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From the desk of Angela Zelvenschi, Broker:

Bi-weekly and weekly payments

Most mortgages have the option to allow payments to be made on a weekly or bi-weekly basis. This option may be desirable for two reasons. The first is it can save you money as you can expect to pay off your mortgage about 4 years sooner. This can save you dramatically over the life of your mortgage. The other reason why these options are so popular is that if your employer pays you on a weekly or bi-weekly basis, you can simplify your budgeting by making the payment line up with the way you paid.

Making Extra payments

Paying extra amounts on your mortgage can make a big interest saving over time. When we select a mortgage company, privilege payments options are something that we look for. A 20% privilege payment will allow you to pay off up to $20,000 per year on a $100 000 mortgage. It is important that the privilege payment also be flexible to allow you to pay smaller payments on the mortgage and as often as you wish. An extra $1000 periodically paid on a mortgage can help you become mortgage free faster.

Reducing the CMHC fees on your purchase

When you require a mortgage for more than 75% of the purchase price of a property, that mortgage must be insured by Canada Mortgage and Housing (CMHC) or GE Mortgage insurance. The premium charged by these company`s decreases as the down payment increases. When you finance your property at 95%, a premium of 2.75% is added to the mortgage. By increasing the down payment to 10% of the purchase price the premium can be reduced to 2.5%. If you can put down 25%, you can avoid any additional insurance fee. Depending on your situation there are ways that you can structure this financing to avoid the CMHC or GE insurance premium.

Advantages of Bigger Down Payments

As mentioned above, when you put a 25% down payment on your purchase you can avoid the CMHC premium. More importantly the larger the down payment, the lower the amount of interest you will pay over the life of your mortgage. It is important to note that it may not be wise to stretch yourself to increase your down payment and end up borrowing on credit cards or a line of credit at a higher rate.

Short Term Rates vs. Long Term Rates

The options for mortgages available can be very confusing for most mortgage shoppers. Terms for mortgages vary between variable and fixed rate, 6-month terms to 10 year terms. Taking a variable or floating rate mortgage can have savings. Typically the shorter the term or guarantee of the rate, the lower the rate will be. This does not always happen, depending on the market place and the economy, but history has shown that short-term rates tend to be lower than long-term rates. The up side of variable rate is the strong potential for interest rate savings. The down side is the fact that you are accepting the interest rate risk without a guarantee. If you are considering a variable rate mortgage you need to look at your own risk tolerance, and your cash flow available to deal with potential increased payment. Considering projections of rates and where we see interest rates heading can also be important in this decision. Make sure you talk to an expert when you are making this decision.

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