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Mortgage Q&A: Understanding Mortgage Payment Deferral Programs and Other Mortgage Financing Options Available

The COVID-19, or coronavirus crisis has left many homeowners in Canada without a job or with reduced hours and wondering how to pay their mortgage. Homeowners facing financial stress may be eligible for a mortgage payment deferral up to 6 months to help ease the financial burden.

The COVID-19 Mortgage Payment Deferral program will be ongoing. You can apply at any time during this outbreak.

What is mortgage payment deferral?

Mortgage payment deferrals can help you during times of financial hardship — like unemployment or reduced employment due to the Coronavirus (COVID-19) outbreak.

The deferral is an agreement between you and your lender. Typically, the agreement indicates that you and your lender have agreed to pause or suspend your mortgage payments for a certain amount of time. It's also known as a mortgage payment deferral agreement or mortgage forbearance agreement and it's a temporary measure.

After the agreement ends, your mortgage payments return to normal and the missed payments — including principal and accumulated interest - repaid.

How mortgage payment deferrals can help you?

A mortgage deferral helps you when you're struggling to make your payments by allowing you to skip your mortgage payment for a specified amount of time.

Are the deferred payments erased or cancelled?

The mortgage deferral agreement does not cancel, erase or eliminate the amount owed on your mortgage. At the end of the agreement, you will have to resume payment according to your regular payment schedule.

NOTE: The interest that hasn't been paid during the deferral period continues to be added to the outstanding principal of your mortgage. This can affect the total amount you owe in accordance with the original payment schedule.

Do I need to repay the deferred amounts?

Yes, you'll need to repay the amounts of the skipped payments including both principal and interest.

How do I repay the deferred amounts?

Details of the repayment will vary according to the specific lender and situation.

The interest on your mortgage that hasn't been paid during the deferral period continues to be added to the outstanding principal of your mortgage. When your payments start again, your mortgage payment might be based off the total amount you then owe to pay off your mortgage in accordance with the original payment schedule.

IMPORTANT: Mortgage payment deferrals focus solely on your mortgage. It won't affect other payments regularly withdrawn, like property taxes and life/disability insurance.

How do I know if I am eligible for a mortgage payment deferral?

Your lender — your bank or your mortgage professional — can tell you if you are eligible for a mortgage payment deferral.

Is CMHC, Genworth Canada and Canada Guaranty along with banks and some credit unions are helping with mortgage deferrals?

Yes, with the COVID-19 outbreak, CMHC, Genworth Canada and Canada Guaranty are allowing lenders to offer deferred payments for insured mortgages.

All mortgage insurers offer several tools to lenders that can help you when you're in financial difficulty and are struggling to meet your mortgage obligations.

What if my mortgage isn't insured?

Any borrower facing financial difficulty should contact their lender — your bank or mortgage professional — to learn what options are available.

Deferring mortgage payments won't hurt your credit score.

A lender-approved deferment isn't counted as a missed payment – and it won't appear on your credit report. Lenders are also typically offering to waive any fees associated with these programs during the COVID-19 crisis.

What are my options?

The payment deferral is for people who struggle to make their next mortgage payment. If you can make your payments, **you should.**

If — at any point in this crisis — you think you won't be able to make your regular mortgage payment, it's important for you to take quick action. **Contact your bank or mortgage professional immediately before you miss a payment.**

Other Mortgage Financing Options vs Mortgage Deferral Program

Take advantage of built-in mortgage features

Many mortgage lenders offer a feature that allows you to skip (or, more accurately, defer) a payment when you have short-term financial difficulty. The terms vary from bank to bank, but the general provision is that as long as you have a good history of making your payments on time and don't use this feature more than once a year, you may be approved to skip payments for up to one month.

There are a few downsides to this option, most notably that your mortgage will continue to accrue interest and you'll end up making the original payment, plus extra interest, over the remainder of your mortgage

Access funds with your home equity line of credit (HELOC)

A HELOC is a line of credit that allows you to take out money secured by your home with favourable interest and repayment terms.

The best HELOC rates in Canada are currently Prime minus 0.50%. As the Bank of Canada (BoC) has recently dropped interest rates by a total of one percent, the Prime Rate is at its lowest point since rates started rising in 2017. HELOCs also have flexible repayment terms and typically only require you to pay the interest you accrue each month.

If you already have a HELOC set up, you can withdraw money to help make your mortgage payments while your income is disrupted. It may be borrowing from Peter to pay Paul, but as long as you make your minimum payments, and have the ability to repay your HELOC down the road, it's a viable short-term option to keep everything looking good on paper.

If you don't have a HELOC set up already, this may not be the best option in an emergency. Applying for a HELOC takes time and a detailed application, just like a mortgage. It also requires you to use a lawyer. In all, it can take six weeks or more to complete the process and get access to money.

Negotiate a solution in partnership with your lender

Mortgage lenders are reasonable people who would prefer to help you keep your home and avoid a default if possible. If you're having financial difficulty, especially because of COVID-19, call your mortgage broker or lender and ask what options are available to you.

Creative solutions you may be able to work out include:

- Extending amortization: By increasing the length of time over which the remainder of your mortgage is paid off, you can reduce your monthly payments. This option may be especially effective if your mortgage is mostly paid off and you only have a few years remaining.

- Adding missed payments to your balance: If you've already missed a payment or two, and you can show that you're able to start paying on time again, your lender may allow you to bring your mortgage current by making small payments over an extended period of time.

- Other special arrangements: Your lender may agree to another creative solution if you can show that it will help you get your mortgage back on track.

Every financial situation is different, and all these options depend on you being able to bring the mortgage current at some point. You're more likely to work out a deal if you have good credit and haven't had trouble making mortgage payments in the past. Being proactive and contacting your mortgage broker or lender before you miss a payment may also help you get the accommodation you need.

Remember to be patient when you contact your lender. Their phonelines are busy now, so don't stress about long hold times. If you have an electronic agreement with your financial institution you may have the option to contact them via: fax or email however ensure you include in your correspondence: Full name, mortgage loan number, mortgage payment amount, mortgage payment frequency, next payment date, your request, date and signature.

Exhausted all options?

If you've exhausted all these options and you're still unable to make your mortgage payments, you still have alternatives to defaulting. They may not be easy, but these may be the best options you have left.

- Sell your home. Nobody wants to give up their home. But if you have some equity built up, selling your home could free up enough cash to pay off your mortgage and get your finances back on track. This option also allows you to keep your credit intact.

- File a consumer proposal. A licensed insolvency trustee can help you negotiate a fair deal with your creditors that may free up cash flow while allowing you to keep your home, car and retirement assets.

The threat of losing your home is almost as scary as the threat of a new virus that's sweeping the globe. But you have time and options to get through the coming weeks and months without defaulting on your mortgage or ruining your credit.

The coming months will be trying.

We will get through this crisis together!

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