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TD overhauls mortgage program as housing market slows

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From Tuesday's Globe and Mail

Collateral mortgages designed to make borrowing easier, switching to rival lender more difficult

TD Bank TD-T is revamping its mortgage program, making it easier for homeowners to tap into their equity and harder for them to switch to another lender when their mortgages come up for renewal.

At the heart of the overhaul is a switch to collateral-charge mortgages, which are similar to lines of credit. The bank is encouraging employees to approve customers at 125 per cent of a home's actual value under certain circumstances, so the homeowner can easily borrow more money if their property increases in value.

Unlike traditional mortgages, the collateral mortgages are difficult to transfer from one lender to another, because they must be paid in full to be cancelled. That means if someone wants to change lenders, they need to renegotiate from scratch.

While other banks offer variations on the collateral mortgage, TD is the first to switch exclusively as of Oct. 18. Existing mortgages aren't affected by the change.

The bank's move comes as the housing market cools and fewer Canadians apply for mortgages. It's an attempt to entice buyers who expect to tap into rising values and don't plan to shop around for better rates in the future.

Competition for new business is intensifying; record low mortgage rates weren't enough to stop a slowdown of new buyers in the market during the summer. Sales fell by more than 30 per cent in Toronto and Vancouver, sending lenders scrambling to secure new business with innovative products and even lower rates.

Bank of Montreal currently offers the least expensive five-year fixed term at 3.59 per cent, although only its best applicants are likely to qualify at the special rate. Bank of Nova Scotia offers its customers the ability to split mortgages into two or three different components, each with its own terms.

TD said its new offering will ensure customers don't pay additional charges to tap into their rising equity, which it called "great news for both you and your customer" in an internal memo to its mortgage brokers.

"Customers may under many circumstances choose to register their collateral charge for more than the approved principal amount of the mortgage, up to 125 per cent of the property value," the e-mail stated. "This will allow them to borrow additional funds in the future without having to re-register ... eliminating any solicitor and in-house registration fees."

A homeowner can't simply call the bank and access the extra money they were approved for, however. The deal is dependent on values rising, and in each instance the bank said it would need to inspect the home.

"Part of our credit approval includes an assessment of the current value of the property - an appraisal of the property - to ensure the existing value can support the increased borrowing," said spokesperson Kelly Hechler.

The move has sparked anger among the country's independent mortgage brokers, who see the change as a direct shot at an industry that has been gaining market share from the big banks by competing fiercely on mortgage rates.

"Credit unions have always gone this route so it's not like they are reinventing the wheel," said Mike Averbach of Vancouver's Averbach Mortgages. "People literally have to cash out if they want to change over, so it's just another way for them to be handcuffed to the bank."