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10 SMART TIPS MORTGAGE

BY

Lance Cook & Brad Speniel

Canada's Best Mortgage Team

10 MORTGAGE SMART TIPS

TABLE OF CONTENTS

TIP #1 About *YOUR* Mortgage Term

Definition: The number of years or months over which you agree to pay a specified interest rate and the lender commits to not changing it or asking for their money back *(except in default of course)*! It also refers to whether it is an open or closed term.

Options: Terms can be any of the following:

Lengths:

- 6 months, 1 to 10 years
- Up to 25 years for secured lines of credit although fully open
- A term that renews on a specific date the lender sets in the future e.g. could result in a 2 year 6 month term

About *YOUR* Mortgage Term

Open or closed:

- Completely open so even though a length of term is stipulated, you can pay it back in full with no penalty or;

- Completely closed so a penalty is payable by you if you repay early, Note some mortgages can NOT be paid off early even with a penalty except under special circumstances.

So how do you select the right one for you?

- Determine which terms you actually qualify for and can select from. You may be limited to a 5 year fixed term based on recent legislation changes – if you want a 1 to 4 year term or a variable; you typically have to qualify at a much higher interest rate known as the benchmark rate…. This might reduce the amount you qualify for. I can let you know your options.

- Consider selecting your term based on the current trend for interest rates going up or down e.g.:

    - You might select a 5 year fixed term because rates are starting to go up and you want to "lock in" that lower rate.

About *YOUR* Mortgage Term

  - You might select a shorter term if rates are expected to remain low and aren't expected to rise.

- Consider selecting your term based on any expected changes in your income. Maybe having a 5 year fixed term at the same rate and payment for the next five years makes more sense and better suits your needs now.

- Consider how long you intend to stay in this home, a question we asked earlier. You might want to align the term with your future moving plans or even possible job relocation opportunities.

- You may be expecting to receive a large sum of money soon and want to pay your mortgage off in full or a large part… paying it in full before the term expires may result in a penalty if the term is closed, e.g. selecting say a 2 year term which is when you plan to pay it off in full will save you money and penalty costs!

TIP # 2 About *YOUR* Amortization

Definition: The time over which all regular payments would pay off the mortgage in full. The number of payments used to calculate the actual mortgage payment. This determines the principal and interest portion of each payment. The interest portion is higher to start with and slowly decreases over time, although the payment (on a fixed term) remains the same.

Options: Amortizations can range from less than 5 years to as much as 35 years.

However, your options will depend on the following:

- Less than 20% down payment the maximum amortization is 25 years (as per default insurer guidelines).
- More than 20% down payment then up to 35 years but depends on the lender and you qualifying.

Remember:

- Some lenders don't offer longer amortizations than 25 years.
- Some lenders have a **minimum amortization** they offer.

So how do you select the right one for you?

- Determine which amortization you **qualify for**, and then
- Adjust your amortization up or down so that the monthly payment is within your personal budget.
- The **shorter** the amortization, the **less interest** you will pay.

TIP # 3 About Mortgage Product Types

Definition: Refers to the mortgage features offered.

Options: Here are some examples:

- **Variable Rate Mortgage** – where the interest rate charged on the mortgage will change based on the Prime Rate and the discount you have received. A variable mortgage can have a;
    - **Variable Payment**: where the payment amount changes each time there is a change to the prime rate. The discount amount does NOT change. e.g. your rate is prime minus 0.55% and so if prime is 3.00% results in 2.45% but if prime rate increases to 3.25% then the interest rate charged <u>**and**</u> payment amount goes up to 2.80%.
    - **Fixed Payment**: where the payment amount is set on closing at a fixed amount and will NOT increase unless notified by the lender; e.g. rate is prime minus 0.55% and so if prime is 3.00% results in 2.45% but the payment is set based on say a 6.0% rate. When the actual rate you are being charged is less than 6.0%, more of your payment is going to principal and saving you unnecessary interest.

About Mortgage Product Types

- **Fixed Term Mortgage** – a mortgage where the rate and length of the mortgage is fixed and will not change.
- **Cash Back Mortgage** – where there is a % of the mortgage amount given to you on closing that may be used for down payment, closing costs etc. Ranges from 1% to 7% or more of the mortgage amount.
- **Purchase Plus Improvements** – where you can roll the cost of any improvements you plan to do on the home into your mortgage (see our Mortgage Smart Tip).
- **Convertible Mortgage** – where the term is short, maybe 6 months, and you have the option at any time during this period to convert to a longer term mortgage or different product with no penalty, as long as you remain with the same lender.
- **Combo or Multi Part Mortgages** – where you can select different types of mortgages and terms, where instead of one single mortgage, you have as many as 99 different parts. This is great if you can't decide whether to go fixed, variable, open, or closed, or even a line of credit…. Why not do them all! This mortgage is also re-advanceable.

About Mortgage Product Types

- **Secured Lines of Credit –** even though it isn't called a mortgage, it acts like one as in it is registered on your property title as a loan. The interest rate will be variable based on the prime rate, with minimum payments of interest only so the lowest possible monthly payment you can have. It is also completely open and can be paid off in full with no penalty. The rate may be higher than a regular mortgage and is based on the prime rate like a variable mortgage.

So how do you select the right one for you?

- Determine which products you qualify for, and then;
- Select the product that best meets your need to have a fixed payment or a changing payment each month.
- Ask yourself if any of these products appeal to you and meet your needs.
- Consider all the features of each product to see if again, they meet your needs of not only budget, but how long you will stay in the home.
- I'll walk you thru how each product does, or maybe does not meet your needs to help you select the right one for you!

TIP # 4 About *YOUR* Rates And Interest Costs

Definition: The interest rate you will be charged by the lender and how much in total you will pay during the term of the mortgage.

Options:

- Getting the best that you qualify for AND with terms that meet all your needs.
- One of the many benefits of working with a mortgage broker is we know what every lender is able to offer you right across Canada.
- We will find the right lender that will work hard for the privilege of having your mortgage and offer you the best options to save you as much unnecessary interest as possible.

About *YOUR* Rates And Interest Costs

So how do you select the right one for you?

- Obviously you want to save as much money as possible, but at the same time selecting a lender that will drop the rate, if rates decrease, prior to your closing date are beneficial. With a mortgage broker, this is automatic!

- Sometimes the rate on your pre-approval might not be the actual rate you will pay – it could be lower if rates drop as well as those "quick close specials" I have access too as a VIP Broker with **many** lenders across Canada.

- It is not always about rate… sometimes the features and benefits of the mortgage could out way the difference in rate!

TIP # 5 About *YOUR* Payment Frequency Options

Definition: Payments consisting of both a principal and an interest component, paid on a regular basis during the term of the mortgage. Refers to how often and when you can make these payments.

Options:

- Monthly (any day of the month usually between the 1st and 28th)
- Weekly (any day of the work week, 52 payments per year)
- Bi-Weekly (every other week, 26 payments per year)
- Semi-Monthly (twice per month, 24 payments per year, e.g. on the 1st and 15th of each month
- Plus accelerated weekly and bi-weekly

What is an accelerated bi-weekly payment?

- Accelerated Bi-Weekly payments are exactly half of a regular monthly payment amount BUT it is collected every two weeks.

About *YOUR* Payment Frequency Options

- This means you make **<u>26</u>** payments per year

For example, if the monthly payment is $1,000 then the accelerated bi-weekly payment will be $500.

  - If you paid monthly you would pay $1,000 x 12 months = $12,000 per year.
  - Paying accelerated bi-weekly you would pay $500 x 26 = $13,000 per year.

- This results in you paying an extra $1,000 off your mortgage each year – hence ***accelerating how fast*** you pay it back!
- Remember, twice a year you will have three payments in one month. If you are not paid Bi weekly at your job, this extra payment may be inconvenient, In which case I would recommend increasing your monthly payment by 10% (say $1100 one a month as per the example) Which will total $13,200 a year reducing your principle by an extra $1200 a year.
- Accelerated weekly refers to monthly payment divided by 4!

About *YOUR* Payment Frequency Options

What is a non-accelerated bi-weekly payment?

- Non-accelerated is taking the regular monthly payment and times by 12 months, then
- Divide this into 26 payments.

For example, if the monthly payment is $1,000 then the non-accelerated bi-weekly payment will be $461.54

  - If you paid monthly you would pay $1,000 x 12 months = $12,000.
  - Paying non-accelerated bi-weekly you would still pay $12,000 = $461.54 x 26 = $12,000.

- This results in you not paying any extra off your mortgage each year – hence ***non-accelerating.***
- Remember, twice a year you will still have three payments in the one month which might not match your income if you are not paid bi-weekly.

About *YOUR* Payment Frequency Options

So let's compare the payments and savings between these two options; <u>regular monthly</u> and <u>accelerated bi-weekly</u> payments:

$250,000 mortgage with a 25 year amortization at 3.39% 5 Year Fixed Term

REGULAR MONTHLY OVER A 5-YEASR TERM	ACCELERATED BI-WEEKLY OVER A 5-YEASR TERM
Monthly payment = $1,233.70	Monthly payment = $1,233.70/2 =
	Bi-Weekly Payment of $616.85
Total Payments each year = $14,804.40	Total Payments each year = $16,038.10
Total Payments in 5 Years = $74,022.00	Total Payments in 5 Years = $80,190.50
Total Interest Paid in 5 Years = $39,285.61	Total Interest Paid in 5 Years = $38,680.82
Total Principal Paid in 5 Years = $34,736.61	Total Principal Paid in 5 Years = $41,510.98
Balance owing in 5 Years = $215,263.39	Balance owing in 5 Years = $208,489.02
Effective amortization = 25 years	Effective amortization = 22 Years 2 Months

The real difference is <u>YOU</u> paid an extra $6,168.50 off your mortgage which took 2 years and 10 months off your mortgage and saved you $604.79 in interest.

About *YOUR* Payment Frequency Options

So how do you select the right one for you?

- Determine which payment option you actually **qualify for.**
- Review what payment options the lender offers.
- Consider aligning your payment frequency with how often you get paid each month e.g. if you are paid every two weeks, then consider accelerated bi-weekly payments to align with each pay cheque.
- The **more often** you pay, the **less interest** you will pay.
- You can always adjust this at any time and change.

Our Recommendation:

Pay accelerated bi-weekly or increase your monthly payment by 10%, if you can afford it, as it forces you to pay more. By paying your mortgage off sooner you will reduce your debt and save unnecessary interest – plus a forced savings plan for the future!

TIP # 6 About *YOUR* Pre-Payment Privileges

Definition: The ability to prepay all or a portion of the principal balance with NO penalty or charge, subject to conditions (no default, subject to lenders terms).

Options:

- **Increase Regular Payment**: There are often a number of options available all ranging from 0% to 25%+:
    - Increase your regular mortgage payment by a certain % of the payment.
    - Double your regular mortgage payment.
    - Skip a payment.
- **Lump Sum**: Pay a lump sum that doesn't exceed a certain % of your <u>original</u> mortgage amount
- **Complete Repayment**: With an open mortgage you could pay the **<u>entire amount</u>** off in full with no penalty.

About *YOUR* Pre-Payment Privileges

So how do you decide when to make extra payments?

- Make sure you can afford to pay extra – think of any future changes in income or expenses you may have (maternity leave, new car, etc.).
- Remember, when you pay extra on your mortgage you cannot get it back unless you refinance or its linked to a re-advanceable line of credit or mortgage.
- Consider aligning your extra payments and the amount with say a yearly bonus or tax refund.
- The **more** you pay off your mortgage, the **less interest** you will pay
- Increase your payment up, or down if allowed by the lender, so that the monthly payment is within your personal budget, although some lenders don't allow you to drop it down later!
- If your interest rate is low on your mortgage, consider taking any extra money you have to build some savings; TFSA, RESP's, RRSP's – especially if contributing to these creates an income tax refund and then use that to pay off the mortgage!

Our Recommendation:

Pay off ALL high interest rate debt first, then build a "contingency fund of say 3 months income, then start paying off your mortgage off so you will reduce your debt and save unnecessary interest.

TIP # 7

About *YOUR* Pre-Payment Penalties

Definition: Compensation paid to the lender when you prepay all or part of a **closed** mortgage more quickly than is allowed or prior to the end of the term. Remember, there is no penalty with an open mortgage.

Options:

- Prepayment penalties usually fall into two categories:
  - Three months interest, OR
  - The interest rate differential – the difference between the rate you have on your mortgage and the current rate in the market… this is the potential loss of interest the lender will incur by replacing your mortgage with a new one with someone else. The lender will charge whichever is GREATER, and this can result in thousands of dollars!
- There may also be an administration, pay-out fee, or re-investment fee that could range from $200 to thousands!

About *YOUR* Pre-Payment Penalties

So how do you select the right one for you?

- We have to understand that the lender committed to not changing the rate for the term of your mortgage and lending you the funds, and therefore you have committed to pay that interest - you are breaking your contract hence the potential large penalties.
- Really, there is never a “right one” as ideally you don’t want to pay a penalty at all.
- If you do think there is a chance you want to pay this mortgage off in full in the near future, then taking either a shorter term mortgage such as 1 or 2 years or an open mortgage may save you money in the long run.
- Each lender has a pre-payment calculator on their website so you can calculate a potential penalty at any time.

TIP #8A About *YOUR* Portability

Definition: The ability to move to another property and take your mortgage with you without having to lose your existing interest rate and terms.

Options:

- The benefits are you can keep your existing mortgage balance, term and interest rate plus save money by avoiding early repayment penalties.
- Not every mortgage offers this feature and can depend on the type of mortgage (variable, fixed etc.).
- You must re-qualify with your lender to be able to port your mortgage.
- The lender also has to approve the new property to ensure it meets their guidelines.
- As the mortgage will be for a new property, you still have to pay legal fees for the transfer of property and the registration of the new mortgage.

About *YOUR* Portability

- If you need a bigger mortgage, your lender may let you port and “top up”, and then blend on the extra amount needed. This gives you the mortgage amount you need at a rate that combines both your existing great rate and the new rate.

- If you don’t port, upon the sale of your home, your mortgage will have to be paid back to the lender, and you may incur a penalty for breaking your mortgage.

- If interest rates are lower when you move than your existing mortgage, paying the penalty and <u>not</u> porting may be a better option.

- If in the future you decide to move, talk to me and I can analyze for you your options to either:

  1. Port and top up.
  2. Pay the penalty and do a brand new mortgage.

- Paying the penalty may be a viable option <u>as long as</u> we can get you back this penalty in interest savings as soon as possible on your new mortgage and home.

TIP #8B About *YOUR* Assumability

Definition: When the buyer of your property takes over your existing mortgage including the amount owing, the balance of the remaining term, the existing rate and payment amount; they have ***assumed your mortgage.***

Options:

- Here are two reasons to consider letting someone assume your mortgage:

  1. If you have a good interest rate on your mortgage, and want to sell your home for as much as possible, it may attract more potential purchasers.

  2. If someone assumes your entire mortgage, your lender should not charge you any penalty.

- Not every lender offers this option.

- The buyer must first qualify with your lender to assume your mortgage.

- You might want to keep your mortgage and so porting it to your new home as discussed earlier may be a better option for you.

TIP # 9

About *ANY* Beneficial Mortgage Extras

Definition: These are any extras or benefits that are provided by the lender either on closing or during the term of the mortgage that meet your needs and you find of value.

Options: Some lenders may offer some extra “perks ‘n’ services” and here are some examples:

- On-line access to your mortgage 24/7 to change the payment date, frequency, amount, pay lump sums, track property tax payments etc.
- Appraisal fees covered or at a reduced amount.
- Free services such as Warranty and Maintenance Coverage for your home (plumbing, electric, heating, air).
- The lenders will price any extras into the mortgage so rate, so check with us first before agreeing to take a mortgage with an extra that will cost you more in interest then the extra is worth.

TIP #10

About *ANY* Hidden Mortgage Surprises

Definition: Anything that may surprise you that you don't find out about until it's too late.

Options: You can avoid any surprises by working with me and I'll walk you thru the good, bad and ugly of all the mortgage options and terms already discussed today. Here are some hidden surprises that many clients are not aware of:

- Fees involved for extra statements being created, NSF fees, etc.
- You can't repay the mortgage back unless you sell your home.
- You can't port your mortgage or have it assumed.
- The penalty to break is tens of thousands of dollars.
- You can't refinance at all until after the term is up.
- You can't skip a payment.
- The lenders customer service doesn't meet basic standards.
- The lender doesn't automatically offer you a renewal (due to default).

About the Team

Brad Speniel

Brad has over 12 years of lending experience and has worked on the CBM team since 2006 where he has helped over 500 clients with their mortgage needs.

Brad joined CBM team because he loves to work with systems that allow him to deliver the best service possible. Brad loves to learn and adopt new best practices.

He is a master at uncovering the client's needs, building them a sound mortgage strategy and using the best technologies to shop the markets and find the best rate and terms for our clients.

Brad also has quite a good sense of homour which can help when you are dealing with banking institutions every day. Brad is the guy to call when you have any mortgage questions.

Lance Cook

Lance has 30 years experience in real estate sales and finance. He was a top producing realtor for 10 years and a real estate investor trainer.

He understands the real estate process intimately which helps him build systems and processes for the CBM team.

As a mortgage broker, Lance has achieved the accomplishment of 2010 Top 5 Finalist and 2011 Winner of the top 50 brokers in Canada award---a high honour considering there are over 10,000 brokers in Canada.

Lance's role as president of CBM is to continually revamp and improve the existing systems as that the team can provide and even higher level of service year after year. His mantra is "We are better than we were last year but not as good as we will be next year."

?? Want to manage a worry-free mortgage ??

CONTACT US:

Address: Suite 505- 771 Vernon Ave
Victoria BC V8X 5A7
Vancouver Phone: 604-592-9060
Victoria Phone: 250-391-7678
Toll-free Phone: 1-877-593-7738
Fax Number (toll-free): 877-651-7739
Skype:
Lance Cook - CBMlance
Brad Speniel - CBMbrad

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