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How to Determine the Right Mortgage Term for You - DLC

Choosing the mortgage term that is right for you can be a challenging proposition for even the savviest of homebuyers. However, by understanding mortgage terms and what they mean in dollars and sense, you can save the most money and choose the term that is right for your situation as well.

The first consideration when comparing various mortgage terms is to understand that the longer the term generally means a higher corresponding interest rate. And, the shorter the term generally means a lower corresponding interest rate. While this generalization might lead you to believe that a shorter term is always the preferred option, this simply is not always the case. Sometimes there are other factors, either in the financial markets or in your own life, which you will also have to take into consideration when you select your mortgage term length.

By selecting a shorter mortgage term you can sometimes continually renew your mortgage with more short terms, and their corresponding lower interest rates, and pay down your mortgage more quickly and at a lower interest rate. However, when you do this you run the risk that the interest rates will raise before you can renew and with it so will your mortgage payment. If you have a high tolerance for risk, and believe the interest rates will drop, then a short mortgage term may be a good choice for you.

One of the newest mortgage trends in Canada today is to put less than 20% down on a property and to finance the rest with a first and second mortgage. This has been possible for many people while the interest rates have been at historically low points because the payments are lower than they would be with a higher prevailing interest rate. While this has helped many people to purchase property they could have never afforded in the past, it also has made them very vulnerable to rising interest rates in the near future. While it is wonderful that these buyers can now purchase a house, the down-side is that they can lose their homes when they try to renew their mortgage terms and find out that the rates are substantially higher than they were previously. This will result in higher mortgage payments which may then be out of their financial reach.

If paying your mortgage each month places you close to the financial edge of your comfort zone, you may want to opt for a longer term mortgage, for instance ten years, so that you can insure that you will be able to afford your mortgage payments should the interest rates continue to increase. Hopefully, by the end of the ten year mortgage term you will be in a better financial situation and can afford higher mortgage payments

should you have to renew at a higher rate. And, by the time the ten years has passed, you will also have a lower principle balance due, which will also help you with your payment amount as well.

If you are shopping for a mortgage for an investment property, you will likely want to consider choosing a longer mortgage term. This will allow you to know that the mortgage payment on the property will be steady for a long time and allow you to better project your future income from the property more accurately.

While no single mortgage term is right for everyone, by understanding your tolerance for risk, and your personal financial situation, you can choose the mortgage term which will work the best for you. One of the most important things to remember is that while mortgage rates have been wonderfully low, this is not likely to be the case in the years to come. Make sure you consider this when you fund your property purchase. The absolute last thing you want to do is have to renew your mortgage and find out that you can no longer afford your property at the new higher interest rate.