

How to read your mortgage documents

A snapshot of typical mortgage documents and a few tips on what to watch out for



by [Romana King](#)
October 31st, 2016
Online only.

Thomas Bruner was a well-informed and financially savvy shopper. Thank goodness. Because his bank made errors in his mortgage documents. Big errors.

It was late 2015 and Bruner and his wife, Leslie, were in the process of selling their North York town-home to move into a larger upper beaches **family home in the east end of Toronto. (We've changed names to protect privacy.)** As a number-cruncher, Bruner knew how important it was to shop around for the best mortgage rate and was delighted to secure a five-year **fixed rate of 2.49% with his current bank. To get that rate, he'd shopped** around and negotiated hard with the bank representative at his local branch. But when the purchase of the home was closer to being finalized, **Bruner was transferred to a bank mortgage specialist. That's when the** problems started.

A meticulous man, Bruner read every word of the 30-page mortgage document—some of it in small, fine print, and other sections bogged down with legal jargon. An hour later, Bruner emerged stunned. His bank had made a mistake. A big mistake. A mistake that added \$100s to his monthly payments and tens of thousands in interest over the life of the mortgage. **Instead of 2.49%, they'd calculated his mortgage payments based on a** rate of 2.99%. The bank had also changed the rate of payments from **biweekly to monthly. If he'd signed the mortgage documents without** reading the package, he would've paid more than **\$4,075** in extra interest **payment, over the five year term*. That's no small change. (*Assumes a** \$450,000 mortgage amortized over 25 years, interest calculated based on a five-year term.)

So, Bruner called **the bank's mortgage specialist. Rather than apologize** and amend the error, the mortgage rep tried to argue that this was now the

going mortgage rate—the best the bank could offer. Bruner was stunned, **yet again. “I argued back,” he recalls, “explaining** that we had locked in our rate during the pre-approval process. We were only 40-or-so days into the 90-day rate-hold guarantee.”

Screwed by the bank?

Bruner isn't the only one to notice problems. According to the Ombudsman for Banking Services and Investments (OBSI), errors made by the banks rank No. 4 in the top 10 reasons for customer complaints. However, when asked for specific statistics on the precise number of complaints lodged, and how many of these complaints directly relate to errors in mortgage **documents, an OBSI spokesperson replied that they don't release this** information. Instead, the OBSI offers very pretty spiderweb and sunburst visual representations of customer complaints.

This lack of transparency prompts the question: How many other people have been screwed by a professional working in the real estate market? (Cue the wrath of every bank, mortgage broker, home inspector, insurance agent, realtor and renovator involved in this industry.)

Still, how many of us signed a document only to realize, after the fact, that **there was an extra charge? Or found an error that's in the lender's favour?** While reading every page of every legal document we sign is the smart, **prudent thing to do, truth be told very few of us understand all of what's** written in an insurance contract, mortgage document or even a purchase and sale agreement.

To help, here's a snapshot of typical mortgage documents and a few tips on what to watch out for—keep in mind every lender have their own versions of this document, so this is meant to be illustrative only.

To help you process the information, consider the following.

Look for key rates and terms

Property Address:	[REDACTED] Toronto, ON
Principal Amount:	\$423,750.00
Annual Interest Rate:	05.240% per annum, fixed for the term
Term:	12 months Open
Amortization:	360 months
Regular Payment Amount (Blended Principal and Interest):	\$2,322.59
Estimated Property Tax Payment Amount:	\$241.33
Total Regular Payment Amount:	\$2,563.92
Payment Date and Frequency:	Monthly on the 1st of every month
Advance Date:	June 6, 20[REDACTED]
Interest Adjustment Date:	July 1, 20[REDACTED]
First Payment Due Date:	August 1, 20[REDACTED]
Maturity Date:	July 1, 20[REDACTED]

#1

p.1

The pink arrow points to the mortgage interest rate that you will be charged during the duration of the loan term. **Check this.** Even a 10 basis point change in the rate can add up over the long haul.

The green arrow points to the length of your amortization, expressed by the number of months. **Check this.** Some of the biggest mortgage document errors are in how long a loan is amortized for; while a cheaper monthly rate can seem appealing, this sort of error can tack on tens of thousands of extra interest costs over time. Above this amortization rate, is your term length—**how long you're committed to pay this lender, based on the rates and terms you've both agreed upon. The line should also state whether you've agreed to a fixed, variable or open mortgage.** The type of mortgage you agree to can have serious implications on the **penalties you're charged should you opt to make an extra payment, or break your mortgage agreement.** For simplicity sake, a one year mortgage is expressed as 12 months, while a five-year mortgage term is expressed as 60 months and a 25 years amortization is expressed as 300 months.

The three numbers in the red box reflect the monthly mortgage rate you will pay (a mixture of principal plus interest), the monthly property tax you will pay to your bank (who will then make a payment on your behalf) and the total amount you will pay based on the addition of these two amounts. If you want to double-check your lender's math, try [Dr. Karl's Mortgage calculator](#).

The orange arrow is how frequently you will make payments to your lender. **Check this.** Not only does payment frequency help reduce the **overall interest you end up paying, but to make changes after you've signed your document can cost you an out-of-pocket fee.**

The yellow arrow is the day you first get your money and the day the interest clock starts ticking. Pay attention to this. Some lenders will charge

you a larger amount for the first payment of your mortgage to cover the interest that has accrued from the Advance Date to the day you make a payment against the outstanding loan. Some lenders don't increase the first payment, but allocate a larger portion of this payment to pay off the outstanding interest. Either way, you want to be clear about what's being charged, and when.

Don't forget property taxes

at the Annual Interest Rate, unless paid directly to us by certified cheque or bank draft.

5. Property Taxes: Unless we agree otherwise in writing, we will estimate your annual property taxes and you will pay us a portion of that estimate with each Regular Payment Amount. This amount is subject to change, based on property taxes actually levied during the Term. We may deduct a holdback from your first advance which will be applied towards your property tax account.

Under the property taxes clause you will notice that the monthly sum added to your mortgage payment is an "estimate" based on the lender's assessment of your annual property taxes. If you don't want to pay your property tax monthly or you want to amend how much you pay you'll need to negotiate this with your lender.

Loan prepayment privileges can make or break a penalty

7. Property Insurance: We require evidence of property insurance coverage acceptable to us for the full replacement value of the Property with an insurer acceptable to us.

8. Mortgage Loan Prepayment Privileges: This Mortgage Loan is open. That means you may prepay a portion of, or the entire amount of, the remaining Principal Amount of your Mortgage Loan

Page 2 of 9

In recent years, we've heard a lot about mortgage penalty fees. You pay these penalties to your lender whenever you break the negotiated terms of your loan contract. If you have an open mortgage, there should be no penalties for pre-payments or to pay-off the entire loan before the end of the negotiated term. If you have a variable-rate mortgage, you will be charged a penalty that's equivalent to three months of mortgage payments, plus administrative fees. If you have a fixed-rate mortgage, you will be charged a fee that's calculated using the Interest Rate Differential calculation. This calculation is different for every lender, but it can add up, quickly.

Planning a reno? Read the fine print

C. REPRESENTATIONS AND WARRANTIES

15. Improvements/Construction: You represent and warrant that no construction, alterations, renovations or improvements are being carried out on the Property and no building materials will be supplied to the Property within 60 days prior to the Advance Date and that the Mortgage Loan is not intended to be made for the financing of an improvement/construction as defined in the applicable provincial construction, builder's or mechanics' lien legislation, nor is it being used by you for the purpose



Page 3 of 9

Many homebuyers are shocked to learn that they can void their home insurance policy if they undertake home modifications or renovations without first notifying the insurance company and, typically, paying an additional premium. But did you know you can also void your mortgage loan contract—and prompt a lender to recall and cancel the loan—if you **obtain a mortgage and don't disclose intended construction, alterations or renovations to the home?** Read your mortgage contract carefully to see exactly what must be disclosed.

Be prepared with documentation

3. You confirm your consent to being provided with the Statement of Disclosure at the same time as receiving this Commitment and acknowledge that each Borrower/Guarantor has received, in writing, a copy of the Statement of Disclosure;
4. You agree to provide to us promptly on request any further information concerning you, your financial standing, any Guarantor, the financial standing of any Guarantor, or the Property, which may be required by us; and
5. You certify that all the information provided to us by you or your broker and representations made by you in connection with the application for this Mortgage Loan are completely true and accurate in all respects. Any misrepresentation of fact contained in your application or other documentation

When reading your mortgage contract the lender will typically list the type of documents you are required to submit in order to verify the information you have provided. This will include pay-stubs, Notice of Assessments for your income tax, as well as additional loan or income verification. But **don't be surprised if your lender follows up with requests for additional documentation.** Typically, they cover this off with a broad statement that notifies you that any information they request must be provided. A sample of this type of statement is above, in the red square highlight.

Check the accuracy of the payment frequency

Payment Frequency Selection: Your payment frequency will be monthly on the 1st day of the month, unless you choose a different payment frequency below. Your payment frequency will be confirmed to you in writing after the Advance Date. IF YOU WISH TO CHANGE YOUR PAYMENT FREQUENCY, PLEASE INITIAL BESIDE YOUR CHOICE:

_____ Semi-monthly (24 payments per year; 1st and 15th of the month only)

_____ Bi-weekly (26 payments per year); **Please note: if you choose this payment frequency, your first payment will be due on the date which is 14 days following the later of the Interest Adjustment Date or the Advance Date.** You have the option to change the day of your payment by calling Payment Administration at 416-515-7000 no earlier than 30 days after your Advance Date.

Do you have a plan to pay off your mortgage quickly? Part of that plan may include how often you pay your mortgage—the more frequent the payments, the more you pay and that means paying off the principal faster, which reduces the overall interest you pay for the loan. Every mortgage document will have an area where you can choose the frequency of payments. Be sure to check off your selection, as making change after the document is signed will cost you, as you can see below (in the red circle).

	Bank's time and cost for investigating and administering any non-compliance with insurance requirements including, among other things, placing supplementary coverage for the property under Bank's corporate insurance policy and the cost of any premiums allocable to such coverage. Bank is the sole beneficiary of such coverage and you are not entitled to any benefits under such policy.
Tax Administration Fee	\$200 for determining and/or investigating the status of realty tax payments for the property and administering such payments (plus Bank's out of pocket costs or charges of a municipality or other taxing authority, for providing Bank with a municipal tax certificate or other required information on taxes).
Amortization Schedule Fee	\$25 for the preparation of each schedule.
Amortization Adjustment Fee	\$100 for each increase or decrease in the amortization period outside the maturity date of your mortgage.
Mortgage Statement Fee	\$100 for each statement requested by you or someone on your behalf.
Assumption/Transfer Fee	\$500 for each application (regardless of whether application is approved or not completed)
PPSA FEE.	\$100 for each registration including, without limitation, renewal, discharge and name changes.
Payment Deferral Fee	\$50 for each deferral if agreed to by Bank
Payment Change Fee	\$50 for each payment frequency change and each payment date change.
Property Management Fee	Bank's out of pocket costs for protecting our security interest in the property including, among other things, conducting inspections.

Administrative fees to open and close a mortgage loan can add up. Ask for an amortization schedule—to verify how much of each payment is going towards the principal and how much is interest—and you'll need to pay your lender. Want a mortgage statement? Fork out more money. Need to renew, you may be slapped with an additional fee. But the one that can be annoying, even if it is relatively minor, is the “Payment Change Fee” (highlighted in red). If there's an error in your payment frequency in mortgage document you signed and you phone to make a correction, this lender will slap you with a \$50 fee. Not your error, but it is your penalty. To avoid paying unnecessary fees, make sure to check your mortgage documents for inaccuracies.

Make sure you have insurance

Bank's rights.	
Default Payment Fee	An amount equal to three (3) months' interest on the principal balance outstanding is payable when a payment is not made when due or the outstanding balance is not paid in full on the Maturity Date and is not renewed
Missed or Late Payment Fee	\$200 for each missed or late installment and for replacement of each cheque or other instrument not honoured when presented for payment. If any cheque, instrument or preauthorized payment is not honoured, late or returned for any reason, any replacement cheque must be certified and [REDACTED] Bank shall be entitled to have it certified, and to add all the costs of certification, including courier charges to and from your bank, to the amount owing on your mortgage.
Insurance Administration Fee	\$200 per month until your insurance policy on the property is in good standing. This fee is to cover [REDACTED] Bank's time and cost for investigating and administering any non-compliance with insurance requirements including, among other things, placing supplementary coverage for the property under [REDACTED] Bank's corporate insurance policy and the cost of any premiums allocable to such coverage. [REDACTED] Bank is the sole

Did you buy a home but forget to shop for a home insurance policy? If your mortgage advance date arrives and you still haven't been able to submit valid home insurance to your lender, expect a fee. For example, this lender charges \$200 per month until you can provide evidence of a valid insurance policy for the home.

Other fees are deducted from the loan amount

Source of large deposits or irregular deposits must be explained and verified. If foreign funds or wire transfers are involved, additional documentation may be required.

- ✓ We require a current appraisal report confirming a market value of not less than \$500,000.00. The appraisal must be acceptable to us in our sole discretion, and the Property must also be acceptable to us as security for the Mortgage. All appraisal fees are your responsibility. Please go to [www.\[REDACTED\].ca](http://www.[REDACTED].ca), click on 'Single Family Residential' to view the Approved Appraisers List by region, and select one of the appraisers on the list to complete the appraisal for the Property. We must receive an original appraisal addressed to us a minimum of five (5) business days prior to the Advance Date. In addition, we reserve the right to obtain an updated appraisal at any time prior to the Advance Date and retain the right to reduce the Principal Amount or cancel the Commitment if the market value, property condition or property use is deemed to be unacceptable to us in our sole discretion. (Broker)
- ✓ Payment of our Lender Title Insurance and Closing Service Fee of \$256.92 will be deducted from the advance of the Principal Amount if funded in accordance with the Commitment.

Did your lender ask for an appraisal on the home you want to buy? Don't be surprised if you have to pay for that report (see highlights above). Plus, some lenders who require title insurance will deduct it from the total amount loaned to you; it's only a few hundred dollars, but it can leave you scratching your head as to why you didn't get your full mortgage-loan amount.

Where to go to complain

13. **Survival of Commitment.** Notwithstanding the registration of the mortgage and advances made under the Mortgage Loan the Terms of this Commitment shall remain binding and effective on the parties to this Commitment.

14. **Customer Complaint Handling Procedures:** If you have a problem or concern, we want to work with you to resolve it as quickly and effectively as possible. A copy of our 'Customer Complaint Handling Procedures' will be provided to you, however you can also obtain a copy from any of our offices or from our website at [www. \[REDACTED\].ca](http://www. [REDACTED].ca)

Have questions or concerns about your mortgage documents? In your contract you should see a clause that clearly states how to get in touch with your lender or how to lodge a complaint. If this doesn't work, and you've worked with a mortgage broker, contact the broker directly. They should work on your behalf to sort out any discrepancies with the lender. Finally, if your independent broker isn't helpful or if you went through a bank to get a loan and you're not getting anywhere, consider contacting the bank's ombudsman. This is an independent role within a financial institution that's tasked with addressing consumer complaints. If this fails, consider lodging a complaint with [OBSI](http://www.obso.ca). But be warned: It can take up to nine months just to get an answer on a complaint, sometimes longer.

Scan the mortgage snapshot

STATEMENT OF DISCLOSURE

Loan No:
Borrower:
Property Address:

17

May 7, 20

Principal Amount	\$423,750.00
Annual Interest Rate	5.24% Fixed rate per year. This interest is compounded twice per year and is charged monthly.
Annual Percentage Rate	7.186% The interest rate for a whole year (annualized), including applicable fees such as service charges, loan origination fees or administration fees when applicable.
Term	12 months The Term of the mortgage is open, which means you can make a prepayment at any time without paying a Prepayment Charge.
Date of Advance	June 6, 20 This is the date your funds will be advanced. Interest will be calculated and charged from the date the first advance is made.
Payments	\$2,563.92 on the 1st of every month Your payment is payable monthly and includes payment toward your principal amount, the accumulated interest, and, if applicable, an estimate of your monthly property tax portion.
Amortization Period	360 months Based on the current terms and conditions, your mortgage will take this long to pay in full.

Finally, almost all lenders now provide a synopsis of all fees and terms in that back of your loan document. This doesn't mean you should skip over the body of the document, but this summary is a great spot to start verifying if key terms, such as the mortgage rate and the length of amortization, is accurate. If not, mark it, and go back to your lender. Don't be afraid to fight for what you agreed to. Bruner wasn't.

Despite the reluctance by his bank's mortgage specialist, Bruner eventually got the rate he was initially promised. One key component to his negotiations were the emails he'd kept. The correspondence was evidence of what Bruner was promised and made it hard for the bank to rescind the initial offer.