Dominion Lending Centres

The Mortgage Centre

Mortgage Architects

Strategy & Success Training Guide

MODULE 03:

UNDERSTANDING THE CONTRACT BEHIND THE RATE

Disrupting the Rate

MODULE 03:

Disrupting The Rate pt. 1

The purpose of the disrupting the rate conversation is to ensure that mortgage brokers fully understand the product they are selling and that the client fully understands the **contract they are signing.**

A mortgage broker should be able to educate the client on the whole mortgage. The details in the contract can far outweigh the rate being offered.

As a mortgage broker, it is our job to provide the answers to the questions our clients don't even know to ask. Now, let's look at some of the details surrounding rates and what the client needs to know to fully understand their mortgage, as well as how to help them make the best decision for their future!

This is an example of a typical rate sheet that can be found on a bank's website. Client's need to be informed about the "posted rate" and what it is used for. This rate will come into play when the client is breaking their mortgage at any point during the term. When comparing product terms and policies, we always say "there are two rates on a mortgage; the one you get going in and the one you get going out!"

Banks offer clients a discount off of their posted rate, or sometimes they refer to the lower rate as a special off the posted rate. The reason for this is they will always use the posted rate when calculating the penalty should you look to break your term.

The Standard Charge Terms outline how the bank will calculate the pre-payment penalty. Typically, the interest differential is calculated at your existing annual interest rate, plus any discount you received on that existing annual interest rate.

Term	Posted Rate	Special Offers[2]
1 year	3.39%	Ask for details
2 years	3.39%	Ask for details
3 years	3.94%	Ask for details
4 years	4.49%	Ask for details
5 years	5.34%	3.04%[i]
7 years	6.45%	3.29[ii]
10 years	6.64%	Ask for details

Disrupting The Rate pt. 2

This is an example of two mortgages taken at the same time; they are both the same mortgage amount and both are a 5 year term. We actually went with a Mortgage Finance Company that was 5 bps higher in the rate being offered at the time of commitment. Both of these mortgages were brokered at the same term, which was 36 months.

LENDER A (MFC) MFC's are also not created equally - always check their standard charge terms.

LENDER B (BANK) All banks have posted rates however their standard charge terms don't all quote the same calculation – ***always*** check their standard charge terms.

Mortgage Details	Lender A	Lender B
Mortgage Balance	$400,000	$400,000
Rate	5 Year Fixed 3.09%	5 Year Fixed 3.04%
Amortization	25 Year	25 Year
Monthly Payment	$1,912	$1,901
Interest Paid Over 5 Years	$35,370	$34,792
Principal Paid Over 5 Years	$33,444	$33,652
Balance At End Of Term	$366,556	$366,348
Cost Of Break	$2,832	$14,364

When looking for a lenders standard charge terms there are some things to keep in mind:

- Google "Lender name – Solicitor documentation".
- Pick the province the mortgage will be registered in (i.e.: "Ontario").
- Go to the list of documentation and pick "Standard Charge Terms"
    - *Sometimes they have two sets of standard charge terms (one for fixed terms and one for variable rate terms); double check you pick the correct document.*
- Then look through the Index for "Prepayment"
    - *The penalty will be outlined under "prepayment in full".*

When looking for lender calculators, you would go to the lenders website, look for calculators, pick the prepayment calculator, and it will prompt you to pick an option (you want "payout in full").

Disrupting The Rate pt. 3

DLC AGENT FACEBOOK PAGE POST

Just a heads up, how Lender* calculates their penalty. It's online but my clients were just hit with $48,000 penalty on a $360,000 mortgage. They used the 3 year bond rate of 1.42% for the IRD. They negotiated the renewal on their own over the phone so they were unaware.

*Real post by DLC Broker. Company name changed for privacy

This is another example of clients negotiating a rate - they had no idea to even ask about IRD. This example is with a B-lender and the terms of early prepayment were actually quoted on the renewal document.

Rate Vs. Everything

BROKER: You are not just a rate provider, know your value proposition

- Mortgage strategist - access to a bandwidth of lenders & products
- You are not a transaction, you're in for the whole AM
- If rate is your only concern – you need me more than you know

CLIENT: A great mortgage is not based on rate alone

- We are not our parents
- Financial situation today and goals for tomorrow
- When life changes – their mortgage can support that change

PRODUCT: All mortgages are not created equally – pull back the curtain

- 3 month interest rate penalty or IRD... differential of what?
- High rate? What's the actual cost of borrowing when including the fee?
- A product they understand from start to finish.

It is the rate versus everything! The value of working with an agent/broker is to ensure that the client understands their needs of today and their goals for tomorrow - and that they get the proper education on the product and the policies of the lender. It is the mortgage brokers job to address all of these items. While there is a place for penalties a mortgagor should never be shocked when they receive a penalty quote, or someone hasn't done their job.

Disrupting The Rate pt. 4

THE BROKER Know Your Value Proposition

You have access to financial analytics, government updates and changes along with new lenders entering the mortgage space with new products and options for clients. You are their mortgage strategist; you should know their financial needs and be aware of their plans for the future. You are not here for this one transaction, but for the whole amortization of their mortgage; you are in, until they are out!

THE CLIENT Rates are Bragging Rights, Mortgages are Personal!

Clients need to understand we are not our parents anymore. We don't stay in the same house for 30 years, or at the same job for 30 years or (at least 50% of the time) the same marriage. We have no problem moving, upsizing and downsizing, investing in rentals, or refinancing for financial gain. We are going to ensure our clients are in a mortgage that will support their needs for today and goals of tomorrow and any blind siding change that comes along in life.

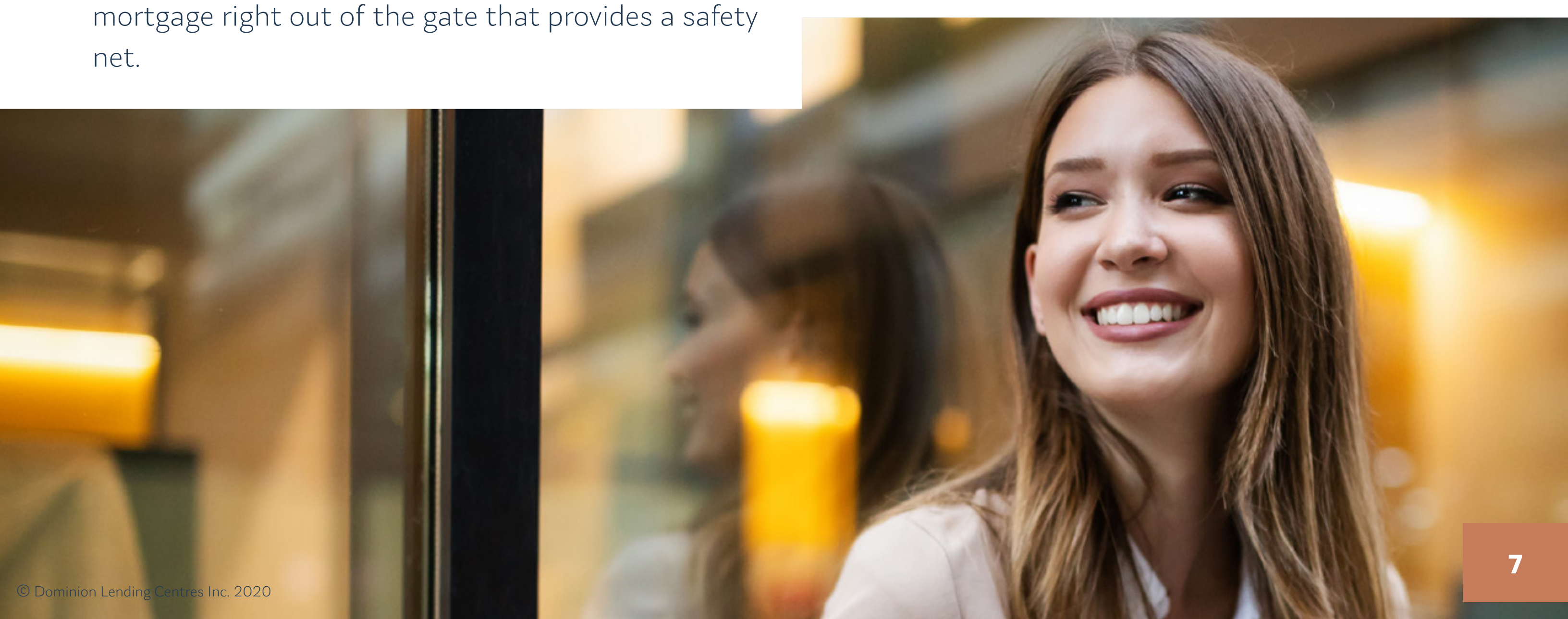
The client shouldn't be shocked at a penalty as they should be aware of the terms, or will have opted for a mortgage right out of the gate that provides a safety net.

THE PRODUCT The Terms and Conditions of the Contract

All products and terms are not created equally. The interest rate differential is not a standard calculation in the mortgage world. The client needs to know what they are signing up for over the next 5 years. Is the "IRD" based on the current discounted rate, the posted rate today or at the time of funding, the current 3 or 5 year bond rate, the BoC rate, or prime rate plus 1, 2, 3 %?

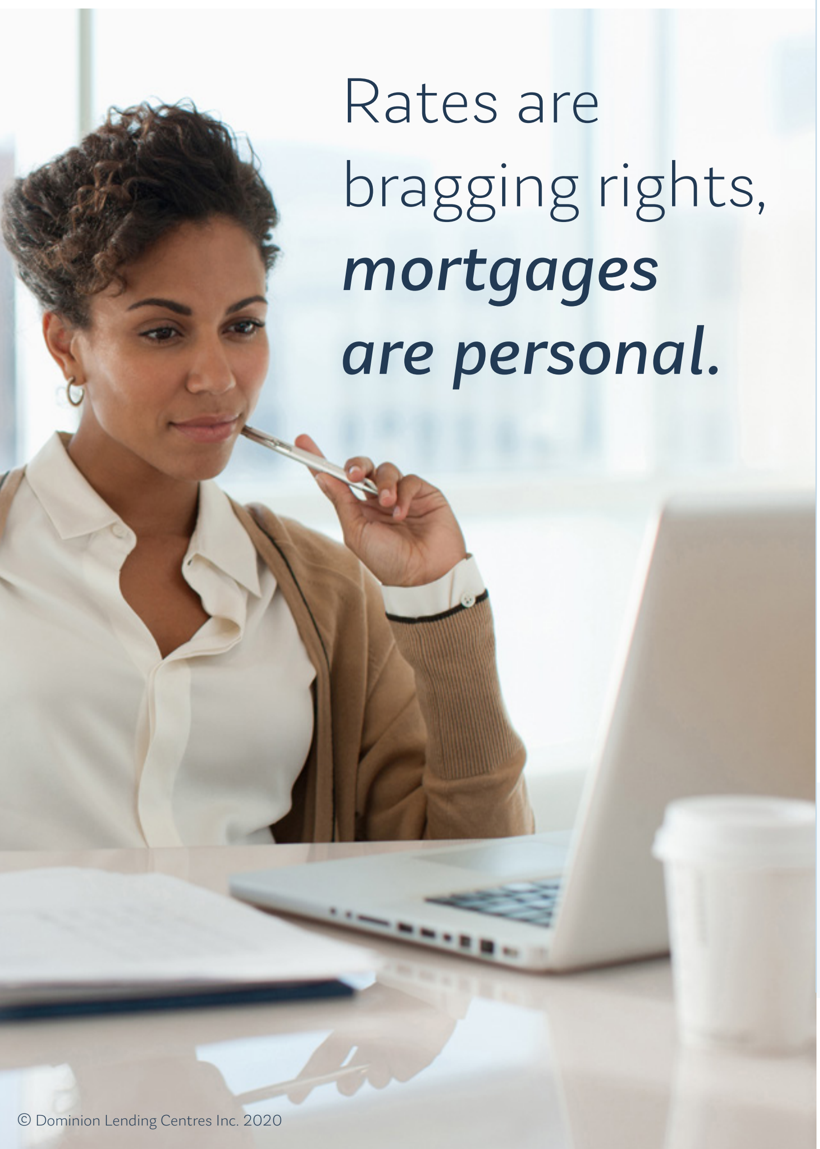
When it comes to MIC's and private lenders, look at more than just the interest rate (i.e.: 8.00% vs. 5.75%). You will also need to calculate the cost of borrowing, including all the fees! Is there a $10K fee? Are there ongoing administrative fees? Do they renew and what are the fees at that time? Always request a copy of the lenders fee schedule as a 5.75% rate could annualize as a 16.00.% rate when including all other costs.

All of this conversation and education becomes the client experience, and that experience will either translate to advocates, referrals and repeat clients... or nothing.



Disrupting The Rate pt. 5

People deal with interest rates when buying a home, getting a credit card or financing a purchase. So for most, this is once every two or three years. To ensure proper understanding, always convert rates into the universal language of money. Some people think 5 basis points is $100/month and have not been educated on how that rate equates to pennies a day, and how those pennies are a safety net that could make a difference in their future options. Understanding what you are signing could have a lifetime effect; ensure your clients understand all of the terms and conditions.



This is why the language of 'special rate' or discounted rate works. It's hits that emotional button and confirms to the client that they are worthy, valued and deserving.

$400,000 @ **3.09%** = **$1,912** MONTHLY

VS.

$400,000 @ **3.04%** = **$1,901** MONTHLY

= **DIFFERENCE $11.00** / MONTH

$11.00 = Strategy...Future Options...Knowledge...

$400,000 @ 3.09%

Payment $1,912

Monthly difference of $11.00 x 12 months x 5 years = **$660 for full term**

Mortgage Brokers must understand the financial goals, with the ability to change course with product knowledge to better the client.

PENALTY

$2,832

VS.

$14,364

Look at this $660 like paying a premium against a potentially high IRD penalty

When providing your client with a visual of the full picture, tell your client to look at that $660 as an investment in their future options - they won't regret it.

We are not Rate Brokers -
we are Mortgage Brokers.

So let's start the
education
one client at a time.

Educating Your Clients On Suitability

It is your job to provide the answers to the questions our clients don't even know to ask.

The word 'deserves' – Everyone "deserves" to own a home. Everyone has access to a bandwidth of lenders and, after completing the application and KYC (Know Your Client), the applicant will be matched to a lender and product that is suitable to their financial situation and needs. We need to stop using the word 'deserves' when talking about rate; qualifying for a rate is not about deserving. If a client has bad credit then yes, that would be an appropriate word. If a client is BFS or uninsured, a new immigrant or wants a 30-year amortization those situations have nothing to do with "deserving". They are about risk assessment, product, investor appetite and a few other elements. We need to stop using the word "deserves" and start educating the public about "suitability."

There is a growing, significant percentage of Canadians who don't qualify for a mortgage under traditional lending rules and require a different type of mortgage financing solution. Brokers have access to alternative lenders, B-lenders, and MIC's; they are crucial to the overall health of the mortgage industry and our economy. Familiarize yourself with these types of specialized lenders and products, as you will have future clients that require a non-traditional mortgage - and we have great lenders who offer excellent solutions above and beyond the traditional lending rules.

When presenting a commitment to a client, you should prepare in advance and have the answers to some of the questions that a client will ask you.

Preparing For Client Questions

Q: Who is this mortgage finance company? Why am I not with a bank? –

Know the details about your mortgage finance company, credit union or bank; be prepared to put your client's concerns at ease. Give the client a profile of the lender; years in business, publicly-traded, total mortgage $ under administration. Then explain the reason you are presenting them with a commitment from this institution, (i.e.: the lender offers low penalties for future comfort, great rates and customer service). Direct them to the lender's website for further clarity.

Q: Why didn't I get the lowest interest rate?

This could be for any number of reasons: the mortgage is not insured, they didn't meet the minimum beacon score requirement, the lender does not lend in that area or you went with a rate that was 5 or 10 basis points higher for future flexibility and options (i.e.: penalties). Show them you can justify the small rate difference with all the other positives offered by this lender.

Q: What do I do next?

Help guide them through the process. Let them know the documentation the lender requires going forward, whether the lender requires an appraisal, or property inspection. Now is the time to differentiate yourself! Have scripted emails ready to send that will help the clients navigate their closing. Refer to page 16 resources for helpful tips for clients.

QUESTIONS TO ASK YOUR CLIENT

Q: Did they sign up for life insurance with you?

If yes, remind them that they are not taking the lender's mortgage insurance and to decline that option at the solicitor's office. If they did not opt for the mortgage insurance with you but changed their mind, tell them the insurance being offered to them at the solicitor's office is not the same insurance you offered as the lender's mortgage insurance is not portable.

Q: Do you understand all the steps of the mortgage process, along with any potential pitfalls prior to closing?

Refer to page 16 for helpful tips for clients.

The Mortgage Contract:
What You Should Be Looking For pt.1

Always ensure you know your lender and policies outlined in their standard charge terms. A few sections to take note of are:

| MONTHLY PAYMENTS Confirm they have the option of paying weekly, bi-weekly, semi-monthly, monthly or accelerated.

| PREPAYMENT OPTIONS Most clients want prepayment options regardless of whether they are going to use them, always confirm the prepayment options with your lender.

Listed below are a couple of popular options:

- 20%/20% - This means you can increase your payment by 20% and pay down your principal by 20% on an annual basis.
- 15%/15%/double up – This means you can pay down your principal by 15%, increase your payment by 15% and double up your payment.

| ADDITIONAL QUESTIONS:

- Is the mortgage portable?
- Is this mortgage assumable?
- Can you blend and increase/decrease?
- Can you switch the mortgage upon maturity or mid-term with a penalty?

The Mortgage Contract:
What You Should Be Looking For pt.2

Always ensure you know your lender and policies outlined in their standard charge terms. A few sections to take note of are:

HOW IS THE MORTGAGE REGISTERED?

- **MORTGAGE CHARGE** Is typically used for a 1st mortgage and registered for the amount of that loan.
- **COLLATERAL CHARGE** Is used to secure a 1st mortgage and line of credit and is often registered at a much higher amount than the combined debt. Some lenders are now registering collateral mortgages against a 1st mortgage only at higher amounts as this type of registration is harder to switch out at maturity.
- **PAYOUT OPTIONS** This will outline the terms of early payout along with penalties.

OPEN/CLOSED TERMS

- Is the mortgage completely open?
- Open to payout with a penalty?
- Payout only with a bona fide agreement of purchase and sale?
- Is payout subject to interest paid in full?

SWITCH

- Can this mortgage be switched upon maturity?
- Can this mortgage be switched mid-term with a penalty?

PENALTY CALCULATIONS

Depending on the lender, there are a few ways to calculate penalties when breaking a mortgage term. Some of these penalties can affect a client's ability to make the financial or life changes that they had planned to make or, worse, need to make. Always look to see how the lender calculates penalties and ensure your client is fully aware.

- **Three-Month Penalty** You calculate the next three months of interest payments, and that is your penalty.
- **IRD (Interest Rate Differential)** – this is the difference in interest rate between what you are now paying and what the lender is going to compare that interest rate too. The average consumer gets "blindsided" with understanding the meaning of "differential." Lenders use different rates when calculating the penalty. You should know upfront what the "differential" is based on, is it their current special rates, their current rate with their discount added back, the original posted rate, Bank of Canada Rate, the current bond rate or the current prime rate plus by 1, 2 or 3 percent?

Notes For The Newbie pt.1

Confidence is Key

If you don't believe in yourself, nobody else will. You don't know everything, but you already know more than the average home buyer/owner. You have to believe that mortgage professionals are a benefit to people and become a champion for this industry. The general public only knows to ask about the rate because historically, we have never educated them about anything else, there is an entire contract behind the rate, and not all contracts are equal! The lending landscape has changed, and clients are finding it more and more challenging qualifying for traditional financing, never before have mortgage brokers been more important or more in demand. It is your job to tell people what you do.

You Get What You Give

You will get out of mortgage brokering, what you put into it. You are your own boss; nobody is going to hold your feet to the fire, and crushing it or being crushed is 100% on you. When building any business, try and learn what to do and what not to do - from others, it will be less costly to you.

This industry is about service, networking, finance, marketing, leadership, confidence, trust, relationships, knowledge, and a few other essential characteristics. The best money ever put into this business is time. So, educate yourself on all aspects of owning a business, always tell people what you do, take the opportunity to sit with industry titans, meet BDM's and underwriters. Read, read, read, educating yourself is investing in your business; it is essential that you understand that.

Create Lasting Connections

Join Facebook groups like WIMI (Women in the Mortgage Industry); I Love Mortgage Brokering, Newbie Mortgage Professionals, and DLC Agents' private Facebook page.

Notes For The Newbie pt.2

Make a Plan

Build a business plan, be consistent in following that plan, remember; fail to plan, plan to fail. Run your plan by people you trust and evolve the plan as you need to and not because you're not doing what you said you would.

- Research, research, research
- Determine the purpose of your plan
- Create a company profile
- Document all aspects of your business
- Have a strategic marketing plan in place
- Make it adaptable based on your audience
- Explain why you care

Your Database is Gold

Make sure your first client goes into a database and what the plan is for that database. There is no point in collecting data if you are going to do nothing with the information

Learn From Your Network

You may hear from different people that interview shadowing, or conference calls won't help because you are new, and the agent is in a different stage in their career.... well guess what, the client remains the same. Clients are either purchasing their first home, second or tenth, but they are still dealing with the mortgage agent because they trust their advice. Clients need help because they have accumulated debt and want to know what their options are, clients have aging parents or kids attending university and want to provide housing, clients are looking to supplement their future income through rental investments. All of these scenarios are not in a different stage of their mortgage career; they will still have the same questions and concerns as the borrower before them. Some of our best, up and coming agents will say they learned everything they know today by listening to their mentor (or broker father). Those client interviews are real life, and there is no better training ground.

Helpful Reminders For Clients

- Ensure to continue to meet your monthly obligations so that you credit score is not negatively impacted.
- Do not apply for any new loans or credit during this process. Wait until your home has closed to make any financial decisions.
- Do not make any changes to your job during this time, and if something happens out of your control, please contact me immediately.
- Closing costs are not cheap, and sometimes lenders require confirmation of closing costs. They are typically 1.5% of the purchase price, however, if your property is located in Toronto, it could be up to 2.5%. Contact your solicitor to confirm the total amount of closing costs required.
- Check your identification and ensure you have two pieces of picture I.D. that does NOT expire before the closing date (the lender will supply a list of acceptable I.D.).
- If you are a first-time home buyer, please be aware of payment shock. You are going from making one or two payment obligations to about twelve. You could be paying monthly, mortgage payment, taxes, heat, condo fees, Enbridge, utilities, cable and internet, cell phone, upkeep, and maintenance or the inside of your home, lawnmower, rake, shovel, and maintenance on the outside of your home. Don't purchase anything you don't need for the first six-twelve months until you are familiar with your home and budget.

Preparing For The Big Move

- Make sure to book your moving truck immediately; you don't know how busy they will be that day, and booking locally will save time and money!
- Start to collect boxes, LCBO always has a full stock of them. Look for anyone moving into your neighborhood and offer to take their boxes off their hands!
- Ensure to advise all your service providers and utility companies of your moving date and where to send your final bills.
- Remember to pack a suitcase with a change of clothes, towel and shower accessories. You will also want to keep a set of bedsheets and pillows in a place you can access easily instead of having to rummage through boxes. You never know how that day will go, and having access to things you will need late at night will be essential.
- Google your new neighborhood and find the locations of the stores you will need. Look for some restaurants, take-outs, or delivery places for easy access during your first few days.
- Join any neighborhood social committees or online groups; nextdoor.ca

Declutter before you pack!

Sort your belongings into four categories: keep, sell, donate and trash. Keep items that you want and need. Sell anything that's in good condition at a garage sale or online. Donate things that won't sell but are still in decent condition, and trash anything that's can't be salvaged.

Reflections

MODULE 03: COMPLETE