CHOOSING THE BEST RATE: A MONEY-SAVING CHECKLIST

13 Questions To Find Your *True* Best Rate

1 IS THE MORTGAGE FOR YOUR PRIMARY RESIDENCE?

✓ You'll get the lowest rates on your primary residence - i.e., the place you live the majority of the year.

✗ Non-owner occupied properties (e.g., investment properties) are higher risk for lenders, so the cheapest rates are seldom available. You'll pay up to 25 bps more than if it were your primary residence.

One basis point (bp) = 0.01 percentage points. In other words, 10 bps = 0.10%, or one tenth of a percent.

2 IS YOUR CREDIT SCORE LESS THAN 720?

680 is the minimum score to get great rates. But more and more lenders are starting to require 720 or above. By regulation, a sub-680 credit score will also lower the amount of debt you can carry if you want a competitive rate.

Expect to pay at least 10 to 20 bps more if your score is below 680. A score of 720 to 750 can sometimes save you an additional 5 to 10 bps, depending on what specials are currently available.

3 DO YOU HAVE A PROPERTY ADDRESS ALREADY?

✓ If you don't, then you'll only get a pre-approval, and pre-approvals never come with the best rates.
Tip: Reset your pre-approval every 45 to 75 days if rates have stayed low and you're still home hunting. Get a second pre-approval if needed.

✗ Pre-approvals have benefits but they are not full approvals. You'll almost never get the best rate on a pre-approval. Expect to pay at least 20 bps more than rock bottom rates if you have not yet purchased a property and just need a rate hold.

4 CAN YOU PROVE YOUR INCOME?

✓ To get the best rates you need to prove your income with official documents like pay stubs, T4s and NOAs. If you're self-employed, you must typically show your two prior years' tax returns.

✗ If you're on employer probation, self-employed for less than two years, or a contract or part-time worker for less than two years, you may not qualify for the lowest rates on the market. Expect to pay extra - up to 1.50%-points (or more) on top of the lowest rates - if you don't sufficiently prove your income.

5 IS THE PROPERTY URBAN?

Good news for you city dwellers. Purchasing a marketable property in a non-rural area is essential for getting a rock-bottom rate.

Sorry country bumpkins, lenders deem rural properties a bit more risky. That's because they're often more difficult to sell in the event of a foreclosure or economic shock. Unless it's near a decent-sized city, your country casa could eliminate some low-cost lenders as options, costing you another 10 to 20 bps on your rate.

6 IS MORTGAGE PREPAYMENT FLEXIBILITY IMPORTANT TO YOU?

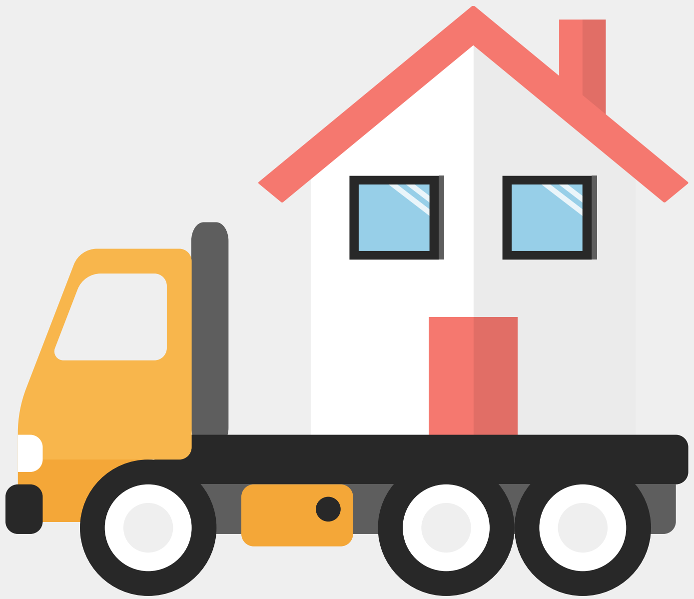
Lenders with the most generous prepayment options often charge more. You can sometimes save up to 0.10%-points by choosing a mortgage with restrictive prepayment policy. Mind you, prepaying even 4% of your mortgage early can save you more interest over five years than a 0.10%-point rate savings.

Some of the lowest rates available allow no or limited prepayments. This isn’t a problem if you don’t expect to pay down your mortgage ahead of schedule. If you know you’re going to prepay less than 5% of your mortgage over your term, take a lower rate instead (so long as it’s at least 10 bps lower).

7 IS YOUR CLOSING DATE LESS THAN 30 DAYS AWAY?

If you only need a short 30-day rate hold, it costs your lender less to hedge its interest rate risk. Therfore you'll often get a lower rate. The lowest rates on the market are usually for these "quick closes."

The longer a lender guarantees your rate, the more rate risk it takes. If you don't plan to close for 90 to 120 days, expect to pay at least 10 bps more compared to a rate with a 30-day rate guarantee.



8 DO YOU NEED EASY PORTABILITY?

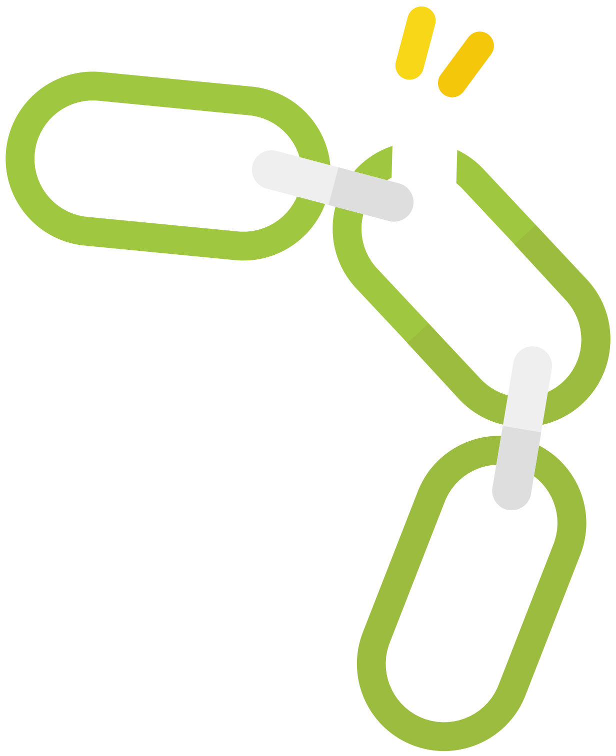
If there's a good chance you'll move before the end of your term, choose a rate with a *minimum* of 60 days of portability. That gives you ample time to move your mortgage to a new property without penalty. But keep in mind, this could add anywhere from 5 to 15 bps to your rate vs. the best rates available.

Some deep discount lenders charge a penalty if you move to a new home and aren't able to close your old property and new property within 30 days or less (which can be a challenge). If you know you won't move before your mortgage matures, then take the lower rate when available.

9 CAN YOU LIVE WITH A LARGE PENALTY?

✓ Penalties for breaking a closed mortgage before the end of its term can cost thousands - many thousands - of dollars. Are you still sure you can live with a large penalty? Even if you don't anticipate needing to break your mortgage early, life is known to throw curveballs. Make sure you know the potential penalty you would pay before opting for that cheaper no-frills mortgage.

✗ A low-penalty mortgage will cost you about 10 bps more than a high-penalty option, but you'll likely still come out ahead should you need to break your mortgage early.



10 IS YOUR DOWN PAYMENT (EQUITY) AT LEAST 20%?

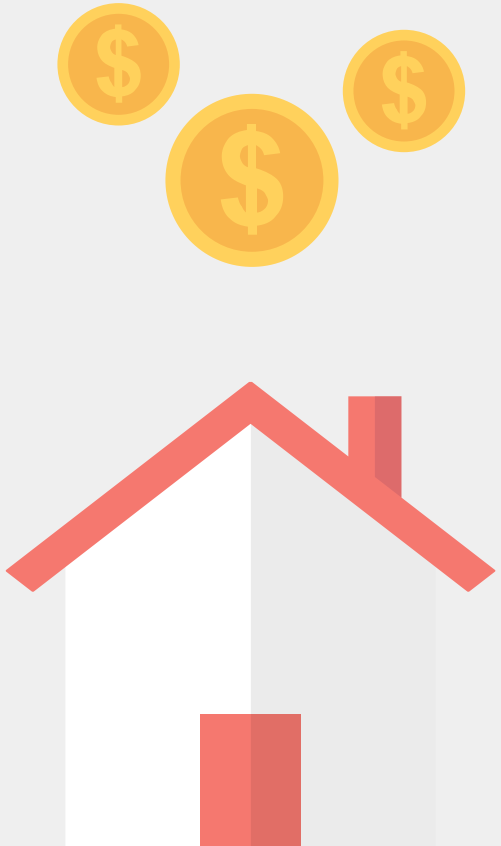
✓ After your credit and income, the loan-to-value (LTV) of your mortgage is the most important determinant of your rate. With a down payment of at least 20% of the property's value, you'll avoid the cost of default insurance (a.k.a. CMHC fees).The bad news is, you'll likely to pay up to 20 bps more on your rate compared to someone with only 5% to 19.99% down. Thats because mortgages are less costly for lenders if the borrower pays for government-guaranteed insurance..

✗ With less than 20% down, good credit and provable income, you'll save at least 10 bps on the rate. Remember though, default insurance will cost you anywhere from 2.80% to 4% of the mortgage value, depending on your down payment. In other words, you'll pay more interest overall—even with the rate savings—than if you had a 20%+ downpayment.

11 CAN YOU PASS THE GOVERNMENT'S NEW STRESS TEST?

The federal government's new mortgage rules from October 2016 require default insured borrowers to now prove they can handle payments at the Bank of Canada's posted 5-year "qualifying rate" (which is about 2%-points higher than 5-year fixed rates, as of May 2017). Meeting this hurdle helps ensure you don't pay higher uninsured mortgage rates.

If you can't qualify at the Bank of Canada's "qualifying rate" but you have 20% down or more, some lenders will still approve you if you can prove that you can afford a payment based on your actual contract rateat. However, this option will sometimes cost you up to 15 bps more on your rate.



12 IS THE PROPERTY WORTH MORE THAN $1 MILLION?

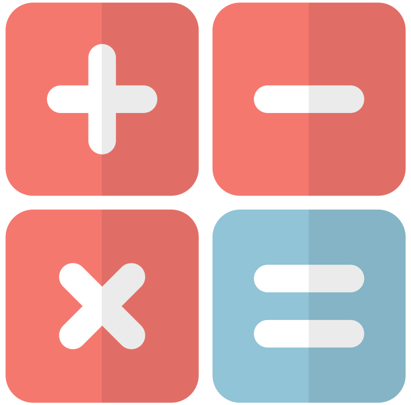
✔ The new mortgage rules also banned lenders from insuring properties valued at $1 million or more. That means you'll often pay 10 to 15 bps more than the best market rates if you've got a 7-figure home.

✖ There are no rate premiums attached to properties valued under $1 million, so long as they are marketable (e.g., not in bad condition, not rural/agricultural, etc.).

13 DO YOU WANT AN AMORTIZATION LONGER THAN 25 YEARS?

Amortizations are as long as 35 years in Canada, but only if they are not default insured. Insured mortgage amortizations must be 25 years or less. A longer amortization will reduce your payments, but could add up to 10-15 bps onto your rate.

If you don't need an extended amortization and your mortgage can be insured (by you or by the lender) then no amortization-related rate premiums will apply.



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