Financial Services
Commission
of Ontario

Ontario

Understand the Risks of Getting a Mortgage

Most homebuyers need a mortgage[1] to buy a home[2] — and whether you're buying your first home, or moving up, a mortgage is likely the biggest financial commitment you'll ever make.

Being ready for a mortgage involves a lot more than just qualifying for a loan. Because of the amount of money you borrow, and the time it takes to pay it back, getting a mortgage comes with certain risks. It's important to know what these risks are and to be financially prepared for them.

Before shopping for a mortgage, take a close look at your situation — your finances, future plans and lifestyle — and consider how much debt you can comfortably handle.

When deciding how much money you can afford to borrow, consider:

- your current financial situation
- your future financial situation
- how long you plan to own a home or have a mortgage
- any extra expenses you plan to incur (e.g., buying a car, starting a family, etc.)
- the economic climate
- interest rates
- the total cost of owning a home (e.g., property taxes, home repairs, condominium fees, etc.)
- how much your home may increase or decrease in value over time
- the potential for higher mortgage payments
- the risks of a drop in your income
- your personal tolerance for debt and risk

Getting a mortgage is an important decision. You may want to consider putting together a team of professionals, which could include a real estate agent, mortgage provider, financial adviser, accountant and/or lawyer, to help you with your decision.

Do you know the risks?

You may be able to afford a mortgage now, but your financial situation can change. Financial set-backs can happen at any time — not just when the economy is weak. Consider how you would manage if your income fell, your expenses rose and/or your mortgage payments increased.

Your income could fall and/or your expenses could rise if you:

- start a family
- change careers/return to school
- assume caregiver responsibilities
- have an income based on sales commissions, tips, bonuses or other incentives
- lose your job(s)
- get into debt
- become ill or disabled, or get injured
- run into business or legal problems
- get divorced or separated
- lose a spouse, partner or family member

Depending on the type of mortgage you have, your payments could also increase if your interest rate rises, or if you have to renew your mortgage at a significantly higher interest rate.

Do you know the consequences?

Whether you're late making mortgage payments, or cannot make them at all, not being able to meet your mortgage payments can have serious consequences. It is important to be aware of these consequences before taking on a mortgage.

[1] The term "mortgage" includes all types of debt secured on property (e.g., a house, condominium, land, etc.).
[2] The term "home" includes all types of homes (e.g., single-family homes, semi-detached homes, townhouses, condominium units, mobile homes, etc.).

If you cannot make your mortgage payments:

- You may have to pay late charges.
- You will damage your credit rating. Having a poor credit rating will make it difficult for you to obtain loans and make certain purchases in the future.
- Your mortgage may go into default and your mortgage provider may sell your home to cover your debt or become the owner through foreclosure.
- You may be responsible for paying any shortfall, if your mortgage provider cannot fully cover the debt by selling your home.
- You may lose the money you invested in your home, if you lose your home due to mortgage default.

Have you planned ahead?

When faced with financial trouble, meeting your mortgage payments can be stressful — or even impossible — without prior planning.

Before shopping for a mortgage, you should find out what sources of income and alternative funding options are available to you, and develop a plan for making payments in hard times.

To make a plan for meeting your payments:

- Create a detailed budget for your household (including housing, food, utilities, etc.).
- Build up emergency savings for mortgage payments.
- Clarify what payment options are available in your mortgage contract (e.g., some mortgage providers give you the option of applying prepayments you have made to a current payment that is due).
- Investigate insurance products[3] that may help you cover your expenses if you become ill or disabled, or get injured (e.g., disability insurance, critical illness insurance, etc.).
- Find out what tax credits you're entitled to.
- Ask your mortgage provider, broker or agent if a better interest rate can be offered when your current term ends.
- Know what employment and government benefits you're entitled to.
- Know whether or not, and how, you can access any other funds or investments (e.g., money in your registered pension plan or RRSPs).
- Consider consulting a team of professionals, which could include a real estate agent, mortgage provider, financial adviser, accountant and/or lawyer.

Before entering into a mortgage agreement, make sure you carefully read all of the information and ask questions if you don't understand something. You may also wish to seek legal advice before signing a mortgage agreement.

Are you using the services of a mortgage brokerage, broker or agent?

If you plan to use the services of a mortgage brokerage, broker or agent, make sure the individual(s) and business are licensed with the Financial Services Commission of Ontario (FSCO) — the government agency responsible for overseeing the mortgage brokering industry in Ontario. To check if an individual or business is licensed to deal or trade in mortgages in Ontario, visit FSCO's website at www.fsco.gov.on.ca and click on *Mortgage Brokers*.[4]

In Ontario, mortgage brokerages, brokers and agents are required to disclose to you the material risks of your mortgage in writing and in plain language. You are also entitled to have at least two business days to review a mortgage disclosure statement before you sign a mortgage agreement with a mortgage brokerage, broker or agent, or before you make a payment under a mortgage, whichever is earlier.[5]

About FSCO

FSCO is an arm's-length agency of the Ministry of Finance that is responsible for regulating the mortgage brokering industry in Ontario. In order to carry out mortgage brokering activities in Ontario, all mortgage brokerages, brokers and agents must be licensed with FSCO.

In addition to mortgage brokers, FSCO regulates insurance, pension plans, credit unions, caisses populaires, loan and trust companies and co-operatives.

FSCO works with consumers, industry stakeholders and investors to provide regulatory services that protect the public interest, and enhance public confidence in and access to a fair and efficient financial services industry in Ontario.

For more information on any of these sectors, visit our website at www.fsco.gov.on.ca, or call our Contact Centre at: (416) 250-7250, Toll-free: 1-800-668-0128, TTY Toll-free: 1-800-387-0584.

For a complete list of licensed mortgage brokerages, brokers and agents, visit FSCO's website at www.fsco.gov.on.ca and click on *Mortgage Brokers.*

[3] Before purchasing any insurance products, it is important to make sure you understand their restrictions and limitations (e.g., when and how much they pay out). Speak to your financial adviser, accountant and/or lawyer for advice on these products.

[4] Some persons or entities are exempt from the requirements to be licensed as a mortgage brokerage, broker or agent, and therefore will not appear on FSCO's website (e.g., financial institutions such as banks and credit unions, and other persons and entities, such as lawyers, under certain conditions).

[5] Under the Mortgage Brokerages, Lenders and Administrators Act, 2006, this disclosure requirement does not apply if you consent in writing to waive it before you enter into a mortgage agreement or make a mortgage payment.

ISBN 978-1-4249-9568-4

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Mortgage Checklist

If you decide to get a mortgage,[1] it is important to shop around and see what mortgage products and features different mortgage providers are offering. The more mortgages you compare, the greater your chance at getting one that best suits your needs.

To make the most of comparison shopping, you need to know what options are most important to you and have questions prepared to clarify what different options are available. **You may wish to ask potential mortgage providers, brokers or agents the following questions:**

- ☐ What type of mortgage is best for my needs? In particular:
    - a fixed, variable or adjustable rate mortgage
    - an open, closed or convertible mortgage
- ☐ What mortgage features and options are best for my needs? For example:
    - a short or long mortgage term
    - a short or long amortization period
    - frequent or less frequent mortgage payments (e.g., monthly versus biweekly payments)
    - the ability to make prepayments or lump sum payments (e.g., to pay an extra $200 each month or an extra $2000 per year)
    - the option to transfer my mortgage to another home if I sell my home
- ☐ How will different factors (e.g., frequency of payments, amortization, etc.) influence the total cost of my mortgage?
- ☐ What are my options if I cannot make a payment? For example, can I skip one payment per year or apply any prepayments I have made to a current payment that is due?
- ☐ What penalty charges may apply if I want to break my mortgage contract or renegotiate a new one? How are they calculated?
- ☐ Will I have to pay an additional fee if a payment is late?
- ☐ How can I change the size of my mortgage payments?
- ☐ What fees are involved in setting up, discharging or renewing my mortgage? How are they calculated?
- ☐ How can I save on interest charges?

You should also come up with additional questions, based on your individual needs and preferences.

Getting a mortgage is an important decision. You may want to consider putting together a team of professionals, which could include a real estate agent, mortgage provider, financial adviser, accountant and/or lawyer, to help you with your decision.

When you apply for a mortgage, you and/or your spouse or partner will need to provide your mortgage provider, broker or agent with personal information about your finances. It is a good idea to have the following documentation[2] ready:

- confirmation of your income and/or employment earnings
- your current banking information
- evidence of your down payment[3]
- a list of your assets and liabilities
- the full address of the property
- a copy of the real estate listing, if applicable
- contract and building plans, if applicable
- a mortgage pre-approval certificate, if one was issued
- contact information for your lawyer or notary
- a copy of the agreement of purchase and sale
- estimates of your monthly housing costs (e.g., property taxes, utilities, etc.)

1 The term "mortgage" includes all types of debt secured on property (e.g., a house, condominium, land, etc.).
2 Different mortgage providers, brokers and agents may require different documentation.
3 If your down payment is a gift, you generally need a written letter from the donor stating that the funds do not need to be repaid.

Consumers' checklist for mortgage brokerages, brokers and agents

If you plan to use the services of a mortgage brokerage, broker or agent, make sure the individual(s) and business are licensed with the Financial Services Commission of Ontario (FSCO) — the government agency responsible for overseeing the mortgage brokering industry in Ontario. To check if an individual or business is licensed to deal or trade in mortgages in Ontario, visit FSCO's website at www.fsco.gov.on.ca and click on *Mortgage Brokers*.[4]

In Ontario, mortgage brokerages, brokers and agents are required to:

- ☐ Take reasonable steps to ensure that any mortgage presented for your consideration is suitable for you.
- ☐ Indicate in writing whether written information that is disclosed to you, is an estimate, or is based on an assumption.
- ☐ Disclose in writing the material risks of each mortgage the brokerage presents for your consideration.
- ☐ Disclose in writing for whom the mortgage brokerage is acting (i.e., information about whether/when the brokerage is acting for the borrower, the lender, or both, without preference to either the borrower or the lender).
- ☐ Disclose in writing any conflicts of interest that the mortgage brokerage, broker or agent may have in connection with the mortgage.
- ☐ Provide written disclosure of the cost of borrowing. You are entitled to this information at least two business days[5] before you make a mortgage payment, or enter into the mortgage agreement.
- ☐ Disclose whether the mortgage brokerage, broker and/or agent will/may receive any fees, remuneration or incentives from other individuals or businesses in connection to the mortgage, and if so, to whom and how they are calculated.
- ☐ Disclose whether the mortgage brokerage has paid/provided, or will/may pay/provide any fees or remuneration to other individuals or businesses in connection with the mortgage, and if so, to whom and how they are calculated.
- ☐ Disclose whether any fees or other types of remuneration will be received by the mortgage brokerage for referring a borrower, lender or investor to another person or business, and a description of the relationship with the other person or business.
- ☐ Provide all written disclosures to you in plain language.

Mortgage brokerages, brokers and agents cannot require you to:

- Sign the mortgage agreement, without first providing you at least two business days to review it, unless you choose to waive this time period in writing.
- Make an advance payment or deposit for any services to be provided or expenses to be incurred by the mortgage brokerage, or by any person or business (if your mortgage is $300,000 or less).
- Get a product or service as a condition for getting another product or service from the mortgage brokerage.

This checklist outlines only some of the things that mortgage brokerages, brokers and agents are required to do. For more information on the requirements of mortgage brokerages, brokers and agents, visit FSCO's website at www.fsco.gov.on.ca.

Note that the disclosure requirements in this checklist apply to the mortgage brokering industry, not financial institutions, such as banks. You may have different rights and responsibilities when getting a mortgage with these institutions.

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ISBN 978-1-4249-9576-9