hunting at your own branch and use that rate as a basis for comparison when shopping around at other banks and mortgage brokers. Banks can only provide you with set mortgage products; mortgage brokers offer myriad more lenders to choose from (and may well include your own bank at a better rate).

Credit history

Lenders evaluate a loan based on a number of criteria. Besides total annual income, they look at your credit history to determine whether you are a good risk. Everyone has a profile in the two major credit bureaus, Equifax and Trans Union, companies that record your debt and payment history. A good rating gives you better bargaining power for a lower interest rate, while a low rating will mean higher rates for borrowing. It is recommended that you review your credit report annually to help identify errors or misinformation and possibly avoid any embarrassing situations.

Beware of big mortgages

Remember that banks and brokers receive commissions based on the size of a mortgage. When figuring the amount of a mortgage, consider its affordability, not just for the largest mortgage the lender will approve. Larger mortgages tend to have larger monthly payments than can impact your standard of living. Any slight change in your income status may have a dramatic impact on your ability to make mortgage payments. And if you can't pay, the bank can take your house and sell it.

Not reading your contract

Many of us go to the bank for our mortgages and sign those complex documents within minutes. Since we feel obligated to trust our banks, we don't feel the need to review the documents. But remember that contracts are written by lawyers and can be difficult to understand. Don't sign anything before you had a chance to read it and clearly understand



it. And ask as many clarification questions as possible.

There are other factors than rates

Interest rates determine the cost of your mortgage. But, an interest rate alone is not the only criterion to use when assessing a mortgage. Other factors may be equally important. The reputation of the mortgage company is crucial. Check them out. Also, consider the pre-payment privilege. How much will you be allowed to pay beyond your regular payments? Do they allow 10%, 15%, 20% or 25% lump sum payments toward the original mortgage every year? How many times can you pay down in a year? Paying down your debt more quickly means less interest paid over the term of the mortgage.

Exaggerating the truth

Inflating your annual income on your mortgage application is a fraud. Banks or other lenders will rarely prosecute, but they might have grounds to rescind the mortgage offer. Also, never, never sign a blank mortgage application. Any mortgage brokers who fills in your info and exaggerates your income to get a mortgage approved is committing fraud. You are either involved in a fraud or become a victim of it. Most of the information in a mortgage application may be recorded with the credit bureau and cause you further problems down the road. Honesty is always the best policy.

Chasing the lowest rate

If you try to find the absolute lowest mortgage rate on the market, you might have already become a target for those claiming a lowest rate guarantee. In fact, more often than not, they are neither able nor interested in providing you with the lowest price. Their strategy is to get you into the lengthy

mortgage process and work you until you have no time to switch lenders, leaving you with a higher rate than previously promised.

Not paying extra towards your mortgage

Choose an accelerated payment plan. For an accelerated biweekly payment plan, you pay half of your monthly payment every two weeks, resulting in two extra payments a year. This reduces your amortization from 25 years to less than 22 years. Moreover, you do not need to wait until you have accumulated a large lump sum to pay into your mortgage. Take the first opportunity to pay down extra even if it is just \$100. Review your bank accounts biweekly to check for any surplus. If there is, transfer it to your mortgage account the earliest you possibly can.

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