



How to find a lender that fits your terms

Camilla Cornell

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Even in these times of low interest rates, it's expensive to use someone else's money. Since the biggest loan most of us ever take out is the mortgage on our house, it pays to shop around. Consider the following options and alternatives: Mortgage broker vs. DIY route Mortgage brokers used to be regarded as the "lender of last resort" for people who had trouble getting a mortgage with the bank. "But that's not the case any more," says Jim Murphy, president and CEO of the Canadian Association of Accredited Mortgage Professionals. About a third of all mortgage holders consulted a broker when they took out their current mortgage, according to a CAAMP study.

As a rule of thumb, the process is simpler when you use a broker, notes Jeff Morris, a mortgage consultant from Lower Sackville, N.S. You fill out the forms once and the broker does most of the legwork. And because mortgage brokers deal with smaller banks and trust companies, as well as lenders that only work with brokers, they may well be able to give you the product you need at a lower price. Finally, providing you don't have a dodgy credit history, it's not likely to cost you anything. But don't assume -- ask whether there is a fee for the service.

Whether you use a broker or not, you should still compare rates at insurance companies, virtual and bricks-and-mortar banks, trust companies, caisses populaires, credit unions, finance companies and pension funds. Web sites like canadamortgage.com and themortgageguide.ca cut down on work by allowing you to compare rates and apply online. Variable vs. fixed rate The interest rate on a variable-rate mortgage fluctuates according to what is going on in the market. Although your payments stay the same for the agreed-upon term (usually five years), the amount you pay toward the principal is less when interest rates go up and more if they go down. A fixed-rate mortgage locks in the rate of interest for a term of six months to 25 years.

Between 1950 to 2000, consumers generally would have been better off with a variable-rate mortgage, according to a report by Moshe Milevsky, author of *Wealth Logic: Wisdom for Improving Your Personal Finances*. As well, most lenders will allow you to convert to a fixed-rate mortgage if interest rates start rising.

In spite of that, a 2007 CAAMP study found that only 21% of all Canadians opted for a variable-rate mortgage compared with 73% who chose a fixed-rate mortgage. "Canadians are very conservative when it comes to mortgages," says Mr. Murphy. If you would have a hard time sleeping at night because you're worrying about interest rate volatility, a variable-rate mortgage is probably not for you, he contends. Ditto if you are a first-time buyer with high payments and little equity in your expensive home -- you cannot afford any rate surprises. Open vs. closed An open mortgage allows you to pay off as much of your mortgage as you wish, whenever you choose, with no pre-payment fee. If you're expecting to inherit a whack of money or are considering selling, this might be the way to go. The caveat: you will pay a higher interest rate for this flexibility.

With a closed mortgage, you agree to keep the same payment for a set term and the conditions are fixed. In return, you get a better interest rate. Most closed mortgages do offer a range of no-fee, partial pre-payment privileges, but options vary widely

between lenders.

If you want to keep your payments manageable and still have the option of quickly paying down your mortgage, you might look for a product that allows you to pay weekly or bi-weekly. Making a payment every two weeks as opposed to monthly could save you more than \$1,000 in interest over a five-year term at current rates. Extend that over the long term and it could shave almost four years off a 25-year amortization period, resulting in a highly respectable \$31,780 savings. Shorter vs. longer amortization The amortization period of your mortgage is the length of time allocated to pay it off. These days it can be anywhere from five years to 40 years. You'll save oodles of money by opting for a shorter amortization period.

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