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How to save money monthly

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One advantage of variable-rate mortgages over fixed-rate is that your payments can go down as interest rates fall. If you have had a variable-rate mortgage for some time, it is likely your payments have reduced considerably recently. With rates this low, mortgage advisors say, this is a good time to look at ways to pay off your mortgage more quickly.

"We recommend [homeowners] keep making the payments they were making," says Rob Regan-Pollock, senior consultant at Invis mortgage brokerage in Vancouver. "That puts more to principal with every payment and starts to compound in their favour."

On a variable rate mortgage, Mr. Regan-Pollock says, payments should be increased as income and circumstances change. Again, all the money paid above the minimum payment will go straight to reducing principal, meaning the loan will be paid off more quickly.

For example, on a \$300,000 25-year amortization with a five-year fixed-rate 3.45% mortgage with a monthly payment of \$1,496.23, "Ten years go by, and, what started as a first-time homebuyer who had to count their pennies for closing costs, is now someone on their third home . their incomes are higher and it's a real priority for them to pay down their place," says Kim Gibbons, a broker with Mortgage Intelligence in Toronto. "Payments for one client went from \$1,600 to \$800 [on their variable mortgage]. They maintained the \$1,600 payment and the difference of \$800 went directly on to principal."

Both advisors say that even those with fixed-term deals should speak to a mortgage professional to see if it is worth paying a penalty to break the current mortgage to move to a lower interest rate.

"If you have a mortgage, for example, that is coming due in the next year and a half and you have a rate of 5.2%," Ms. Gibbons claims, "I'll show you how quickly you can recapture any penalty you have to pay with rates now of 3.49% on a fixed and 2.2% on a variable."

When first taking out a mortgage, Mr. Regan-Pollock suggests checking penalties or conditions regarding making changes or over-payments. Many fixed-rate mortgages allow one month's extra payment, or a cap of 10% of the total, on an annual basis.

"Certain lenders will allow the contract to be opened up prior to maturity," he says. Buyers should "ask if they can 'extend and blend.' Say they were at 5.25% for five years and they're three years into it, we could approach the lender and say 'Your five-year rate is currently 3.5%, this client has two years left at 5.25% . Can we blend, without penalty, and extend to a new five-year term at say at 4.25%?"

The terms and conditions of a mortgage must be understood; as well, it is wise to ensure you have the flexibility you need for your stage of family life and career.

"We have set a lot of clients up on 30-year amortizations so they have a low baseline payment that gives them lots of flexibility for lower payments," says Mr. Regan-Pollock. "The key is knowing the client's needs, does the product have a 15% to 20% increase in payments as their career expands and their incomes increase? We have annual reviews where we check in with customers and consider an increase to payments. It doesn't change the contract; they can still drop their payments back down if anything unforeseen happens, but they can voluntarily increase their payments as their income level increases over time."

FIXED VS. VARIABLE SAVINGS

- With a base scenario of a \$300,000, 25-year amortization, five-year fixed-rate mortgage at 3.45% and a monthly payment of \$1,496.23. If you:

1. Pay \$100 extra a month Interest saved: \$15,744 Paid off 2.3 years early
2. Pay \$300 extra a month Interest saved: \$38,784 Paid off 5.9 years early
3. Double up on payments Interest saved: \$94,175 Paid off 15.1 years early
4. Make a lump sum payment each year of \$45,000 (15% of principal) Interest saved: \$145,585 Paid off 19.9 years early
5. Both 3 and 4; Double up payments and pay 15% of principal per year Interest saved: \$131,570 Paid off 21.3 years early.

- With a base scenario of a \$300,000, 25-year amortization, variable mortgage at prime -.70 (2.30%) and a monthly payment of \$1,314.20. If you:

1. Pay \$100 extra a month Interest saved: \$9,408 Paid off 2.3 years early
2. Pay \$300 extra a month Interest saved: \$23,468 Paid off 2.3 years early
3. Double up on payments Interest saved: \$55,597 Paid off 14.3 years early
4. Make a lump sum payment each year of \$45,000 (15% of principal) Interest saved: \$78,147 Paid off 19.9 years early
5. Lump sum + double up Interest saved: \$82,322 Paid off 22.9 years early

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