Use caution when getting a mortgage

Consumers buying houses this summer could spend almost as much time shopping for mortagages as they do comparing properties.

"It would be exaggerating to say there are as many different types of mortgages available as there are different styles of houses, but the variety of financing options certainly is astounding," says Al Coleclough, Registrar of Real Estate and Business Brokers for the Ontario Ministry of Consumer and Commercial Relations.

According to Coleclough, the proliferation of new types of mortgages was sparked by fierce competition among lenders. Most financial institutions offering residential mortgages have developed their own unique incentive plans to attract customers.

Some lenders reduce application fees, offer attractive early payment plans, or run lucky draws. The range of mortgage terms now offered is just as diverse — some lenders offer terms from six months to ten years.

This new mortgage market is a boon for consumers who have had to face inflexible plans that often didn't meet their individual needs, Coleclough says.

"But there are pitfalls hidden among the many advantages," the registrar warns. "Due to the sheer number of financing options, confused consumers can wind up with mortgages totally unsuited to their personal circumstances. Don't be taken in by bells and whistles."

It would be foolish to sign up for a mortgage plan just to save a few hundred dollars up front on the application fee. The important things to consider are interest rates, prepayment privileges, early repayment penalties and terms.

Once satisfied with the fundamental plan, take a look at the frills offered as signing incentives, Coleclough says.

Consumers should also be sure they aren't relying too heavily on interest rates remaining low. Only a few years ago, hundreds of Ontario families lost their homes when rates skyrocketed.

"Always leave yourself a cushion — a bit of untouched income to be called into use if rates go up again," Coleclough advises.

To calculate how much you can afford to put into mortgage payments, set up a proper budget. It should list costs for all necessities of life.

Include any expenses for hobbies or activities you are not willing to give up. Add in all existing debt payments, but don't include rent or current mortgage costs.

This should give you a rough idea how much it costs the family to live each month, without accounting for housing.

Subtract the total from your net monthly income — your take-home pay. This final figure represents your total remaining income.

"Never commit yourself to a mortgage that eats up all that left-over money," says Coleclough. "One major emergency or a small hike in interest rates when the mortgage is due for renewal could cause you to lose the house."

There are no rules on how much income to keep in reserve. House buyers have to use common sense and take an honest look at their own circumstances, says Coleclough.

It may help to check into potential increases in mortgage costs by calculating monthly payments at a few different interest rates.

The ministry's consumer information brochure, How to Buy a House, offers more tips on financing and general advice about buying real estate.

For a free copy contact the Consumer Information Centre at 555 Yonge St., Toronto, M7A 2H6 — 963-1111.

Many lenders also produce booklets explaining their own mortgage plans and offering general information for house buyers.

Be wary when borrowing money

Consumers facing monthly loan payments that total more than 20 per cent of their net incomes, should be wary of getting any deeper in debt, say credit experts.

"If too much of your disposable income is committed to paying off past expenses, it's difficult to save money and often impossible to handle emergencies," says Ann Rowan, a credit expert with the Ontario Ministry of Consumer and Commercial Relations (MCCR).

According to Rowan, all consumers should set up budgets, if only to get a clear picture of how their money is used. Once you know how much is spent on the necessities of life and existing debts, it's much easier to plan for the future.

Debts require particularly careful scrutiny. Add up all the monthly payments for loans, credit cards and any items purchased on installment plans.

Don't include mortgage costs. If these payments total more than 20 per cent of your monthly income after taxes, it may be time to start cutting down on debts.

"Certainly, few people should consider taking out any more loans at that point," Rowan says. "Remember, if you end up overloaded with loans and can't make payments, debt collectors could start knocking on the door, your credit record may suffer for years to come and, worst of all, you could end up borrowing yourself into bankruptcy."

It's also important to keep in mind that credit costs money. Add up all the interest charges owed on loans for the rest of this year. You may be shocked to discover the total cost of all your debts.

On a more positive note, credit can be a useful, convenient tool if handled with care.

After taking a hard look at your current financial situation, you may decide it is safe and reasonable to borrow money for a particular purchase.

Be sure to shop around for the best terms. Money lending has become a fiercely competitive business and financial institutions are offering a wide variety of incentives to attract customers. More than half a percentage point difference in interest rates can change monthly payments significantly.

Discussions with a few loan officers can help consumers find the best deals available, along with the most suitable repayment plans.

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