TMG

Top 5 Mortgage Renewal Tips to save you Time & Money

If you're like most Canadians, your mortgage is your biggest monthly expense. It pays to plan ahead and consider these 5 key mortgage renewal tips:

1. AVOID THE BANK MORTGAGE ROLLOVER TRAP

We hear countless stories of people willing to pay hundreds of dollars in cancellation fees to switch cell phone, cable or even home security providers, yet when presented with an opportunity to save thousands of dollars, some mortgage holders don't seem to want explore their options.

As easy as it appears to simply renew your mortgage at your bank, it's an expensive mistake banks count on that costs homeowners thousands of dollars and years of unnecessary payments on their mortgage. Lenders often wait until there are approximately 30 days before renewal to contact you and make you a renewal offer. That's because banks know that by leaving it to the last minute, chances are you will renew your mortgage with them and not at the best rates.

For proof, look no further than the Bank of Canada's finding that banks do not treat all customers the same. In fact, they offer larger discounts to new clients than to existing clients in order to maximize profits when faced with reduced competition [(1)].

2. CONSIDER A MORTGAGE BROKER FIRST

With ever-changing mortgage lending rules, more Canadians than ever are looking to mortgage brokers to better understand their options.

With a single application and credit review, mortgage brokers can navigate the market on your behalf, assessing solutions from multiple lenders to provide a range of options. They can advise on product features including prepayment options and penalty calculations to match you with the right product for your unique circumstances.

Recent studies have also confirmed that consumers who use a mortgage broker save on average 19 basis points on their rate [2]. By having a mortgage broker do the research and negotiating on their behalf, those Canadians achieved an average rate decrease of 1.4% off the posted rate compared with just 1% among other renewers doing the legwork on their own.

To give you an idea of how that computes, on a $225,000 mortgage, saving even 0.4% on your mortgage rate can save you over $10,000 during a 20 year term [3].

By acting in your best interest, mortgage brokers can lock in a rate with various lenders for a no-cost mortgage transfer as much as four months in advance of your renewal date. If the rates go up, you don't have to worry; your rate is guaranteed. If the rates go down, you receive the lower rate.

Reviewing options with a broker does not negate an offer to renew with your existing lender. In the end your broker may advise you to stay where you. It is however worth finding out whether or not you can financially benefit by switching.

3. NEVER ACCEPT THE BANK'S POSTED RATE

If you prefer to stay with your bank, chances are they might quote an additional discount but will likely tell you, "If you find a better rate, call us and we'll match it."

Take them up on it and do your homework, but be sure to start at least four months in advance to ensure you have enough time.

Find out what other lenders are offering so you can negotiate. However, don't just focus on the interest rate. The amortization period, fixed or variable type of rate and the flexibility of the payment schedule all impact your ability to lower your mortgage cost and payments.

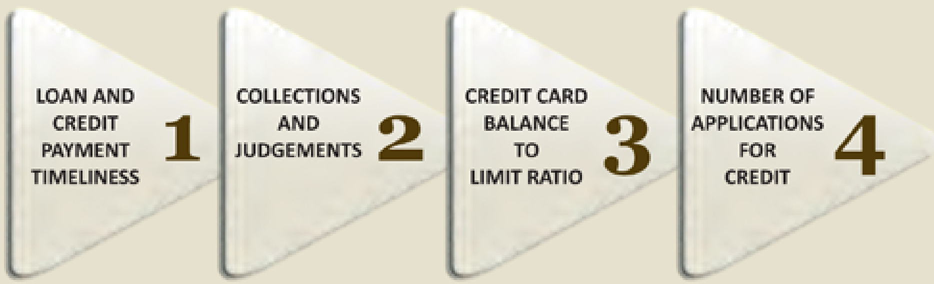
Note that if you choose to renew your mortgage early at the rate your bank has quoted, you lose any opportunity to renew the mortgage at a lower rate if one becomes available during the period leading up to your renewal. And in some cases, banks may quote you a penalty to renew early.

4. CLEAN UP YOUR CREDIT

Mortgage lenders rely on your credit score and the details of your credit performance when reviewing your mortgage application. The difference between a good or not-so-good credit score can affect your ability to get the lowest mortgage rates.

The first indicator of credit performance that a lender uses is something called Beacon Score. The terms Power Score, FICO Score and Credit Score are also used. These mysterious "scores" come from a statistical model that processes all of the transactions in your credit life. Someone starting out brand new in the credit world starts with a score of 600. At the top of the positive end of the scale the score can reach well into the 800s. At the low end the score can be in the 300s.

Four aspects of your credit profile are important in determining your personal Beacon Score:



To maintain your credit rating and keep your score moving in the right direction:

1. Make payments on time; within the 0 to 30 day window
2. Keep credit card balances at or below 50% of the authorized limit
3. Apply for new credit over a prolonged period of time

Mistakes on credit reports resulting in false credit scores can also cost you thousands of dollars in higher interest rates according to an investigation by CBC News.

In many cases, consumers are unaware of negative information on their reports. It's not surprising. The two credit reporting agencies–TransUnion Canada and Equifax–are inundated daily with hundreds of pieces of information with regard to consumer accounts and payment histories. That information comes from companies such as phone service providers and banks. These companies pay a fee for the bureaus to track clients and in return, the credit bureaus provide the companies with access to consumer credit reports containing information from all the reporting agency's client companies.

You can request your credit report information via mail or online. Credit reports via mail are free but do not include your credit score. Credit reports and scores are available online, for a small fee. For more information visit Equifax at www.equifax.ca and TransUnion at www.transunion.ca.

5. RENOVATE OR CONSOLIDATE

A mortgage renewal is an ideal opportunity to increase the value of your home with a renovation. In fact, of the $46 Billion in equity financing in Canada this past year, 38% or $17.25 Billion funded home renovations.

Given that more often than not, home improvements are less expensive than relocating, the cost to make that dream kitchen happen can be rolled into your mortgage renewal.

The same is true with debt. If you are carrying high-interest debt outside your mortgage, you can consolidate your debt as part of your mortgage renewal and pay it off at a lower interest rate. You can also look at prepayment privileges to pay it off faster. It's a great way to free up cash flow and breathe easier.

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(1) Competition in the Canadian Mortgage Market, Bank of Canada Review Winter 2010-2011.

(2) www.bankofcanada.ca/wp-content/uploads/2011/02/allen.pdf

(3) Based on 2.99% Annual Percentage Rate over 20 year mortgage term vs. 3.39% = $10,767 interest savings.