Why you need to shop around for a mortgage

By Gail Johnson | Pay Day – 3 hours ago

It's often noted that people spend more time shopping for a pair of skis than they do for a home. It seems the same can be said for shopping around for mortgages.

Nearly half of U.S. home buyers don't consult multiple lenders when they're seeking a mortgage, according to a new report by the Consumer Financial Protection Bureau. As a result, consumers may not be getting the best possible deal and could be forfeiting big savings.

The survey found that 47 per cent of borrowers who purchased a home in 2013 considered only one mortgage lender. The number was slightly lower, at 44.5 per cent, for first-time homebuyers.

One reason that could explain people's lack of diligent research is the myth that shopping around for a mortgage can hurt your credit score. In fact, multiple credit checks from mortgage lenders over a short period of time are typically treated as a single inquiry and won't hurt your score.

The Financial Consumer Agency of Canada advises consumers seeking the best mortgage rate to do it within a two-week period.

Despite the Bank of Canada's recent surprise interest-rate cut, we're still in an era of historically low rates and at some point they'll start to go up. That's why shopping around for a mortgage is crucial; even shaving off a few basis points can have a big impact on your finances.

Consider the difference of a 3 per cent rate versus a 3.5 per cent rate on a $400,000 mortgage with a five-year term and 25-year amortization period.

The approximate savings would be $100 on your monthly payment, interest savings of $9,500 over the five-year term, and interest savings of $31,000 over the 25 year amortization, according to Toronto certified financial planner Renée Verret, a certified money coach with Money Coaches Canada (http://moneycoachescanada.ca/renee-verret/).

“Do your homework so you don’t pay more than you have to,” Verret says. “A monthly mortgage payment is a big expense, particularly in Canada’s largest cities, so make sure you can afford the new payment in your budget going forward. Practise living a few months with the new mortgage payment to see how your cash flow fares.

“This is likely the single biggest purchase of your life and your largest asset,” she adds, “so give it the respect and due diligence it deserves.”
So how, exactly, can you ensure you’re getting the best possible mortgage?

Verret suggests getting some baseline rate information on-line via sites like RateHub.ca or RateSupermarket.ca. From there, be sure you have a clear sense of exactly what you’re dealing with.

“Understand mortgage terminology, things like term, amortization period, accelerated bi-weekly payment, interest rate differential, and so on,” Verret says. “Make sure you understand what type of mortgage you want — for example, a collateral mortgage versus a conventional mortgage — read the fine print, and ask questions so there are no surprises down the line.”

She also advises simply asking if a lender can give you anything better than its first offer.

“You might have some wiggle room on the bank’s posted rates,” Verret says. “Discounted rates are offered to credit-worthy applicants, so ask for them.”

Before jumping at the first seemingly decent rate, however, experts caution that there’s more to a mortgage than that single, enticing number.

“Not all mortgages are created equal,” says mortgage broker Karen Gibbard, president of Gibbard Group Financial in North Vancouver (http://gibbardgroup.com/). “It’s not all about the rate. A client needs to know the interest rate for sure but they must also know the terms of the mortgage. Clients should shop around for the best rate but should also be shopping for the best terms to suit their personal financial situation.

“For instance, some lenders are offering incredibly low interest rates at the moment—as low as 2.74 per cent for a five-year fixed term,” she notes. “A client may see this rate and not ask any further questions only to find out later that the penalty on this mortgage is much higher than that of a traditional lender. There could also be questions about the portability or assumability of the mortgage and the pre-payment options may be different than that of a traditional lender.”