Approach mortgage deferral with eyes wide open

By Elaine Smith Special to the Star
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It’s tempting for homeowners to take advantage of the mortgage deferrals available from Canada’s major banks during the COVID-19 pandemic. It could be a blessing to not have to make your payments for up to six months during this period of reduced incomes and economic upheaval. Before panicking and rushing to your computer to submit a deferral application, however, it’s important to take a moment to consider if it’s the best option for your situation.

One key point to remember, says David Larock, the broker and owner of Integrated Mortgage Planners in midtown Toronto, is that this is a deferral, not forgiveness. You will still be required to make your payments once the deferral ends, and the interest for each month deferred will generally be added to your outstanding balance. In addition, the time to apply for a deferral is *before* you miss a mortgage payment.

Need vs. panic

It’s useful to determine if you really need an immediate deferral or if you can wait a month or two before calling your bank or applying. “Many people just want to know if they can stop paying their mortgage for a while, but they’re not in distress.

“Be honest with yourself about how much you are in need,” Larock said. “You wouldn’t go to a food bank as a precaution, in case you might need food next month, so don’t apply for a deferral.”

Jerome Trail, broker of record at The Mortgage Trail in Toronto, concurs.

“Every case will be addressed, but let lenders focus on those people with pressing needs,” Trail said. “I don’t want to diminish anyone’s long-term concerns, but don’t apply for a deferral unless you are going to miss your next payment. If you have questions, communicate with your bank by email. You don’t want to wait on the phone for four hours; it’s an exercise in frustration.

“Be patient. Understand that this is a unique time for everyone and the lenders’ systems were not set up to accommodate all the volume, even before people moved to work from residential settings.”

Lee Welbanks, principal broker and owner of Welbanks Mortgage in Toronto, believes it’s worth asking for a deferral just to be on the safe side.

“It’s best to do it just to be safe,” he said. “You can put the money you’d ordinarily use to pay your mortgage in an account and save it in case you need a cushion. Three thousand dollars, for example, adds up over six months.”

Liisa Tatem, a certified financial planner with Money Coaches Canada, says homeowners need to look beyond their emotions to the numbers.

“It’s worth doing the math to see how much the deferral will actually cost in terms of extra interest,” Tatem said. “You may only be talking a hundred dollars or so. If it won’t cost that much more, it may be worthwhile.

“People will be strapped for cash. They may need to choose between a deferral or putting bills on their line of credit or credit cards. It’s cheaper to get a mortgage deferral from an interest perspective. Credit cards generally have 19 per cent interest compounded (Note: Canadian banks have now dropped their credit card rates by about 50 per cent due to the pandemic); that’s a lot more expensive than three per cent compounded onto your mortgage balance.”

Stacy Yanchuk Oleksy, director of education and community awareness for the Credit Counselling Society, reminds people to get in touch with their creditors before they miss a payment.

“Some signs that deferral might be a good option are having no emergency savings, a reduced cash flow and the need for significant financial relief while waiting for income support,” she wrote in an email.

Credit-rating concerns

Although the impact on your credit rating might be a consideration, most of the major banks have said the deferrals won’t make a difference.

“We have been in close contact with credit bureau agencies and have been advised that there will be no material impact on credit scores they calculate," AJ Goodman, RBC's director of external communications, personal and commercial banking, said in an email. "This is true for all products eligible for deferrals (i.e., credit cards, mortgages and personal loans)."

Douglas Johnson from Scotiabank also weighed in by email.

"Requesting and receiving financial relief from a mortgage will have no impact on a customer's credit score," wrote Johnson, manager of reputation and issues management at Scotiabank.

Other banks, such as BMO, reassure customers on their websites. "There's no impact to the repayment status of the mortgage account in your credit history," BMO's personal banking site says.

Welbanks says it makes no sense for banks to report your deferred mortgage as something negative to Equifax or TransUnion, the credit-rating agencies.

"I don't want to scare people away from doing the thing they have to do to save themselves," Welbanks said. "It would be public-relations suicide for any creditor to intentionally ding their credit. Some accounts might slip through the cracks, but the credit agencies will fix that for you as long as you were approved for a deferral."

Nonetheless, it's wise to keep an eye on your credit rating. Both Equifax and TransUnion are offering free credit reports during the crisis, so it's an opportunity to review any weaknesses in your rating and ensure any mistakes are fixed. It usually takes about a month for the banks to report the most current data, which is something to keep in mind if you want to request a free report after getting your deferral approved.

Tatem says it's also important to remember that "other things also affect your credit score, such as missing bill payments and running up your line of credit to the maximum."

Finally, Yanchuk Oleksy cautions, "If you have to defer your mortgage, get it in writing, how much it will cost you and how it will be reported to the credit bureaus."

In conclusion

If you need or want a deferral, contact your lender directly, online if possible. Deferrals are granted on a case-by-case basis.