

Buyer Beware: High Cost of Converting A Variable Rate At A Bank

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by TheAverbachMortgagesTeam

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The trick to making a variable rate mortgage work for you is to purchase a variable rate mortgage with an option to convert to fixed rate at some point in the future. When the interest rates cycle down, switching to a fixed rate mortgage ensures you keep your payments low, even after rates begin to rise again. Do you have the expertise to time your decision correctly? Are you confident you'll receive the most competitive fixed rates available and that you are being offered sound financial advice?

Buyers often assume that the big 5 banks will treat them fairly by giving them a better discount because of their long-term relationship with the bank. What they don't know is that the big institutions and credit unions don't have any incentive or obligation to do so.

Contrary to what buyers believe, many banks have no obligation to give you their prime market rate. Many bank agreements do not state in the contract that you will receive their best rate. Instead, at conversion from variable rate mortgage to fixed rate mortgage, banks often offer a posted rate or a rate that is slightly discounted off the posted rate. Because of this, buyers can end up paying more interest than they need to, ultimately losing money over the life of the loan.

Let's examine a situation where a buyer has a \$250,000 mortgage with a 25-year amortization. They have a five year variable rate mortgage and decide to lock in after one year. Converting to a fixed rate mortgage after one year at .25 percent higher than the best market rate equals \$625 per year in additional interest costs. Over four years the buyer will pay an extra \$2500 in interest. Over 25 years that amounts to \$15,625. If you could save even a portion of that amount, isn't it worth at least a phone call to Averbach Mortgages?

Mike Averbach says, 'Buyers falsely assume that their big bank will treat them fairly or give them a better discount because of their long-term customer status.' What buyers don't know is that the big institutions and credit unions have NO incentive or obligation to give you their best rate. In fact, they have more incentive to treat new clients better than existing ones.

Mike Averbach, Accredited Mortgage Professional, makes sure the client understands the fine print and ensures that the mortgage is truly in their best interest. Unless otherwise requested, Averbach always puts their clients in a variable rate mortgage that offers the best available fixed rate at conversion. When Mike is on your side, it's won't be a matter of IF you will lock in, but WHEN.

How do you prevent paying too much? Do your research either before entering a borrowing agreement, or when renewing your mortgage agreement. Make sure that your agreement has that crucial clause in the contract, 'Client will be offered best rate upon conversion to a fixed-rate mortgage.'

Many mortgage brokers work with lenders who are willing to make a commitment in writing to offer their clients the institution's best rate whenever clients choose to lock into a fixed rate mortgage. Even knowing this, some brokers still offer variable rate mortgages from the big banks purely because of brand recognition. That's why one of the most important decisions you make when financing your home is selecting the best mortgage broker. Averbach Mortgage Brokers fits that bill. We have your best interest in mind. Your needs and desires are our main concern.

Mike Averbach of Averbach Mortgages can be contacted via email at mike@averbachmortgages.com or by phone at 604-710-2550. Justin Blacklock of Averbach Mortgages can be reached at justin@averbachmortgages.com or by phone at 604-707-6339. Mike and Justin will make sure you understand the fine print in mortgage loan documents. They will help you chose a mortgage that truly reflects your best interest.

About the Author:

Averbach's mortgage consultants are passionate about our industry. We are the premier one-stop operation in Vancouver and the BC Lower Mainland. When you're ready to find the best rates to convert a variable rate mortgage to a fixed rate, give us a call. Our team of experienced mortgage professionals will be happy to assist you with all your mortgage and mortgage financing questions. Call Mike Averbach today at 604-710-2550.