MorCan Direct

Sound, Unbiased Mortgage Advice

1006 King St West
Toronto, ON, M6J 3A4
416-214-9000
Morcandirect.com

Breaking the Bank

Marcus Tzaferis

MorCan Direct

Sound, Unbiased Mortgage Advice

Contents

Title Page	**1**
Contents Page	**2**
In This Report	**3**
Executive Summary	**4**
Introduction	**5**
Mortgages	**5-6**
Credit Cards	**7-8**
Debit Cards	**8**
Solution	**8-9**
Conclusions	**9**

In This Report

Some key issues that will be outlined in this report

Executive Summary

An outline of some of the key issues affecting the Canadian Banking System

Introduction

The changing role of banks in the community and how they make their profits

Mortgages

What the change in regulations means for your mortgage

Credit Cards

Some of the hidden policies and practices inherent in the credit card business

Debit Cards

The hidden cost of debit cards and some of the pitfalls of this service

Solution

How you can align yourself with lenders who meet your interests

Conclusions

Contact us at Morcan Direct to discuss some of your options and avoid some of the dangers outlined in this report

In this Report

In the following report we seek to add some transparency to the lending practices of "The Big 5" for our customers. Some of the items unearthed in this report include:

- Findings by the Bank of Canadian detailing the inherent savings benefits of financing your mortgage through a broker
- Proof that Canada's biggest banks are slow to pass on savings to their customers
- An investigation by Moody's highlighting that, rather than hindering their practices, the tighter mortgage regulations actually strengthen the position of the banks
- The hidden costs associated with credit and debit cards
- The benefits of utilizing off-balance sheet lenders to lower your rate and keep your lender's interests in line with your own

Executive Summary

We, at Morcan Financial, strive to give our clients sound, unbiased mortgage advice. We see our obligation as first and foremost to our valued customers and aim to source for them products which best suit their specific needs, regardless of the lender. In recent years it has become incumbent on us to seek out the services of off-balance sheet lenders as an alternative to the practices of Canada's "Big 6". In a time of increased financial uncertainty these Canadian banks have put in place policies which obviously serve to further strengthen their profits but seem to punish those most in need of assistance. While the banks' position is perfectly understandable – after all CEOs are not just inclined, but legally obliged to act in the best interest of the shareholders – that acts as little comfort to those struggling to pay higher interest rates and demanding fees. In a time of great uncertainty for many Canadians, Canada's Big 6 banks have released first quarter figures showing an, on average, 24% increase in profits form the same quarter the year previous. With this diversion of fortunes between the banks and the average Canadian citizen it is hardly surprising that many of the banks' customers are becoming increasingly disenfranchised. In this report we detail the practices and policies of some of Canada's biggest banks in order to keep you, the customer, fully informed and to allow you to make finance decisions with complete transparency. We outline some of the more opaque practices these banks engage in and detail how we, at Morcan Financial, can help you avoid the pitfalls inherent in dealing with these banks.

Introduction

There was a time when banks were a stable part of every local community. When branch managers knew their patrons' names and when customers were rewarded for their loyalty and good credit. Sadly these days are now past and the level of mistrust between the general public and the big banks is rising. These major banks make their money by pandering to the rich at the expense of the middle class and there now exists an almost ubiquitous air of discontent amongst those not privileged enough to tread the upper echelons of Canada's high life.

There had existed a common and dangerous misconception amongst the general public that when it came to banking, familiarity bred safety. Slowly this fallacy has been debunked and Canadians, like their American counterparts are beginning to question the moral fibre of these banking giants. Canadian banks spend millions each year on advertising to convince the public that they are friendly, personable corporations, in tune with the common man. However, when it comes time to renew your mortgage or when you are having trouble paying off your credit card bills this veneer quickly fades. The Canadian Big 5, so comfortable in their supremacy, have traded customer loyalty for profits and it is the role of the consumer to not merely acquiesce to their policies but to search for alternatives.

When we examine how banks make their money we see that retailing banks' revenue streams are derived from two basic sources: fees and interest. It is therefore difficult for banks to increase profits year by year without either increasing interest rates or alternatively finding ways to penalize their customers with fees. Although this can manifest itself in many ways, below we have outlined some of the tactics undertaken by these banks which we hope will help you avoid some common pitfalls.

Mortgages

It has become a common trend for any developments in the mortgage industry to be followed by an economist on your local news detailing how this will affect you and then benevolently bestowing upon you his advice for the future. What aren't always clear are the motives driving the economists' advice. Quite often these economists are funded by large financial organizations such as the banks and are there to represent their ideal scenario rather than to act on behalf of the consumer. Indeed such has been the consternation this has caused in The States that a recent meeting of the American Economist Association saw proposals from several high ranking members calling for their compatriots to sign a ethics code allowing complete transparency of the funders of these economists.

Canada played host to this charade recently as a rise in fixed interest rates spawned several of these economists offering their advice to lock into a fixed rate now for fear of further increases. Many of these economists are financially supported by various financial institutions, paraded by the banks in an effort to scare consumers into higher priced mortgages and allow for greater profits for the banks. If banks were so concerned for their customer's exposure to rising interest rates perhaps they would be better served addressing the recent study conducted by the Bank of Canada showing that banks are slow to pass on cuts in interest rates onto their customers and of the 6 biggest banks in Canada "five of the six largest banks adjust rates upward more quickly when there are upward cost pressures than downward when costs fall".

Indeed one of the hidden benefits to The Big 5 in the new mortgage regulations was in securing a maximum refinance rate of 85% LTV from the previous 90%. This achieves one of the key goals of all big banks: increases the barriers for moving banks and decreases your ability to shop for better rates. Under these new rules mortgage owners quite simply won't be able to refinance their mortgage until they drop down under the 85% LTV limit. And what happens to a customer of the bank who has taken a 35 year amortization on a 3 year term when they are looking to renew? Under the new 30 year maximum amortization they quite simply have no alternative but to stick to their current lender if they want to keep hold of their current amortization.

Mortgage shoppers must be wary that even seemingly altruistic acts on behalf of the banks can come at a cost. This is evident in the new practice of TD and some other banks of allowing their clients to register the collateral in their property for an amount of up to 125% of the approved principal amount of the mortgage. While this may seem uncharacteristic benevolent on the banks' part, clients should be ware that taking such an action would most likely leave you unable to refinance your mortgage or shop your mortgage around with other lenders. This gives TD and the other banks an immense advantage when it comes to negotiating a refinance.

These are only a few tactics in what is the key component of the banks' strategies, not retaining customers with superior service but rather making the idea of moving banks so cumbersome and complex as to lull their clients into a sense of inertia. Banks know that it is bothersome to have to collect all the documents required to refinance with another lender and use this inconvenience to their advantage when offering you rates. Banks will almost never offer their existing customers anything like their most competitive rates because they are relying on these barriers to prove too great for you to scale. It is only when you have gone to the effort of seeking out another alternative will the banks agree to match your rate. One must ask himself: would an organisation who holds my interest at heart to make me jump through such hoops?

However you should not be surprised by such procedures. After all these are banks which rank their clients according to income and offer rates and services accordingly. These are organizations which spare little thought for the goals and interests of their clients but prefer to concentrate on the bottom line.

Credit Cards

When the global housing bubble crashed in 2008 the source of this plighted seemed obvious to all: insufficient mortgage regulations exposing the poor lending practices of the banks across the US which left many people saddled with insurmountable debt levels on mortgages they could never afford. However very few point out the huge burden credit cards had on the US economy. A key factor behind driving US debt to disposable income levels up to 165% and limiting US citizens ability to deal with any shocks should they arise. Now in 2011, Canada has seen debt levels rise above that of the US for the first time in 12 years and caused some panic that Canada could befall the same plight as that of their neighbours.

It comes as no surprise then that in the wake of these figures the banking experts pointed to the mortgage industry as the albatross around the neck of the Canadian economy. This, despite the Canadian Association of Accredited Mortgage Professional's (CAAMP) findings that Canada currently shows an arrears rate of just 0.43% for prime borrowers, just 20 basis points short of the lowest default rate in 20 years. When one couples this with their findings that even a increase of 100 bps in fixed rates and 250 bps in variables would still only result in less than 1% of mortgages falling into what they refer to as "dangerously high TDS ratios" it is hard to see the justification for such radical reforms in the mortgage industry. But why would the banks campaign for tighter regulations in an industry in which they hold such a large stake? Well because something had to be done and killing the mortgage industry is a small price to pay for saving the cash cow that is the world of unsecured debt.

In a report done following the announcement of the new regulations, Moody's concluded that these reforms would be "credit positive for Canada's banking system and its bondholders." The report goes on to forewarn that these new measures will most likely see an increase in unsecured lines of credit, a facet of banking which allows for far greater exploitation and therefore far greater profits for the banks. Banks such as TD, BMO and CIBC have huge unsecured lending portfolios and it would be naive man who believed the banks weren't aware of this ancillary effect when blowing the trumpet for mortgage reform.

Yet credit card debt has seen double digit growth in Canada over the last year, with the Bank of Canada predicting by 2013 over 38% of spending will be in credit cards. This is a parasitic industry which thrives off others' misfortune, an industry where hidden fees and excessive, inexplicable interest rates are the bedrock from which gargantuan profits grow.

Over 25 million Canadian's have credit cards. Many of these citizens have been sucked in with promises of "0% interest rate" for the first 6 months and no annual fees only to find the banks are more than compensate in the long-run through hidden charges an retroactive increases in rates. What a great deal of credit card holders don't understand is that the banks don't want you to pay you balance in full. The banks want you to pay in perpetuity! A customer making the minimum payment on his credit card is paying the *maximum* interest on that debt and will take years before they are freed from their obligations.

Despite regulations imposed on credit cards throughout Canada in 2009 and 2010 there remains no cap on interest rates. Credit card interest rates bear no reflection on economic conditions as mortgage rates do and banks are free to charge what they like. With this in mind it is easy to see why the banks were so eager to pinpoint the mortgage industry as the fall guy when the politicians started to ask questions.

Debit Cards

Debit cards are often seen as safe haven from the pitfalls associated with credit cards but in the last few years debit cards have become just as perilous as their plastic neighbour. One might be forgiven for gasping in amazement at the banks new sense of altruism: "FREE" checking account – No maintenance fees! No service charge! It almost seems too good to be true… and it is. Many banks nowadays offer an "overdraft courtesy" on your debit card. This, they tell us, is to spare customers the indignity of falling short on a payment. What the banks fail to mention is that this is an insidious scheme to charge exorbitant overdraft fees to their clients account.

The genius behind this scheme is that due to its categorizing as a "courtesy" rather than a loan it escapes the boundaries of normal lending terms. This means banks don't have to disclose the terms of these fees to their clients and can get away with charging you overdraft fees far in excess of the amount actually charged to your debit card. In fact it is not uncommon to have several overdraft fees charged to your account in a single day. Every good Canadian loves their Tim Horton's in the morning but the thought of paying $35 for a cup of coffee is a wake up call most of us can do without.

The Solution

An extensive study recently conducted by the Bank of Canada (BoC) concluded that Canadians with the best mortgage rates tend to be those who use brokers. They found that brokers significantly lower "search costs" and one average reduce rates by 17.5 basis points. That represents $1,670 worth of savings on interest on a $200,000 mortgage over 5 years. "But how is this possible?" you may ask.

At Morcan Financial we work to align our interests with the interests of our clients. We aim to put you with mortgage lenders who can best suit you needs in order to avoid some of the pitfalls associated with the major banks. We do this by utilizing the power of non-balance sheet lenders.

Balance sheet lenders typically mean the chartered banks that are referred to as such because they hold your mortgage on their books as an asset. They are essentially the chartered banks in Canada and due to their nature the only way they can increase the value of their asset is by increasing the spread between the cost of the funds and the interest which you pay on your mortgage. So while a shopper may get sucked in by an enticingly low rate or a lack of fees it is these customers that will suffer when trying to renegotiate with their banks. The banks are under pressure to increase their profits year on year and unfortunately it is their existing clients that tend to carry this burden.

However a "Non Balance Sheet Lender" is a mortgage servicer that has the same motivation as you, they want you to be their client and stay as their client based on rate alone. Since your mortgage is guaranteed by the Canadian Government there is only one rate that you can be charged, there is no ability for the lender or servicer to increase your interest rate, and due to the efficiency of the market they cannot make more money by selling you a higher rate when you lock into a fixed rate mortgage from a variable, or when you renegotiate your mortgage at maturity.

By aligning you with a lender whose interests match your own in this manner we feel we can guarantee you, not just a better rate but the reassurance that when it comes to renewing your mortgage you will be with a lender who can offer you a incredibly competitive package.

Conclusion

If you are tired of having to struggle with your bank for a lower rate and would like to hear how we, at Morcan Direct, can help you, feel free to give us a call at 416-214-9000. Whether it's a purchase, a refinance or simply just to go over some of your options with out experienced and knowledgeable mortgage brokers, we would love to hear from you. Also remember to keep in touch with the latest mortgage news by going to our website (morcandirect.com) and subscribing to our blog. We strive to provide our client's with sound, unbiased mortgage advice and we look forward to saving you money in the future.