Property Lines

Who's Doing High Fives Now?

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If you think lenders make too much money, you are not alone. However, it's very likely that you, the borrower, are an eager participant in all those profits. Billions of dollars are literally given away to the banks each year because of consumer apathy. Lenders know this and in fact they "bank" on it. What do we mean?

Well, a recent survey conducted by Canada Mortgage and Housing Corporation reveals that despite all the new mortgage products on the market, people looking to renew their mortgage will more often than not, revert back to their current lender. In fact, according to the report, 81% of them did. Does this make sense when the competition could be offering lower interest rates and better terms? It doesn't.

There is some good news though. This same survey indicates that consumers are shopping around slightly more than they were in the past. People that were renewing their mortgage were faithful to their financial institution to the tune of 88% in 2000. By 2006 this dropped 7 percentage points.

This decline in lender loyalty was also very evident in repeat home buyers and people that refinanced their mortgage because of wanting extra cash to make home renovations or consolidate debt. In 2006 only 65% of these consumers went back to their current provider – well down from what it was in previous years.

The only category that remained relatively stable was first-time home buyers. 57% of these buyers financed through their banking institution in 2000 and this remained almost constant - 58% in 2006. It would appear that first-time buyers are savvy and cautious when it comes to mortgage debt. Initially, they do their research diligently when it comes to comparing lenders and what they can offer. However, these very same buyers that were so careful at the start, soon join the ranks of those that are "too busy" at mortgage renewal time to check out and compare lenders.

Most people know that banking is a business. However, not all acknowledge that bank employees are paid to look after the bank's best interests – not yours. In fact these employees have quotas to fill – big quotas!

It is amazing that people will go to seminars sponsored by Lenders and expect to be told how to negotiate the best mortgage deal for themselves. Puh-leeze! That's like inviting a fox to the chicken coop to tell the chickens how to avoid getting eaten by him. It makes no sense whatsoever, yet that is exactly what people do.

Even more remarkable is the fact that these potential customers believe they are getting sound and unbiased information and actually act on the advice given by the fox. This can be a very costly mistake.

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WHO'S DOING HIGH FIVES NOW?...CONTINUED

However, let us explore mortgage renewal in greater detail.

Mortgage funding is extremely competitive. Lenders spend an enormous amount of money just to get mortgage business in the first place and they certainly don't want to lose customers now or at any time in the future. If homeowners would just take a few hours and shop around for several proposals from different lending institutions when their mortgage term is up, they might be pleasantly surprised about their findings.

The chances are that they would quite possibly receive an offer from another Lender that is better in both interest rates and/or terms provided. Lenders may even pay for all the set-up, transfer and legal fees when the mortgage business is transferred to them. Once a homeowner has different options in hand, the power to choose becomes theirs. They can accept this new favorable proposal or have their current lender match or better it. Odds are, your lender isn't going to be willing to give up your business without a fight.

How much actual cash could be saved by keeping Lenders honest? Well, let's figure it out. A $300,000 mortgage calculated at 6% over a 25 year amortization period works out to monthly payments of $1,919.42. Conversely, at 5.5% and using the same criteria, the payments are $1,831.18. The difference is $88.24 per month.

Now multiply that by 60 (five years of monthly payments) and you will see that by negotiating a better rate, rather than blindly accepting the first offer, you have saved $5,294.40. Really, with a little investigative effort, you could have put a stash of cash in your jeans or made a handsome contribution towards paying off your mortgage. Instead of the Lenders' CEO's counting profits and doing high fives around the boardroom table because of consumer apathy, you could be going on vacation.

You may be trained to be loyal but hopefully, not tamed! Next time . . . shop around!

GOOD NEWS FOR B.C. INVESTORS!

A recent CMHC survey reports that Canadian rental vacancy rates are lowest in B.C. (1.2%) and Alberta (0.9%). All the major centres in B.C. posted a vacancy rate below one per cent as the province's increasing population and high ownership costs have increased rental demand. The average rent for a two bedroom apartment in Abbotsford was $700 while Kelowna came in on average at $817. Vancouver's two bedrooms rent out at $1,051 and Victoria, $892. The highest average monthly rents for this type of accommodation in Canada's major centres were in Toronto at $1,073. with Vancouver next, followed by Calgary at $1,037.

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