

## **Mortgage Tips**

### **Choose a term you can live with**

Look carefully not only at your term and interest rate options, but also at the payment that you can comfortably afford. Predicting future interest rates is a tough enough job, so leave some wiggle room.

### **What kind of borrower are you – Fixed or Variable?**

Interest rates for a Fixed Rate Mortgage are set for the term of the mortgage. Monthly payments remain the same throughout the term. Regardless of whether rates move up or down, your personal budgeting is simplified by knowing exactly how much your payment will be. You may prefer to lock in for a longer term when interest rates are low. You'll benefit with a fixed-rate mortgage if interest rates go up.

A Variable Rate Mortgage provides more flexibility and is more beneficial to you when interest rates decrease. When this occurs, more of your monthly payment will go towards decreasing your outstanding debt (principal), and less towards the accrued interest. The opposite is true when rates increase. If rates rise substantially, however, your original payment may not be enough to cover both the interest and principal and your cash-flow will suffer, as you'll need to increase your regular mortgage payment.

### **Open and Closed Mortgages**

An open mortgage gives the flexibility of repaying your mortgage at any time without penalty. You might consider an open mortgage if you are thinking of selling your home, expecting to pay off the whole mortgage from the sale of another property, expecting an inheritance or if you think interest rates will be decreasing and you would like to potentially lock-in at a lower rate in the future.

A closed mortgage offers the security of fixed payments for longer terms. Interest rates are considerably lower with closed rather than with open mortgages. Many people prefer closed mortgages and use alternative tips (see below) of paying off their mortgage sooner, if they are financially capable.

### **Buy a new home or Sell your current one first?**

Selling first not only can offer peace of mind, but also can provide you with a clearer financial picture on the affordability of a new home. Furthermore, selling and having cash-in-hand can enhance your negotiating power with an unconditional offer. If you are choosing to buy first, it is normally recommended that your purchase is conditional on selling your current house. Thus, if you don't sell your current home, you won't be in such a financial squeeze.

## 11 Tips to become Mortgage Free Faster

- 1. Determine your borrowing capacity*  
What level of debt are you comfortable carrying? Generally, you shouldn't spend more than 32% of your gross income on the mortgage, taxes and heating of your new home (plus half of your condo fees, if applicable).
- 2. Make the largest down payment you can afford*  
The more you can pay up front, the less you'll have to pay back later. You'll save both principal and interest.
- 3. Use your RRSP for a down payment*  
Consider your RRSPs to help your down payment. Under the Home Buyers' Plan, you can withdraw up to \$25,000 (\$50,000 per couple) from your RRSP with no tax withheld. There are pros and cons to this strategy, but it is generally recommended especially if you would otherwise pay CMHC insurance. Ask your financial advisor.
- 4. Get a Credit Master Mortgage*  
Imagine not paying for a solicitor or notary for refinancing! A Credit Master mortgage (available only through Credit Unions), allows you to borrow against your home value. Secure smaller loans (renovations, car loans, etc) against your home and receive a better rate, saving both time and money.
- 5. Plan for other expenses too*  
Remember, you'll have to pay legal fees, land transfer tax, utility hook-ups, inspection fees and moving costs. A slightly higher mortgage will be less expense than an additional loan or line of credit to cover these extra costs.
- 6. Choose a shorter length of time to repay your loan*  
Look at all the amortization options to see how opting for a 15-year period as opposed to a 20-year period or a 25-year period will affect your payments and total interest costs
- 7. Sleep easier with Mortgage Insurance*  
For just a few dollars a month; you can insure your mortgage in case of death, disability, critical illness or loss of employment. You can also talk to one of our trusted advisors in our Wealth Management offices about life, disability and critical illness insurance. Protect yourself and your family in the event of an unexpected loss of income.
- 8. Put that Tax Refund to good use*  
The average tax refund in 2010 was almost \$1,500. Talk about a gift that keeps on giving, the new TV can wait so put that refund towards your biggest expense-Your Mortgage!
- 9. Monthly, bi-monthly, bi-weekly or weekly payments?*  
The more frequent the payment, the more substantial your savings over the term of the mortgage, as well as being debt free years ahead of time.

10. *Prepayments – extra payments against principal*

This is one of the most important features to look for when arranging a mortgage. This option allows you to make payments directly against your outstanding balance without incurring any fees or penalties. Some lenders offer the option of an additional payment amounting to only 10% of the original mortgage balance; whereas, NDCU allows up to one pre-payment of 20% per year, exceptions may apply. Happy Anniversary payments!

11. *Increase your regular payments*

Double payments or a minimum of \$100 is allowed on any regular payment date with a Fixed Rate Closed Mortgage.

For more information please contact a Nelson & District Credit Union mortgage expert at [100milemortgage@nelsoncu.com](mailto:100milemortgage@nelsoncu.com) or call us at 1-877-352-7207.

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