Proof the Banks are Taking Your Money

2015-10-05

They didn't think one of my clients would actually show me their statement…

What you're about to witness is one of the most despicable acts of a bank ripping off a customer I've ever seen.

And the worst part?

I see the big 5 banks doing this on a daily basis, all across Canada.

Let me walk you through a REAL CASE of someone discovering Scotiabank essentially robbed them of $15,000.

As a licensed mortgage broker with 22+ years experience, I've been watching this kind of manipulation hurt families again and again and again. So please share this with your friends, neighbours, enemies, whomever.

It's that important.

Mortgage Penalties… How They Should Be Calculated

Let me say this first, before we get to the whole rip-off thing…

Mortgage penalties are necessary. The bank, like any business, has to protect their investment if you were to end up breaking off the mortgage early.

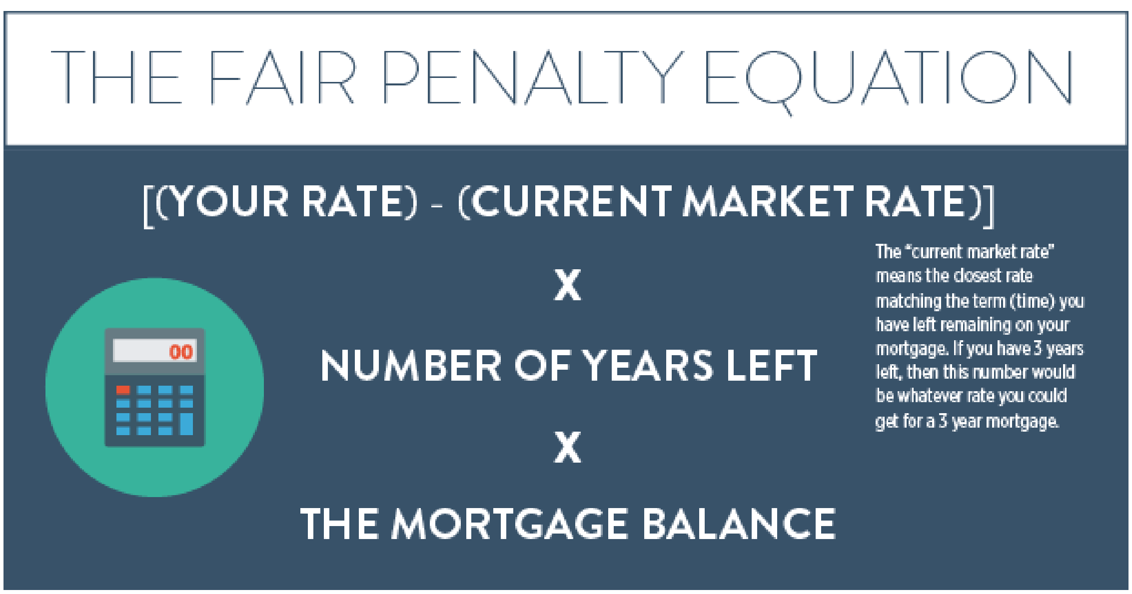
I mean, this makes sense. It's the nature of a loan and business.

What doesn't make sense is when a bank uses a **RIDICULOUSLY ONE-SIDED** penalty equation to essentially rob you of money.

We're going to use the example of one of my clients, who, as I mentioned before, **was over-penalized by $15,000.**

There's a little math in this post, but I'll do my best to explain it simply.

If you don't slow down and figure out this stuff, I guarantee it will come back to bite you on your own mortgage..



The Penalty… Calculated Fairly

One of my clients was putting their home up for sale earlier this year because they needed to move for work.

Their original 5 year mortgage was taken out in August of 2013, directly with their bank, with a rate that I'm sure at the time was a deeply discounted 2.89%.

Here's how their penalty ***should've*** been calculated, ***if* the bank was honest about calculating their penalty.**

MATH TIME.

Here's the equation:

[(your rate) – (the current market rate for however many years you have left)] X (number of years left in term) X (Mortgage amount)[2.89% – 2.34%] X 3 X $446,770.84 = $7,371.72

For people who freak out when they see equations: let me break this down.

Honest lenders start by taking the difference between your rate and the current market rate for however long you have left on your mortgage (for example a good lender today would give a 2.34% for a 3 year mortgage).

So, your current rate= (2.89%) MINUS (Market rate for a 3 year term: 2.34%)

We call the difference between (2.89% – 2.34%) the "multiplier". The bigger the multiplier, the bigger the penalty.

(The banks call this the Interest Rate Differential, or IRD. We'll call it "multiplier," because that's easier.)

And, if fairly calculated for this mortgage, it's 0.55%. Or .0055 (we moved the decimal over twice – remember that from high school?)

Next you take this .0055 multiplier and…multiply it….by the number of years left in the term and the actual mortgage balance you have remaining.

Basically, what they're trying to do is have you make up the interest they're losing from you getting out of the mortgage early.

Which, like I said, is totally something they should do. If they didn't, they would go out of business fast.

The problem for my client, and the reason they reached out to me, was that they didn't pay the $7,371.72 penalty.

They paid over $22,000.

And it's all because of the way that most big banks manipulate and skew the numbers in their favor.

Scotiabank®

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This Statement issued on Feb 24, 2015 is for Discharge Purposes

Mortgagor(s): MRS [redacted] [redacted] OAKVILLE, ON [redacted]		Property Address: [redacted] Oakville, ON [redacted]	
Mortgage Details		**Prepayment Charge Variables**	
Mortgage Number:	[redacted]	Mortgage Balance as at: Feb 15, 2015	$ 445,314.23
Interest Rate Type:	Fixed	Term Remaining:	41 Months
Term:	5 Year Closed (60M)	Comparison Term:	36 Months
Capped Rate:		Current Rate for Comparison Term:	3.3900%
Interest Rate Discount Received:	-2.1000%	Interest Rate Discount Received:	-2.1000%
Current Interest Rate:	2.8900%	Comparison Interest Rate:	1.2900%
Maturity Date:	Aug 22, 2018	Interest Rate Difference:	1.6000%
Payment Frequency:	Semi-Monthly		
P&I Payment:	$ 1,095.50		
Property Tax Amount:	$ 127.78		
Total Payment Semi-Monthly	$ 1,223.28		
Cashback Received:	$		
Mortgage Insurer:	CMHC		
Mortgage Insurer Certificate No.:	[redacted]		

Payout Details with an effective date of Feb 27, 2015

Mortgage Balance as at: Feb 15, 2015	$ 445,314.23
Interest Accrued to: Feb 27, 2015	$ 456.61
Sub Total:	$ 445,770.84
Prepayment Charge - Interest Rate Differential	$ 22,788.99
Cashback Repayment: (prorated based on the term remaining)	$
Property Tax Account Balance:	$ 871.73
Discharge Administration Fee:	$ 250.00
Registry Office Discharge Registration Fee:	$ 70.00
Total Balance Due as at: Feb 27, 2015	$ 468,008.10

Funds must be received no later than 3 pm on Feb 27, 2015. A per diem of $ 38.05 is to be added for each additional day. If funds have not been received by Mar 10, 2015, this statement in its entirety is not valid. A new statement must be requested

The individuals listed below are also Borrowers on this Mortgage:

THE RIPOFF:

Above you can see the statement my client sent me…

First, take a look at the column on the left, at "Interest Rate Discount Received."

In their case according to their form, when they first got their mortgage they received a 2.10% rate discount…

except….**that's some BS.**

Here's why.

In order to believe they received a 2.10% discount at the time, this means that Scotiabank in fact was charging people 4.99% for a five year mortgage in 2013!

4.99%?

That's a ridiculous rate. It would have **NEVER** happened in the marketplace because it's so far from competitive.

If you look back at the any mortgage rate graph on line, you can see that the average discounted, competitive rate during that year was 2.84% for a 5 year mortgage.

Therefore the 4.99% rate is an arbitrary, made up, Easter Bunny, Santa Clause number. It doesn't exist.

ALL MAJOR BANKS DO THIS AND WE'LL SHOW YOU WHY

If you take a quick look at all the major banks, they all have a "posted rate" of 2+% higher then the actual rates they compete on in the marketplace.

Why do you suppose they do that?

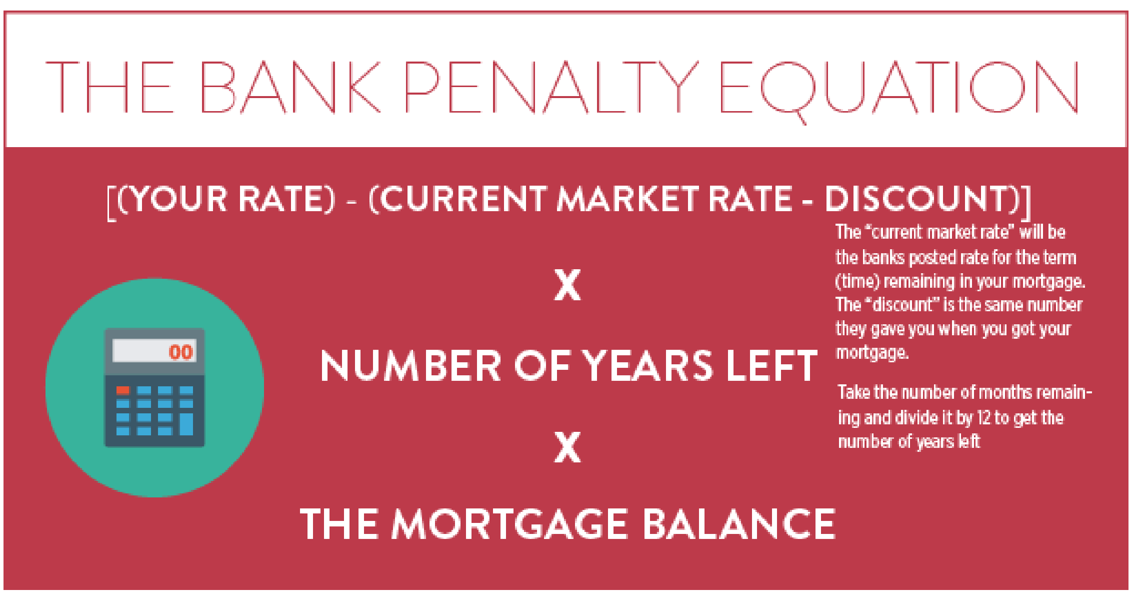
Because it allows them, legally, to take thousands of dollars from your pocket.

Remember our original equation?

[2.89% – 2.34%] X 3 X $446,770.84 = $7,371.72

Remember, in our equation, that multiplier (the number in the brackets) came in at .55%. Or .0055.

At some point, the banks decided that using that multiplier wasn't good enough. The bigger the multiplier, the bigger the penalty. So here's what the bank's equation looks like:



In other words: [Your rate – (current **posted rate** for a comparable three year term – discount received initially)] x (number of years remaining) x 445,770.84 =

Let's break this down:

"Your rate" still equals 2.89%. That stays the same.

The second part is where things get sketchy. Their "current posted rate for a three year term" came in, for this case at 3.39%. It's a high rate, but not outrageously so. But watch this abra-cadabra magic the bank is about to pull.

That second number? Discount received initially?

It's the return of the 4.99% rate. They're using the same "discount" from their arbitrary posted rate AGAIN.

This looks like:

2.89% – (3.39% – 2.1%)

2.89% – **1.29%** = 1.6% …………… Compared to the 0.55% multiplier we used in the fair calculation.

LADIES AND GENTLEMAN, BOYS AND GIRLS, STEP RIGHT UP TO SEE A MULTIPLIER TRIPLE IN SIZE…

AND, AS A RESULT, TRIPLE THE PENALTY.

The difference here is obvious. Plug in all those numbers (we didn't even get into them using the 3.42 instead of 3 years for the number of years), and you come up with a grand total penalty of **$24,447.30.**

But wait, there's more!

In this specific case, Scotia Bank allows leniency in calculating their penalties, so they actually end up discounting my client roughly $2,000.

How nice of them.

The Bank's Answer:

Obviously, this is an unfair system.

It gets worse…in this article from the Financial Post Laura Parsons, Calgary area manager for Bank Of Montreal actually said this…."You really have to understand what penalties (sic.) are," said Ms. Parsons, who agrees that many people do not. "There is a responsibility of clients to read their documents but also for the lawyers to explain all the terms and conditions."

In theory, I guess one could argue that she's correct. **But I believe, and I think most Canadians would as well, that when we are talking about such a potentially expensive feature of a mortgage, that maybe the bank people, like Laura and her employees, ought to show people this when they are shopping.**

Of course, this idea is laughable. "Knowing" the bank does this is in no way addressing the issue, and for Ms. Parsons to claim that it's the customers responsibility to avoid being screwed is a BS line of logic.

"So What Should We Do?!"

Take a deep breath. Put down the pitchforks.

First of all, there are many lenders that don't charge penalties like this. Many of them (not the big 5 banks), still calculate penalties the old-fashioned, FAIR way. In fact, check out the image below. It's a penalty comparison for one of our members that highlights the difference between all of the big 5 banks and the lender that we placed them with:

Take a look at the differences. I have calculated what your payout penalty might be at each of the big five banks if you selected a 5 year fixed with one of them, and I have shown you to the left what your penalty might be at the lender that I am recommending for you. I think you may be surprised to see the difference:

I think that it is important to highlight this aspect of your mortgage not only because the banks, of course, never highlight, but also I have seen far too many people get really hurt when they need to payout their mortgage for reasons they didn't anticipate.

If you want to work with me to avoid all this mess then call me (604)-273-2002 to set up a free call where I'll talk about how to minimize your penalties and still get you a rate as good as or better than the banks.

Second of all, after reading this email, you must ASK your bank employee to walk you through the penalty calculation that will happen if you were to pay the mortgage off early. Then, compare that to the other lenders they are shopping with, and factor that in when choosing their lender… **not just the Interest rate** they are charging.

Remember, a good rate could save you a maximum of 1k in 5 years, but it's not worth it if the penalty is 15k more.

And lastly, sharing is caring. When my client approached me with this, I was blown away. Even for seasoned veterans, it can take a while to understand how individual banks calculate penalties (I spent God knows how many hours putting together this post).

But, I knew it was important to spread the word: please forward this email to your family and friends.

It's about time we stopped this BIG BANK deception.