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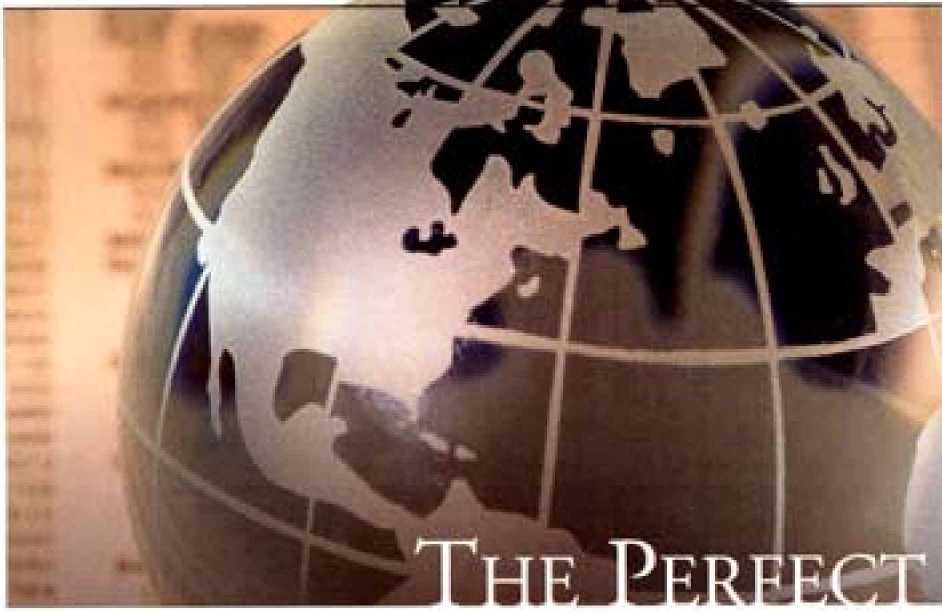

The Perfect Mortgage

Depending on your long- and short-term goals in regards to purchasing or refinancing property, there are other things to consider besides simply getting the lowest interest rate.

In my opinion, there are a few key factors in analyzing a mortgage that are worth paying extra attention to: Is the mortgage portable? Is it assumable? What are the prepayment and skip payment options? How often is the interest on the mortgage compounded? Being aware of this information can save you money and unpleasant surprises in the future.

Portable: This term relates to whether your mortgage can be secured (moved) to a replacement property if you sell your currently mortgaged property. In some cases, without realizing, people will sell their home, pay a heavy penalty to get out of a mortgage and then purchase another property with a new mortgage. They may have been able to adjust the existing mortgage to the new purchase and thus not pay the heavy penalty they incurred. This is a great option to exercise if the current mortgage's interest rate is also substantially lower than if they were to start a new mortgage.

Assumable: When selling a property, you can allow the new purchaser the option of taking over the mortgage, upon qualification. This option is great if you are looking at getting out of the housing market altogether and want to avoid paying any prepayment penalties or are looking at selling in a buyers market where the assumable mortgages interest rate is lower than the going interest rates.

Prepayment Options: For clients looking at paying down a mortgage beyond regular monthly payments, mortgage lending institutions offer clients the ability to make a once-per-calendar-year extra lump sum payment which directly pays down the mortgage balance. This maximum extra payment amount is based on a percentage of the original outstanding mortgage amount. Mortgage lending institutions offer a wide range of mortgage prepayment percentages, typically ranging from ten- to twenty-five-per-cent of the original mortgage amount. There are also extra payments per month, which will again vary from institution to institution. If you pay down a mortgage outside the allowable amounts, there could be applicable penalties. For those who may have access to large amounts of extra funds and are looking to be mortgage-free, this is a very important factor that should be calculated with care.

Skip Payment Options: Some mortgage lenders will allow a once-per-year skip payment option without requiring any formal reason; they will simply just tack on a month to the mortgage contract. Others may not allow any skip payments unless there are strong, documented reasons for the skip payment. This is a handy feature if you are renting out the mortgaged property or are briefly unemployed.

When comparing mortgage interest rates, keep in mind that not all mortgage lenders calculate their rates over the same length of time. For instance, not all open mortgages are calculated or adjusted on the same basis. Mortgage lenders outside of the bank act, such as Credit Unions and other institutions, do not all have to follow the same guidelines for fixed term mortgages. While rates may look the same, some may be calculated on a different basis so you're not always comparing apples to apples when seeing quoted interest rates.

For questions on this topic and other mortgage-related topics, feel free to contact Grant at grant@view-magazine.ca