Shopping Around for a Mortgage

What is a mortgage?

A mortgage is a loan that is designed to help you purchase a home or other property. You can get a mortgage from lenders such as:

- banks
- insurance companies
- trust companies
- loan companies
- credit unions
- caisses populaires

You can also use a mortgage broker to help you find a mortgage.

How does a mortgage work?

Home buyers make a down payment on the purchase price and then borrow the remainder from a lender. Five percent is the minimum down payment home buyers have to make.

The lender provides a mortgage loan equal to the difference between your down payment and the purchase price of the home. You will then have to start making regular payments to the lender to pay back the amount you borrowed, called the ***principal***, plus interest, according to the terms and conditions you negotiate.

The longer you take to pay the mortgage back, the more interest you will pay. The higher the interest rate, the higher your regular payments. If you default on the loan – that is, if you cannot or do not make regular payments – the lender can take ownership of the property.

How can you qualify for a mortgage?

Before lending you money, a financial institution will check whether you qualify for a mortgage. Lenders look at things like your current assets, your income and your current level of debt.

Negotiate the terms and conditions of the mortgage

Once a lender decides to lend you the money, you will have to negotiate the terms and conditions of the mortgage. These include:

- the amount of the mortgage – how much the lender will lend you
- the ***amortization period*** – how many years it will take to pay the mortgage off in full
- the ***term*** of the mortgage – the length of time your agreement with the lender is in effect, or until you decide to renegotiate your mortgage or pay it off in full
- how often you will make payments
- if it is a fixed rate mortgage, the interest rate you will pay until the end of the term.

Fees associated with buying a home

There are several different kinds of fees that you may have to pay when you buy a home, not all related to the mortgage. These can include:

- legal fees
- property appraisal fees
- home inspection fees
- land registration fees (land transfer tax)
- mortgage default insurance premiums
- title insurance fees

Your mortgage agreement

Read your mortgage agreement carefully and be sure to ask about anything that you do not understand.

All federally regulated financial institutions must provide you with certain information about your mortgage in the loan agreement. They must present **key information**, such as :

- the amortization period
- the annual interest rate
- the mortgage term
- the schedule of you payments
- your prepayment privileges
- other related fees

This information must appear clearly in an **information box** at the beginning of the mortgage agreement

For an example of what an information box would look like and what information has to be included please visit **fcac.gc.ca** or call FCAC for a copy of the information.

Key things to consider

- Your mortgage is likely the largest single debt that you will take on in your lifetime. Make sure you shop around to save money and get the terms that best match your needs.
- Be sure to consider the ongoing expenses of home ownership, including property taxes, repairs and maintenance, insurance, utilities and more.
- Be sure to consider plans that might affect your ability to make mortgage payments, like starting a family, going back to school or changing your employment.
- Consider leaving a cushion in your budget to cover unexpected costs, such as a potential increase in both interest rates and your mortgage payments when you renew.
- If you don't make **at least** a 20 percent down payment on your home, you **have to** get mortgage default insurance. If you default on your mortgage, the insurer pays back the lender. The cost of the insurance is usually added to the loan amount.
- If you are a first-time homebuyer, you can use the **Home Buyer's Plan** (HBP) to help you make the down payment on your home.

Questions to ask about mortgages

Here are some questions that you should ask yourself before you get a mortgage.

1) How much can I afford to borrow? FCAC has an interactive Mortgage Qualifier Tool (hyperlink) that can help you figure out how much you qualify to borrow. You can find the tool at **fcac.gc.ca**. Remember that this is a maximum, and consider leaving a cushion in your budget so you are not stretched to the limit.
2) How much will I have for a down payment?
3) How much of an increase in my mortgage payments will I be able to afford if interest rates go up?
4) Have I shopped around to find the best combination of interest rate and features for my needs?

As you shop around for a mortgage, ask each lender:

1) What is the interest rate? What is the term?
2) What fees do I have to pay?
3) How can I save on interest charges? Can I make extra payments when I have money available? What options do I have?

4) If I sell my house or property before the scheduled maturity date, will I have to pay a penalty? If so, how much will the penalty be?

5) What options do I have if I want to pay my mortgage off early?

6) If I sell my house or property, can I transfer the remaining amount of my mortgage and the terms to a new property without paying a penalty (portable mortgage)?

For more information

For more information on shopping around for a mortgage, visit FCAC's website (fcac.gc.ca) or contact your financial institution.

Notes

About Financial Consumer Agency of Canada (FCAC)

With educational materials and interactive tools, the Financial Consumer Agency of Canada (FCAC) provides objective information about financial products and services to help Canadians increase their financial knowledge and confidence in managing their personal finances. FCAC informs consumers about their rights and responsibilities when dealing with banks and federally regulated trust, loan and insurance companies. FCAC also makes sure that federally regulated financial institutions, payment card network operators and external complaints bodies comply with legislation and industry commitments intended to protect consumers.

Contact Us:

Website: fcac.gc.ca

Toll-free: 1-866-461-3222

TTY: 613-947-7771 or 1-866-914-6097

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