



Understand the Risks of Getting a Mortgage

Most homebuyers need a mortgage¹ to buy a home² — 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 products³ 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.