

What to look for in a mortgage



It's about more than just the interest rate.

Many homebuyers fixate on getting the absolute lowest mortgage interest rate available, often rejoicing when they find one that's 0.1% lower than any other. However, low rate mortgages often come with conditions that could cost you dearly down the line. **We take a look at what you should consider in a mortgage, beyond the interest rate.**

→ → → **Open and Closed Mortgages**

Closed mortgages have a fixed term contract period and charge a penalty if you break it. Open mortgages offer greater flexibility, as you can typically pay off this kind of mortgage at any time.

An open mortgage can be a good option if you intend to move within a year or so. However, most people choose closed mortgages because their rates are considerably lower.

→ → → **Fixed-rate or Variable-rate Mortgages**

A fixed mortgage rate remains the same throughout the term of your mortgage. This is a great option if you need to know exactly how much you'll be paying over the long term.

A variable-rate mortgage is linked to the Bank of Canada's prime rate, which can rise and fall considerably. Variable mortgages can be considered a gamble, with potential for both savings and losses.

→ → → **Terms and Amortization**

A mortgage term is the length of time you agree to sign up for the mortgage contract (typically between one and five years). After the term is up, you can renegotiate the mortgage or change lenders.

The amortization is the amount of time it will take to pay off your mortgage. Twenty-five years is a pretty standard amortization period for first-time homebuyers. However, some lenders allow a 30-year amortization and you can also choose a shorter period if you have sufficient income.

Longer amortization periods have lower mortgage payments. Shorter amortizations allow you to pay off your mortgage sooner while paying considerably less interest.

Payment Frequencies



There are several different ways you can make your mortgage payments:

- **Monthly**
- **Semi-monthly**
- **Bi-weekly**
- **Weekly**
- **Accelerated bi-weekly**
- **Accelerated weekly**

People often choose the payment frequency that corresponds with when they receive their paycheque. However, making bi-weekly or accelerated payments can reduce the amount of time it takes to pay off your mortgage. It can also save you thousands in interest.



→ → → **Portable Mortgages**

A portable mortgage allows you to move before your mortgage term is up. You can take your existing mortgage to your new home, without incurring any fees.

→ → → **Prepayment Privileges**

Prepayment privileges are the extra amounts you can make on your mortgage in any year, without having to pay a penalty. Making extra payments lowers the principal and reduces the interest you end up paying.

The amount you can pay off depends on your prepayment privileges. You can add an amount to your regular payments, in which case the extra money would go against principal and interest. Or, you can make a one-off lump payment, and the whole amount would go towards the principal.

Prepayment privileges vary from lender to lender. Some allow as little as 10% of the amount owing, while others go as high as 20%, so check with your lender before signing up.

→ → → **Prepayment Penalties**

If you break your mortgage contract early (for example, to switch lenders) you'll typically pay a prepayment penalty.

For variable-rate mortgages, the penalty is normally three months' worth of interest. With a fixed-rate mortgage, the penalty would either be three months' interest, or a calculation called the interest rate differential, whichever is higher.

Some lenders base their interest rate differential on the difference between the contract rate and their "posted" rate. Others base it on their discounted rate, which is considerably less. What this means is that some lenders will charge a significantly higher prepayment penalty, which can cost you thousands of dollars more. Always ask about a lender's prepayment penalties before signing up.

Help with choosing the right mortgage for you.

We understand that every homebuyer is different, and that their mortgage needs can vary. Your Cornerstone mortgage advisor can help find the best mortgage term, amortization and prepayment privileges to suit your circumstances.



Call
1.855.875.2255
today to book an
appointment.

