Looking for your best mortgage rate? Here's 20 questions to ask

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Looking for your best mortgage rate? Here's 20 questions to ask

ROBERT MCLISTER - SPECIAL TO THE GLOBE AND MAIL

"What's your best mortgage rate?" was once a fairly straightforward question. These days, it's impossible to respond intelligently to it without asking a litany of other questions.

That's true today more than ever thanks to recent federal rule changes. Ottawa's changes to regulations have jacked up lenders' costs – and the lowest mortgage rates – on refinancings, amortizations over 25 years, million-dollar properties, single-unit rental properties and mortgages where the loan-to-value ratio is between 65.1 and 80 per cent.

So be prepared to play a game of 20 questions to find your best rate in today's market. Note that thanks to new mortgage rules, which make it more expensive to lend to people who the government deems higher risk, the last six questions on this list have taken on a whole new importance.

Here are those questions:

1) What's the term?

- Mortgage contract length ("term") and rate type (fixed or variable) are usually the biggest factors impacting your rate.
- As of this writing, the cheapest five-year fixed rate, for example, costs 50 basis points (bps) more than the cheapest five-year variable rate. (Note: 100 basis points equals one percentage point, so 47 bps equals 0.47 percentage points.)

2) Is the mortgage for your primary residence, a second home or a rental that you won't live in?

- If you rent out the property and don't live there, you'll pay up to 25 bps more than if it were your primary residence.
- The cheapest rates are seldom available on second homes or unusual properties.

3) Can you adequately prove your income?

- If you can't, forget about the lowest rates. In most cases you'll pay at least 150 bps more.

4) Where is the property located?

- The province matters. The lowest one-year fixed rate in New Brunswick, Newfoundland, Prince Edward Island, Northwest Territories, Nunavut and Yukon is over 30 bps more than in Alberta, British Columbia and Ontario.
- The city matters, too. You'll cough up at least 10 bps more than the lowest market rate (on the term you want) if your property is rural. The reason: if the borrower doesn't pay, it's harder for the lender to sell a rural property.

5) When is the closing date?

- The longer you want your rate guaranteed, the more you'll pay. A 90 or 120-day rate hold typically costs at least 10 bps more than a 30-day rate hold

6) Can you live with prepayment restrictions?

- Some lenders now charge 10 bps above their lowest rates if you want to prepay an extra 5 to 10 per cent on your mortgage.

- One of the country's lowest rates currently allows no prepayments at all.

7) Can you live with portability headaches?

- If you move to a new home, certain deep discount lenders will force you to close your old property and new property on the same day (good luck with that). Otherwise you'll pay a penalty.
- Remember that if you're using the equity in a property you're selling for the down payment on your new property, and if that new property closes before your old one, you'll usually need extra cash or a bridge loan. Not all lenders offer bridge loans.
- You'll often pay 5 to 15 bps more, compared to the lowest market rate, to have a full 90 days of porting flexibility and access to bridge loans.

8) Can you live with refinance restrictions?

- If you want the freedom to refinance early with any lender, some lenders will charge you 10 bps more than their lowest rates for that privilege.
- If you want to cash out more than $200,000 in equity, you'll often pay at least 15 bps more than the cheapest market rates.

9) Can you live with a large penalty?

- More than three-quarters of the fixed mortgages sold in this country do not have, what I'd term, “ fair” penalties. In other words, if you break the mortgage contract early, you'll often pay through the nose (more on that).
- Some lenders offer both high– and low-penalty options, with the low-penalty mortgages costing 10 bps more. But even with that rate premium, you'd likely still pay less than if you broke a fixed mortgage with a high-penalty lender, like a major bank.

10) What type of property is it?

- A few lenders charge 5 to 10 bps more for high-rise condos, depending on your equity and other factors.

11) Do you want good rates when you renew and/or if you refinance early?

- Some lenders try to stick their renewing or refinancing customers with horrid "special offer” rates (they're not so special, trust me).
- If you want a lender that's highly competitive after you close, you'll often pay at least 10 bps more than the cheapest market rate.

12) Do you have any credit flaws like bankruptcy, consumer proposal or unpaid debts?

- If so, some lenders won't even touch you. The ones who will, will charge 50 to over 200 bps more than the lowest rate in the market.

13) Do you have a property address already or is it a pre-approval?

- You'll almost never get the best rate on a pre-approval (more on that). Expect to pay at least 10 to 20 bps more than rock bottom rates if you haven't purchased your property yet.

14) How big is the mortgage, as a percentage of your home value?

- If you're a well-qualified borrower, “ loan-to-value” (LTV) is the second-most-important factor in determining the rate you'll pay.

- If your LTV, for example, is 80 per cent instead of 65 per cent, you'll often pay at least 15 bps more than the best market rates.
- Oddly enough, someone with an 80 per cent LTV will pay up to 20 bps more than if they had a 95 per cent LTV. Why? Because mortgages with less than 20 per cent equity cost lenders less, since borrowers must pay for their own default insurance.

15) Can you pass the government's "stress test"?

- If you're getting an insured mortgage (which is usually required if you have less than 20 per cent equity), you must prove you can afford a payment at the Bank of Canada's five-year “ benchmark” rate. That rate is roughly two percentage points higher than your actual “ contract rate .”
- If you can't do that, but you have at least 20 per cent equity, some lenders will let you qualify on your “ contract rate” instead, which is much easier, but you'll pay at least 15 bps more.

16) What is your credit score?

- If your credit score is less than 680, it could cost you a minimum of 10 bps more. A few lenders won't deal with you at all, and others will limit their rate specials to borrowers with scores of 700 or 720.
- By regulation, a sub-680 credit score will also limit the amount of debt you can carry if you want a competitive rate.

17) Are you purchasing, refinancing or merely switching lenders?

- A refinance today costs 15 to 50 bps more than the lowest market rate on a purchase.

18) What is/was the property's purchase price?

- Many lenders now charge 15 bps more if your property value is more than $1-million.

19) Is your mortgage already insured?

- If it is, and you're simply switching lenders with no changes to the mortgage, you'll save at least 10 bps compared to average discounted rates.

20) How long of an amortization do you require?

- Many lenders, including big banks, are now charging 10 bps extra for amortizations over 25 years.

The above list of questions is by no means exhaustive. And there are always exceptions. One is if you're asking for a renewal rate from the lender who presently holds your mortgage. If you send them a copy of various competitor's rates, you won't need to answer all these questions to get their lowest rate.

Ottawa's new mortgage rules have made factors such as healthy credit scores, purchase price and amortization lengths more important. The changed regulations have led some lenders to advertise as many as 10 different rates for a five-year fixed mortgage alone.

Today's landscape requires lenders and mortgage brokers to factor in more criteria than ever before when setting rates. So if you see a red– hot bargain advertised on a lender or broker's website, it's bound to have caveats. Get ready to ask– and answer– plenty of questions.

Robert McLister is a mortgage planner at intelliMortgage and founder of RateSpy.com.