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Broker may find a better mortgage deal

One of my clients learned that the best way to finance a residential purchase is not necessarily with one of the big banks.

Irene had signed an agreement to purchase her dream downtown Toronto condominium unit. The original buyers had defaulted on the mortgage, and their bank was selling it under power of sale in the mortgage.

With its mortgage in default, the bank wanted a two-week closing. The paperwork was put together on a rush basis by the lawyers and real estate agents.

Irene agreed to pay $145,000 for her cozy condominium with a great view of the lake and the Toronto skyline. She went to her bank coincidentally the same bank selling the unit under power of sale and was offered a high-ratio mortgage for roughly 95 per cent of the purchase price. The mortgage officer at her local bank branch arranged for a four-year mortgage at a rate of 4.69 per cent.

The Canada Mortgage and Housing Corp. (CMHC) insurance premium for the mortgage, and tax on the premium, came to more than $5,000.

Irene came into my office on the day of closing to sign all the papers and was looking forward to moving into her new condominium. As I was saying goodbye to her at the elevator, she mentioned that she would be seeing me again soon when she sold her current condominium.

In the rush to close the transaction, we had never discussed her current living arrangements. I couldn't have been more shocked when told me she had no mortgage on her existing unit and intended to pay off the mortgage on the new condo when she sold the old one. She had just listed it that day.

"But you just signed a four-year closed mortgage that cost you $5,000 to arrange!" I blurted out. "In addition, you are going to get zapped with a huge penalty in just a few weeks when you want to pay it off."

As we marched back into my office to discuss the "new" development, I told her that the mortgage loan her bank had saddled her with would probably cost her more than $8,000 by the time she sold her old condo $5,000 in up-front CMHC fees and at least $3,000 in penalties to get rid of the closed mortgage. All this on a $145,000 condominium unit.

I called the mortgage officer at her bank who had arranged the financing for Irene without explaining it to her. In fact, the first she heard of the terms was when I reviewed the mortgage with her in my office.

When I challenged him on the outrageous costs for what amounted to a temporary mortgage, the so-called mortgage "specialist" told me that Irene did not have enough income to qualify for a line of credit that would avoid the hefty CMHC fee, and he couldn't arrange a "bridge" loan to carry the new unit because she hadn't yet sold the existing one.

He had no explanation for failing to explain the $8,000 cost to his client.

After arranging a two-day extension of closing with a lawyer acting for the seller, I gave Irene the names of some mortgage brokers. Irene called one of them. Over the phone, he arranged a three-month open first mortgage for Irene through a private lender. Although the rate, at 8.5 per cent, was somewhat higher than the bank's, Irene will only be paying it for a short time. And there will be no penalty when she pays it off.

Total brokerage and lender fee, plus legals for an additional lawyer for the lender were under $2,500 much lower than the $5,000 CMHC premium.

The broker later told me that if he had had another day or two to scout around for funds, the fees would have been considerably less than what Irene had paid.

As it is, even considering she will be paying about $1,300 more in interest over a three-month period than she would be paying to the bank, I calculate Irene's total net savings at more than $4,000.

When I called the banker back to explain why Irene wouldn't be needing his mortgage, he blurted out that his bank would certainly have waived the prepayment penalty. Frankly, I can't see one of the "big five" banks waiving a prepayment penalty. Not in this lifetime, anyway.

Arranging a residential mortgage through a licensed, independent mortgage broker often costs the borrower nothing, and in cases like Irene's, can actually save big money. Brokers also offer flexibility where the lending criteria of the big lenders are rigid and unbending.

Where did you get your mortgage financing? Have you had an interesting experience with a bank or mortgage broker? Write me by fax or email.

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