Financial Consumer Agency of Canada
Agence de la consommation en matière financière du Canada

ABCs OF MORTGAGES SERIES

RENEWING AND RENEGOTIATING YOUR MORTGAGE

Smart mortgage decisions start here

Financial Consumer Agency of Canada
IT PAYS TO KNOW.

Canada

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Note: FCAC's Mortgage Calculator tool, available at itpaystoknow.gc.ca, was used to determine the dollar amounts in the examples in this publication. If you use another tool, such as a lender's calculator, the results may differ slightly since the figures will reflect a different method of calculation.

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.

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IT PAYS TO KNOW

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OVERVIEW

When you bought your home, you probably signed a mortgage agreement that remains in effect for a certain period, called the term. When your mortgage term comes to an end, you will have to pay off your mortgage, **renew** it for another term or switch your mortgage to another lender.

Your options are different depending on whether you have a standard or collateral charge mortgage. Standard charges are also known as conventional charges, non-collateral charges, traditional charges, traditional residential mortgages, residential mortgages, deeds of hypothecary loan and retail mortgages.

Some banks have agreed to provide information on the types of charges used as security for repayment of the mortgage loan. As of September 1, 2014, members of the Canadian Bankers Association that offer residential mortgage loans have agreed to adopt a voluntary *Commitment to Provide Information on Mortgage Security*.

The end of your term is a good opportunity to reassess what you need in a mortgage and to look for mortgage options that better fit your needs today.

In some cases, you might want to **renegotiate** your mortgage before the term ends.

You might want to renegotiate your mortgage if your financial situation has changed. Or perhaps you might want to take advantage of changes in the interest rates that are available from mortgage lenders.

Renegotiating generally involves breaking your mortgage contract and may result in some significant costs. Before taking this step, it's important to consider carefully the costs and benefits.

Whether you plan to renew or renegotiate, knowing what questions to ask can help you get the best mortgage for your needs.

Words and phrases shown with this symbol throughout the text are defined in the Glossary at the end of the publication.

THE RENEWAL PROCESS

What to expect from your lender

If your mortgage agreement is with a federally regulated financial institution such as a bank, **the lender must provide you with a renewal statement at least 21 days before the end of the existing term**. The financial institution may provide the statement to you as a paper document, or electronically if you consent to receive required information in electronic format.

This statement must contain the same type of information that is in your current mortgage agreement, such as the balance or remaining principal at the renewal date, interest rate, payment frequency, term and any charges or fees that would apply. It may be combined with a mortgage renewal agreement.

If your lender decides not to renew your mortgage, it must notify you at least 21 days before the end of your term.

When to start shopping around

Don't wait until you receive the renewal letter from your lender. A few months before the end of your mortgage term, contact various lenders and mortgage brokers to check if there is a better mortgage option with terms and conditions that suit your needs.

Take an active approach to finding the mortgage that best meets your needs. Remember that for most people, the mortgage payment is one of the biggest chunks of their household budget. Shopping around and negotiating with your current lender will save you money. You may qualify for a discounted interest rate that is lower than the rate quoted in your renewal letter.

On the other hand, if you don't take charge of the process, your mortgage might automatically be renewed for another term. This means that **you may not get the best interest rate and conditions.**

Renewing your mortgage with your current lender

The first step is to reassess your needs. Ask yourself the following questions to help you find the right mortgage:

- Does your household budget allow you to increase your mortgage payments so you can pay off your mortgage sooner and save on interest charges?

- Do you want to change your payment frequency (for example, by switching from monthly payments to accelerated bi-weekly payments so you can pay off your mortgage faster)?
- Do you think you are likely to make additional prepayments?
- Are you satisfied with the services offered by your current lender?
- Do you want to consolidate other debts that have higher interest rates?

When you negotiate an interest rate, ask whether you qualify for any special or discounted rate so that you are getting the best rate available. Tell your lender about offers you have received from other financial institutions or mortgage brokers.

Switching to another lender

You do not have to renew your mortgage with the same lender. You can choose to move your mortgage to another lender if it offers you terms and conditions that suit your needs better.

The new mortgage lender will need to approve your mortgage application. The criteria it uses to see whether you qualify for a mortgage may be different from those used by your original lender.

If you decide to switch your mortgage to another lender, make sure you find out the costs of changing lenders, such as:

- set-up fees with the new lender, such as fees to discharge the previous mortgage and register the new mortgage
- a transfer or assignment fee from your current lender
- an appraisal fee to confirm the value of your property (if necessary)
- other administration fees.

Ask if your new mortgage lender would be willing to pay for some or all of your costs to switch.

When switching lenders, a new mortgage default insurance premium will only be required if your existing mortgage loan is modified—for example, by increasing the loan amount or extending the amortization period. Inform your new lender that mortgage default insurance is already in place on the existing mortgage you are switching.

You may also need to meet with your lawyer (or notary in Quebec) to sign the mortgage agreement.

Switching mortgage lenders with a collateral charge

If your mortgage is registered with a collateral charge and you want to switch lenders, you will likely need to pay fees to discharge your existing mortgage and register a new one with the new lender. To discharge your mortgage, all loan agreements secured by the collateral charge, such as car loans or lines of credit, must be repaid in full or transferred to the new lender.

The collateral charge may be registered for a higher amount than your actual mortgage loan. This allows you to potentially borrow additional funds on top of your original mortgage loan in the future without having to pay fees to discharge your mortgage and register a new one.

However, your lender will need to approve any requests and re-qualify you for any additional funds you want to borrow. The interest rate and other terms of additional borrowing may be different, as each loan or line of credit is subject to a separate credit agreement.

Some lenders in Canada register **all** new mortgage loans with collateral charges. To find out whether your mortgage has a standard or a collateral charge, ask your lender or your lawyer (or notary in Quebec) well before your renewal date. This will allow you time to consider your options based on how your mortgage is registered.

Dealing with a mortgage broker

A mortgage broker offers mortgage products from several different lenders. When you are considering a mortgage broker, ask which lenders they deal with.

Some lenders only offer their products directly to borrowers, while some mortgage products are only available from brokers.

A broker may not automatically check whether your current lender can offer you a better deal. To be sure that you are getting the best offer from your current mortgage lender, contact the lender directly. It is your responsibility to compare the new offers from a broker with the offer from your current lender.

Mortgage brokers generally do not charge fees for their services. Instead, they usually receive a commission from the lender when they arrange a transaction.

To get a list of mortgage brokers in your area, visit the website of the Canadian Association of Accredited Mortgage Professionals at www.caamp.org, or call them toll-free at 1-888-442-4625.

Mortgage brokers are provincially regulated. To confirm that a broker is licensed or to make a complaint, contact your provincial government. For a list of provincial regulators, visit FCAC's website at itpaystoknow.gc.ca.

RENEGOTIATING YOUR MORTGAGE AGREEMENT: BREAKING YOUR CONTRACT

During your mortgage term, you may find that your current mortgage no longer meets your needs. It's also possible that interest rates might have gone down.

These are some of the reasons you might want to **renegotiate** your mortgage agreement—in other words, change the conditions of your current mortgage.

Before you do, you need to determine whether renegotiating your mortgage is worth the potential costs.

Breaking your mortgage agreement

Different mortgage lenders offer different terms and conditions. If you have a closed mortgage, your financial institution **may or may not** allow you to break your mortgage agreement. Read your mortgage contract or ask your mortgage lender if it's possible.

If the financial institution does allow you to break your closed mortgage agreement, it will generally require you to pay a prepayment charge, which could cost you thousands of dollars. For more information, see the section on prepayment charges on page 6.

Usually, you must pay any prepayment charge yourself. However, if you want to break your existing mortgage but plan to arrange a new one with the same financial institution, ask if your lender will reduce the prepayment charge. See if you can use your prepayment privileges to reduce your mortgage balance, as this may result in a lower charge. Be aware that some lenders have restrictions on how close to the date of renegotiation you can make prepayments. For example, a lender may not allow any prepayments within 30 days of the date you intend to discharge and pay off your mortgage.

In addition to a prepayment charge, there may be some fees to break your mortgage. Your financial institution or the new lender may be willing to waive or pay part or all of these fees if you ask it to do so.

Before breaking your mortgage agreement, find out whether you will have to pay:

- a prepayment charge and what that amount is
- an administration fee
- an appraisal fee
- a reinvestment fee
- legal and registration fees to discharge the **old** mortgage and register the **new** one.

You may also have to repay some or all of any "cash back" you may have received when you first obtained the mortgage.

Prepayment charges

The two methods commonly used to calculate a prepayment charge are the following:

- **three months' interest:** an amount equal to three months' interest on your outstanding mortgage balance
- **interest rate differential (IRD):** an amount based on the difference between your interest rate and the rate for a mortgage that is closest to the remainder of your term, multiplied by the outstanding balance of your mortgage for the time left on your term. It is calculated on the amount you want to prepay. To determine the comparison rate and the time left on your term, the lender may round the term up or down.

Mortgage contracts often state that the prepayment charge will be the greater amount of these two calculations.

EXAMPLE: PREPAYMENT CHARGE

Jim is considering breaking his mortgage to take advantage of lower rates currently being offered. He wants to **estimate** how much his prepayment charge would be.

- **Outstanding mortgage balance:** $200,000
- **Annual interest rate:** 6%
- **Number of months left in term:** 36 months (or three years) left in a five-year term
- **Today's interest rate for a term of the same length:** Jim's lender is offering a 4% interest rate for a mortgage with a 36-month term.

Jim's mortgage agreement states that the charge would be calculated using the interest rate differential method.

The lender calculates Jim's prepayment charge to be $12,000.

When Jim is deciding whether to renegotiate his mortgage agreement and pay this charge, he should consider:

- whether he would be better off using the money to make a lump-sum prepayment if his mortgage contract allows him to do so
- whether he really is going to save any money after paying the charge.

How to find out about prepayment charges

Federally regulated financial institutions, such as banks and most trust companies, must briefly outline mortgage prepayment privileges and charges in an information box at the beginning of your mortgage agreement or in a disclosure statement. Your mortgage agreement also contains detailed information about any prepayment privileges and charges that could apply.

To estimate how much your charge will be, read your mortgage agreement or contact your mortgage lender. Keep in mind that the amount of the charge can change from day to day because it is based on factors that change, such as today's interest rates, the outstanding balance left on your mortgage, and the amount of time left in the mortgage term. However, the estimated amount that your lender gives you should be close to the actual charge.

Some financial institutions have also agreed to provide additional information on prepayments under a **Voluntary Code of Conduct.** As of March 2013, banks that are members of the Canadian Bankers Association have agreed to comply with this Code.

Lenders following the Code have agreed to provide information that includes (but is not limited to):

- **information to help you understand the factors that can affect a prepayment charge** so that you can make informed decisions. It should cover the following topics:
    - the differences between:
        - fixed-rate and variable-rate mortgages
        - open and closed mortgages
        - short-term and long-term mortgages
    - ways you can pay off a mortgage faster without having to pay a prepayment charge
    - ways to avoid prepayment charges
    - how prepayment charges are calculated, along with examples of charges
    - actions that may result in your having to pay a prepayment charge

    Lenders may make this information available to you online or upon request at their places of business in Canada.

- **online financial calculators** to help you estimate a prepayment charge that could apply if you pay off your mortgage in full or prepay more than your prepayment privileges allow
- **toll-free telephone access** to knowledgeable staff who can tell you the actual prepayment charge that would apply at the time of your call. You can also ask for a written statement with the amount of the charge
- **an annual statement** that sets out your prepayment privileges and how the lender would calculate a charge, as well as information about your mortgage that you can use to estimate a charge, among other details
- **a written statement** if you confirm you will be making a prepayment that will result in a prepayment charge. Among other details, it must include the actual prepayment charge amount.

For full details on the information to be provided under the Voluntary Code of Conduct, visit itpaystoknow.gc.ca.

Tips on reducing prepayment charges

Many mortgage agreements offer prepayment privileges that allow you to prepay a certain amount without triggering a prepayment charge. If you can do so, you may want to prepay a portion of your mortgage **before** you renegotiate it. Your charge would then be calculated on the smaller balance left to pay.

Remember that some lenders have restrictions on how close to the date of renegotiation you can make prepayments.

If you move, you may also be able to avoid paying prepayment charges by "**porting**" your mortgage, meaning you may be able to take your existing interest rate and terms and conditions with you to your new home.

Adding a prepayment charge to your mortgage

Some lenders may provide the option of adding your prepayment charge to your outstanding mortgage balance if you renegotiate your mortgage. This will increase the amount of interest you will have to pay over the life of your mortgage.

For example, it would cost you an additional **$3,004** in interest charges to add a $6,000 prepayment charge to a mortgage balance of $200,000, assuming a constant interest rate of 4% with monthly payments over a 22-year amortization period.

For more information on prepayment charges, see Mortgage Prepayment: Know Your Options.

Blend-and-extend option

Some mortgage lenders may allow you to extend the length of your mortgage before the end of your term. They do this by blending your old interest rate and the new term's rate. This is called the "blend-and-extend" early renewal option.

A "blend-and-extend" option may trigger a prepayment charge. Your mortgage lender may also charge an administrative fee to use this option.

Example: Blend-and-extend calculation

$$\text{New interest rate} = \frac{(A \times B) + [(C \times (D - B)]}{D}$$

- **A:** interest rate of your existing mortgage term
- **B:** remaining months in the existing term
- **C:** today's interest rate for the new term
- **D:** number of months in the new term

Note: This method of calculating the blended rate has been simplified for illustration purposes and does not factor in any prepayment charges which may also be blended into the new rate or paid at the time of renegotiation. Contact your financial institution for their exact blended rate.

EXAMPLE

Linda is considering breaking her mortgage contract to renegotiate a new mortgage with her existing lender, Lender X.

Assumptions:

- **Mortgage balance:** $200,000
- **Remaining amortization:** 22 years
- **Existing term:** 5 years
- **Months left in term:** 24
- **Payment frequency:** monthly
- **Existing interest rate:** 5.5%
- **Today's interest rate for a 5-year term from current lender:** 4.0%
- **Blend-and-extend interest rate:** 4.6%
- **Prepayment charge to break mortgage:** $6,000

If Linda decides to renegotiate a new mortgage at an interest rate of 4.0% with her existing lender, she will pay $36,701 in interest for a new five-year term. She will also have to pay a prepayment charge of $6,000 for breaking her mortgage contract.

When the interest and the prepayment charge are combined, Linda's **total cost would be $42,701.**

Note: In this example, Linda pays her $6,000 prepayment charge at the time she breaks her mortgage contract. If she added the charge amount to a new mortgage, it would increase the amount of interest she would have to pay.

Linda decides to compare this to her other options, which include using her lender's blend-and-extend option and shopping around with different lenders.

Scenario 1: Blend-and-extend with existing lender (at 4.6% interest rate)

If Linda decides to use her lender's blend-and-extend option, her new mortgage rate would be as follows:

Blend-and-extend calculation

$$\frac{(5.5\% \text{ x } 24 \text{ months}) + [(4.0\% \text{ x } (60 \text{ months} - 24 \text{ months})]}{60 \text{ months}}$$

$$= \frac{(5.5\% \text{ x } 24 \text{ months}) + [4.0\% \text{ x } 36 \text{ months}]}{60 \text{ months}}$$

$$= \frac{(132 + 144)\%}{60}$$

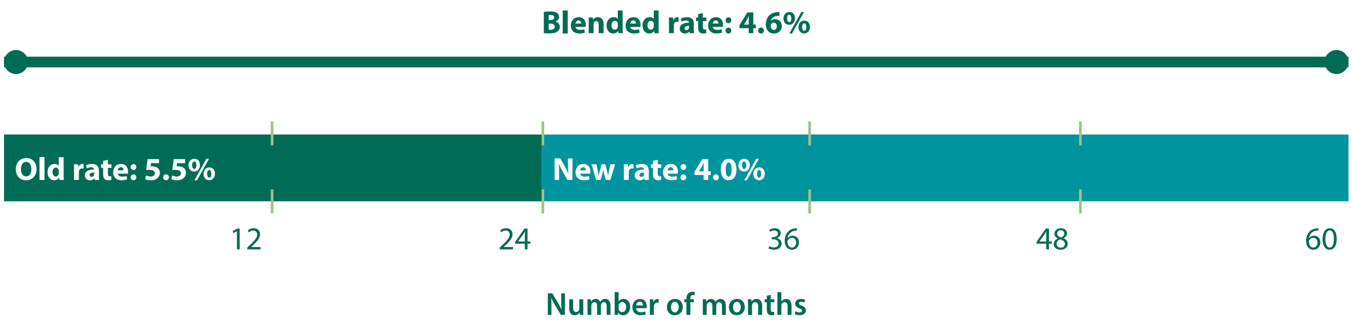
$$= \mathbf{4.6\%}$$

A = 5.5% (interest rate for existing term)

B = 24 (number of months left in the existing term)

C = 4.0% (interest rate currently available for a 5-year term)

D = 60 (number of months in a 5-year term)



If Linda chooses the blend-and-extend option, her mortgage rate will be 4.6% for the next 60 months.

She will pay **$42,367 in interest** over the next five years.

Scenario 2: Renegotiating with Lender Y (at 3.75% interest rate)

Interest rate offered by Lender Y	**3.75%**	
Interest charges for new five-year term, plus prepayment charge due to Lender X	Interest charges: Prepayment charge: Total:	\$34,350 + \$6,000 **\$40,350**
Savings compared to blend-and-extend option	**\$2,017**	

Scenario 3: Renegotiating with Lender Z (at 3.5% interest rate)

Interest rate offered by Lender Z	**3.5%**	
Interest charges for new five-year term, plus prepayment charge due to Lender X	Interest charges: Prepayment charge: Total:	\$32,005 + \$6,000 **\$38,005**
Savings compared to blend-and-extend option	**\$4,362**	

Important: in the examples above, the savings to renegotiate Linda's mortgage with a new lender do **not** take into account any fees required to set up the new mortgage.

Unless your new lender is willing to pay some or all of these fees, they will reduce any potential savings you might be able to achieve by renegotiating for a lower interest rate.

To find the option that best suits her needs, Linda will need to consider all the costs involved, including any prepayment charge and fees that could apply.

Weighing the benefits and risks

When interest rates fall, it may be tempting to break your existing mortgage and renegotiate a new one at a lower interest rate, or to "blend-and-extend." Before you do that, it is important to weigh the benefits and risks.

Benefits

- You get a lower rate and potentially lower payments.
- If you keep the payment the same as with your current agreement, you will be able to pay off your mortgage sooner.
- You can lock in the lower interest rate for the new term of the mortgage.

Risks

- If there are fees or a prepayment charge, the costs could be more than any savings that you might get.
- If you are planning to sell your home soon, you may not be able to realize any savings from renegotiating for a lower interest rate.
- The interest rates may continue to go down, in which case you would not lock your new mortgage in at the lowest rate possible.

KEY POINTS TO REMEMBER

- **It's worth it to do your homework.** A mortgage is probably one of the biggest financial commitments you will ever make, so it is worthwhile to do some research and planning.
- **Make sure your mortgage meets your needs.** In addition to the interest rate, look at the features you may want in a mortgage, such as prepayment privileges or the option to transfer your mortgage to a new home. Don't forget to consider your plans for the future. For example, if you expect you will have to break your mortgage within a year's time, an open mortgage might be a good option.
- **Interest rates are often negotiable.** During negotiations, tell lenders about other offers you have received. A lender may be willing to offer you a better rate if it provides you with other services, such as chequing or savings accounts, a credit card, a line of credit or other loans.
- **Don't sign anything you don't understand!** Read your mortgage agreement carefully before you sign it, and ask questions about anything you don't understand.

- **Compare the costs of renegotiating with the potential benefits.** Make sure you have complete information about any prepayment charges and fees involved before making a decision.

ABOUT THE *ABCs OF MORTGAGES* SERIES

The *ABCs of Mortgages* series explains the features and costs of mortgages. The following resources are part of the series and are available on FCAC's website at **itpaystoknow.gc.ca**:

Publications

- Buying Your First Home
- Paying Off Your Mortgage Faster
- Renewing and Renegotiating Your Mortgage
- Borrowing on Home Equity
- Mortgage Prepayment: Know Your Options

Tip sheets

- Shopping Around for a Mortgage
- Buying and Maintaining a Home: Planning Your Housing Budget
- Choosing an Amortization Period: What is the Impact on Your Mortgage
- Understanding Variable Interest Rate Mortgages
- Understanding Reverse Mortgages
- Protect Yourself from Real Estate Fraud

Online tools

- Mortgage Qualifier Tool
- Mortgage Calculator Tool

Online Quiz

- Mortgage Quiz

GLOSSARY

Amortization period

The period of time it will take to pay off a mortgage in full. Not to be confused with the **term** of the mortgage.

Blended rate

An interest rate, applied to a renewed loan, which blends your existing interest rate and the rate currently available for a new term.

Cash back

An optional feature that pays you a percentage of your mortgage amount in cash right away. You may have to pay a higher interest rate in order to get a cash back option on your mortgage. It can help you pay for things you'll need when getting a new home, such as legal fees or even furniture.

Closed mortgage

A mortgage agreement that cannot be changed before the end of the term. Your lender may let you make certain prepayments without paying a charge, but you will usually have to pay a charge to break or change your mortgage agreement.

Collateral charge mortgage

A type of mortgage whose features may include the ability to potentially borrow additional funds, subject to your lender's approval, without the need to discharge your mortgage, register a new one and pay legal fees. If you want to switch your existing mortgage to a different lender at the end of your term, note that other lenders may not accept the transfer of your mortgage. This means you may need to pay fees to discharge your mortgage and register a new one in order to change lenders. *See also: standard charge mortgage.*

Home equity line of credit (HELOC)

A line of credit secured by your home. You can borrow money up to the credit limit, which is usually a percentage of your home's value.

Mortgage broker

A person or organization that offers the mortgage products of different lenders.

Posted rate

The interest rate advertised or shown by a financial institution. Usually, financial institutions advertise their mortgage interest rates without any discounts. You may be able to negotiate a lower interest rate before you sign your mortgage agreement.

Prepayment
Payment of an additional portion or all of the balance before the end of your term. Lenders may require you to pay a charge and fees when you use a prepayment option under a closed mortgage agreement if your prepayment is more than your mortgage contract allows as a privilege.

Prepayment charge
Your lender may require you to pay a charge if you want to make a prepayment greater than the amount allowed in your mortgage agreement, or pay off or break a closed mortgage before the end of the term. Sometimes also called a penalty.

Prepayment privilege
Terms of your mortgage contract that allow you to pay an amount toward a closed mortgage on top of your regular payments, without triggering a prepayment charge. For example, you may be allowed to make lump-sum payments up to a certain amount or increase the amount of your regular mortgage payments.

Standard charge mortgage
A type of mortgage that is usually registered for the actual amount of your mortgage loan. If you want to switch your existing mortgage to a different lender at the end of your term, it is generally possible to do so by transferring your mortgage. If you want to borrow additional funds, you will likely need to pay fees to discharge your existing mortgage and register a new one. *See also: collateral charge mortgage.*

Term
The period of time your mortgage agreement will be in effect, including your interest rate and terms and conditions. At the end of the term, you pay off the mortgage in full, renew it or possibly renegotiate your mortgage agreement (for example, decrease your amortization period). Terms are generally for six months to 10 years. Not to be confused with the **amortization period**.