Bank client floored by penalties

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On Your Side

When Rahim Moosa lost his job last October, he decided to sell the house he'd bought with his wife a year earlier.

His lender, TD Canada Trust, said there would be an $8,000 penalty to break his five-year closed mortgage — an amount he found tolerable.

"By the time we sold in April 2009, TD Bank quoted us a doubled penalty of $18,000. Now, they are stating it will be approximately $25,000 upon closing in June," he says.

Most mortgage contracts and renewal forms specify that clients seeking an early exit will pay either three months' interest or an interest rate differential (IRD), whichever is greater.

The IRD is calculated by taking the outstanding balance, multiplying it by the gap between your existing mortgage rate and the current rate for a term similar to what you have left, and multiplying by the number of months left to the end of your term.

Mortgage rates have fallen steadily since last fall, making the IRD penalties grow bigger and bigger.

Once I got involved in Moosa's case, TD worked hard to cushion the blow. It sent him to a mortgage specialist, who suggested making a 15 per cent lump-sum prepayment using a line of credit that would be paid back at closing.

Since TD hadn't told him about this option last October, Moosa asked for and received the right to make a 30 per cent prepayment to reduce the outstanding balance.

The estimated penalty is now $11,000 to $14,000.

"We won't know for sure what the exact penalty will be until the payments are made using the line of credit next week," Moosa says.

He wonders why TD dragged its feet when told about his financial problems last fall.

"Our branch representative should have advised us that we could pay a 15 per cent lump sum to reduce the penalty.

"TD needs to have a better process in place, particularly when dealing with clients whose largest investment is in their hands."

Moosa's comments will be reviewed, Hechler said. "We could have moved more quickly to help and provided clearer information from the beginning."

Kevin Plautz, also a TD mortgage customer, felt he received misleading information when he asked about breaking the deal to take advantage of lower rates.

His financial adviser initially quoted a penalty of $2,100, based on three months' interest. Other TD staff he spoke to later did not challenge that figure.

Only when he was ready to renegotiate did he learn there would be an IRD penalty of $5,900.

"I wouldn't have bothered doing a renegotiation if I had just been told the correct penalty at the start or one of the many times I asked about it since then," he says

TD agreed to reduce his IRD penalty to $4,000 after I escalated his complaint to the head office.

"We have offered to substantially reduce the amount of Mr. Plautz's IRD penalty as a goodwill gesture in recognition of the confusion he experienced over the amount he was quoted," Hechler told me.

While planning to take the offer, Plautz is leaving TD. He's found another bank that will give him a lower interest rate and cover $225 of his $270 mortgage discharge fee.

"I have a very bad taste in my mouth. I think I still prefer to move my business," he says.

I'd like to hear from readers. Have you tried to renegotiate a mortgage amid falling interest rates? How did the lender respond and what penalty was charged? I'll publish comments in a future column.

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