

## **Shopping for a Mortgage**

Your down payment pays only a portion of your new home's purchase price. The remainder is financed in the form of a mortgage loan from a financial institution or, perhaps, from a private lender. A mortgage is simply a personal loan used to purchase property. You pledge your new home as security for this loan.

The amount of the loan is called the **principal**. And, of course, **interest** is added to the loan to compensate the lender for the use of their money. If your lender is collecting from you to pay the property taxes on your behalf, then you will have a payment referred to as **P.I.T.** - Principal, Interest and Taxes. Your mortgage loan is repaid in regular payments (usually monthly, bi-weekly or weekly), which are applied towards the principal and interest. This is why it is referred to as a **blended** payment.

**Term** is the number of months or years the mortgage contract covers, typically six months to five years. During the term of a mortgage loan, you as the mortgagor will pay a specified interest rate.

**Amortization** refers to the actual number of years it will take to repay the mortgage loan in full. This is usually longer than the term of the mortgage. For instance, you may have a five-year term amortized over twenty-five years. Although most mortgages are amortized over 25 years, you can choose a shorter period if it meets your budget. The longer the amortization period, the smaller the month payments. A shorter amortization period will leave you with larger monthly payments but it will save you thousands of dollars in interest payments over the life of the mortgage.

**Equity** is the difference between the amount you could get if you sold your property and the amount you still owe on the mortgage loan. The equity you build up in your home can strengthen your position when negotiating further borrowing.

When the time comes to speak with a lender about obtaining a mortgage, give some serious thought to the type of mortgage you take and special terms or conditions that may apply. There are many options available and financial institutions in this competitive environment will often customize your mortgage to meet your needs and goals. Remember, however: **they will seldom do this unless you ask.**

A **conventional** mortgage requires 25% down. Few first-time buyers and young families at the beginning of the home ownership cycle have the resources necessary to put 25% down. Instead, they take what is called a **high-ratio** mortgage. This type of loan must be insured against default by the federal government through the Canada Mortgage and Housing Corporation (CMHC) or an approved private insurer. Generally, the lender arranges this insurance on your behalf, though you will be paying for it. You will be paying a one-time insurance premium to the insurer (ranging from 0.5% to 3.75%, depending on the size of the loan). The premium can be added to the mortgage loan itself.

---

**Greg Thompson, e-PRO, C-CREC, MVA, Realtor**  
**Royal LePage-Landco Realty, 425 Dundas Street, London, ON N6B 1V9**

Every reasonable effort has been made to ensure the accuracy of the information contained on this page. While the author is a Realtor, he may not be YOUR Realtor. Details, market conditions and requirements do sometimes change. You would be well-advised to seek confirmation of any details contained on this page, either from me or from YOUR Realtor, before relying on this information to lay the foundation for any real estate decision.

There are a variety of mortgage features and payment options to consider as well. Mortgages are available on a closed or open basis, at fixed or variable rates and can have terms ranging from six months to 25 years.

### 1. **Open vs. Closed**

With an **open** mortgage, you can pay off as much of your loan as you wish, usually whenever you want, without penalty. This could allow you to pay off your mortgage more quickly, if you have the cash flow to do so, saving you thousands of dollars in interest over the length of the loan. If you want this type of flexibility, an open mortgage may be worth looking at. Two caveats: (a) depending upon the trend in rates, an open mortgage may have a higher interest rate attached to it, and (b) some mortgages are more "open" than others - it pays to check.

A **closed** mortgage is one which is for a set term and has more or less fixed conditions attached to it. In some cases, the mortgage may allow prepayment although a penalty will most probably be charged.

All mortgages are fully open at the end of their term. This allows you to repay all or part of the outstanding balance without penalty on the maturity date.

### 2. **Short-term vs. Long-term**

You have the flexibility when arranging your mortgage of setting the term of the loan, which typically ranges from 6 months to five years. It is possible to select terms of seven, ten or even twenty-five years. A **short-term** mortgage is usually for two years or less, while a **long-term** mortgage is for three years or more. Generally speaking, the longer the term, the higher the interest rate - although this can change quickly with a change in interest rate trends.

The benefit of a long-term mortgage is the security of knowing exactly what your interest rate and payments will be for an extended period. On the other hand, a short-term mortgage will usually carry a lower rate and therefore lower monthly payments. There are other features and options which you should consider before selecting your mortgage:

- (i) **Partial pre-payment Privilege:** this is an important feature allowing you to make extra payments against your principal without penalty. A lender might allow an annual lump sum payment of a particular amount, or extra regular payments. Sometimes this pre-payment privilege may be restricted to the anniversary date of the loan. Pre-payment privileges give you the option of paying down your loan faster.
- (ii) **Increase in Regular Payment Privilege:** some lenders will let you increase your regular payments, usually by an aggregate of 10% or 15% annually. This can save you money in the long term by shortening the amortization period.

---

**Greg Thompson, e-PRO, C-CREC, MVA, Realtor**  
**Royal LePage-Landco Realty, 425 Dundas Street, London, ON N6B 1V9**

Every reasonable effort has been made to ensure the accuracy of the information contained on this page. While the author is a Realtor, he may not be YOUR Realtor. Details, market conditions and requirements do sometimes change. You would be well-advised to seek confirmation of any details contained on this page, either from me or from YOUR Realtor, before relying on this information to lay the foundation for any real estate decision.

- (iii) **Frequency of payment Privilege:** With this option, you are allowed to make your payments on a schedule other than monthly. The usual choices here are either weekly or bi-weekly. Either of these, for reasons owing primarily to the way interest is calculated on mortgages, can shorten the time it takes to pay off your mortgage, especially when interest rates are higher.
- (iv) **Portability Privilege:** This is a key privilege that you should attempt to get included in your mortgage. This feature allows you to "take" your mortgage - with the same term, rate and amount - to a new home if you decide to sell the one that you are in.
- (v) **Assumability Privilege:** This privilege allows the buyer of your home to take over, or "assume" your mortgage, if you decide to sell. If your mortgage has a fixed rate lower than current rates at the time you decide to sell, this can be an attractive selling feature. Be careful here, though: in the event the purchaser of your home defaults on the mortgage, the lender could come after you. Most lenders will release your covenant, but it pays to make sure of this.

---

**Greg Thompson, e-PRO, C-CREC, MVA, Realtor**  
**Royal LePage-Landco Realty, 425 Dundas Street, London, ON N6B 1V9**

Every reasonable effort has been made to ensure the accuracy of the information contained on this page. While the author is a Realtor, he may not be YOUR Realtor. Details, market conditions and requirements do sometimes change. You would be well-advised to seek confirmation of any details contained on this page, either from me or from YOUR Realtor, before relying on this information to lay the foundation for any real estate decision.

[www.LondonCoreResidential.com](http://www.LondonCoreResidential.com)

[www.SoldOnLondon.com](http://www.SoldOnLondon.com)