PERSONAL FINANCE

Struggling to make mortgage payments? How to avoid the slippery slope that leads to losing your home

More and more Canadians are having trouble making payments as rates continue to rise. Here's how to get back on track and make sure you don't put your home in jeopardy.

By **Clarrie Feinstein** Business Reporter

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Homeowners with variable rate mortgages are feeling the heat, especially if the home was bought during the pandemic rush when interest rates were at historic lows of 1.5 per cent. Now, interest rates are sitting around 5.5 per cent.

The rapid rise in rates is resulting in immense stress for recent homeowners, mortgage brokers and financial planners told the Star. And it's easy to see why.

For example, if someone bought a $1 million home when interest rates were 1.5 per cent, and managed to put down a 20 per cent down payment, the monthly mortgage payment would be more than $3,000. At 5.5 per cent, it's almost $5,000.

"The people really feeling the financial pressures right now are those who bought a home when interest rates were at incredible lows and are unable to manage the rapid rise in interest rates that went up quicker than anyone forecasted," says Ian Calvert, vice president and principal wealth planning, at HighView Financial Group.

Rapid and aggressive interest rate hikes are increasing household debt, intensifying housing affordability concerns, said a recent report from DBRS Morningstar, a credit-rating agency, published on Nov. 15.

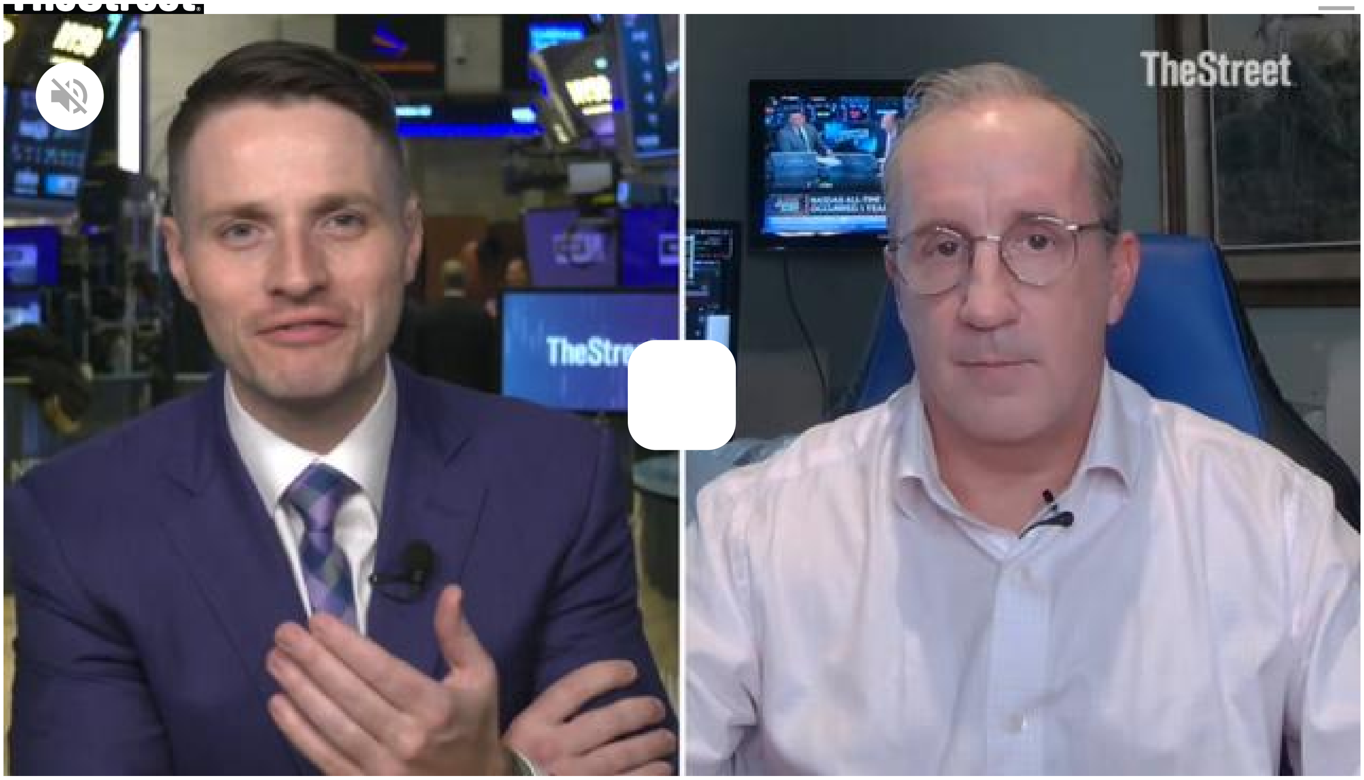
High inflationary pressures and household indebtedness are shrinking disposable incomes, leaving many Canadian's vulnerable to higher mortgage payments — especially those with variable rate mortgages or mortgages set for renewal in the next year, the report adds.

So what options are available for homeowners feeling the financial squeeze?

The first step is to budget and examine their finances, says Calvert. There are fixed expenses such as mortgage payments, property tax, utilities, and grocery costs that don't have wiggle room to change. But discretionary spending such as memberships, subscriptions, and cutting back on going out for food and entertainment, can make up for the shortfall in mortgage payments.

"People don't realize how discretionary spending creeps into their cash flow," he says. "It's important to manage it."

Sometimes people will take money out of their tax-free savings account (TFSA) or registered retirement savings plan (RRSP) to assist with their mortgage payment if they're coming up short, but Calvert says it hurts long-term financial goals for retirement.



"It's not a position you want to be in," he adds.

Another position a homeowner does not want to be in is missing one or two mortgage payments. For example, if a homeowner can't make their November mortgage payment, but can make the payment on time the following month (due to various life changes such as starting a new job, renting out rooms, or receiving help from family) the December payment will still be considered late, Calvert says.

It's called "rolling late" and until you double up on the payment to make up for the missing month, the subsequent payments will always be considered late, destroying credit scores, he adds. Therefore, it's wise to make up for the missing payment as quickly as possible.

Lenders also give penalties to late or missing payments with a non-sufficient funds (NSF) fee or late payment fees. The fees vary and are in the mortgage contract, said Ron Butler, mortgage broker of Butler Mortgages.

Homeowners can extend their amortization period — the length of time it would take to pay off a mortgage in full — which can lessen monthly mortgage payments to be paid over a longer period of time, he says.

"That can work for some if they're just short of their monthly payments," he adds.

If it looks like the mortgage payments can't be met in the near or long-term, then it's best to sell the property, otherwise the homeowner will default and it could lead to foreclosure.

If a homeowner hasn't made a payment 15 days after the due date it's considered late. After 30 days the missed payment will be reported to credit bureaus, which calculate your credit score. The more missed or nonpayments there are, the more detrimental the impact on the score, experts say.

Warning letters are given after 30, 60, and 90 days. If the homeowner does not respond to the letters after 90 days, then the foreclosure process begins. However, in Ontario, the power of sale process is used more than the foreclosure process, which is more time consuming and costly, experts add.

But banks don't go into the power of sale process right away, said Ian Serota, co-broker of record and manager of Keller Williams Legacies Realty.

Banks give the homeowners 35 days to catch up on missed payments. If the homeowner is unable to make up for the loss costs, the transfer of ownership to the lender begins.

"It's best not to be in this situation," Serota said. "You want to sell the property, because then maybe you can still protect some of your equity. If you wait too long the penalty fees rack up and when the bank comes knocking you're out $100,000. Better you control your own situation than handing over control."

Often, Butler says, homeowners who can't make mortgage payments avoid the bank, scared of facing the consequences. But when homeowners are confronted with financial hardship it's best to be upfront with the lender and figure out the right solutions, he adds.

"People are in an incredibly emotional state wondering if they'll have a roof over their head and make bad decisions," Butler says. "But avoidance only makes things worse."

Calvert notes that while it might be hard to sell a home and go back to a rental, it's the right choice if you're unable to pay the bank.

"It's important to realize you overextended yourself and carry too much debt," he says. "Going to a cheaper rental is not an option you want to be in, but if it's the only option you have then it's better than defaulting."

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