Mortgage Misconceptions

In this time of turbulent stock markets and multiple information sources, there are many misconceptions about recent changes in Canadian lending practices. Allow me to clear up some of these up in the brief points below.

Misconception	Fact
A. It doesn't matter where the down payment comes from, and it's none of the lenders' business	Since the down payment is your investment in the property, and the lender is making it possible for you to own this property through their financing, it's absolutely their business. Plus, the increase in mortgage fraud over the last couple of years has caused lenders to be even more cautious. They have every right to ask for verification of the down payment source, and it makes a big difference in the approval process if the down payment is from your own savings vs borrowed or gifted from an outside source.
B. There are no more 40 year amortizations	Within the mainstream lender community, there are no more 40 year amortizations available for purchases where the down payment is less than 20%-25%. However, lenders are still offering 40 year amortizations with purchases where the down payment is higher than 20-25%.
C. You can no longer buy property with zero down payment. The minimum down payment is now 5%	If your credit is strong enough, your income to debt ratios are acceptable, and you haven't saved up 5% down payment on your own, many lenders will allow you to borrow the 5% down payment from a bank or line of credit and approve you for the 95% financing. In this way, you can still buy property without 5% down from your own sources.
D. Interest rates just went down	The prime rate, which influences variable rate mortgages, recently dropped from 4.75% to 4%. However, lenders who used to offer variable rates of prime - .5% have now increased their rates to prime + 1-2%. In addition, fixed rates just increased by approximately .25% depending on varying lender policies.

E. If you have a line of credit secured against your house, you don't have a mortgage	When money is secured against a property, it is a mortgage regardless of how it's structured or what it's called. Furthermore, unless people are excellent money managers, a secured line of credit mortgage (often called a 'heloc') can be worse than a traditional mortgage in that it allows people to spend large amounts of money with interest-only payments. With a traditional mortgage, you have less flexibility for spending, yet you pay down the principle and interest, not just the interest.
F. You can still assume a mortgage	While it is still possible to assume or take over someone else's mortgage, lenders now insist that you completely qualify in order to do so. The qualification process to assume a mortgage is now identical to the process if you were to obtain a mortgage on your own.