My Mortgage Options

Important Notice

Join us April 15th for our 63rd Annual General Meeting

The AGM will be held at the Metro-Central YMCA Auditorium, 20 Grosvenor Street in Toronto. Registration will begin at 5:00 p.m. and the meeting will commence promptly at 5:30 p.m.

All members on record as of March 31st, 2008, are entitled to participate. We ask that you please bring photo ID for membership confirmation.

See you there!

QuickTax Reminder

The Personal Tax Filing Deadline is April 30, 2008!

"They had eight years left on their mortgage, and when it came time to renew, we saw that they had built up some credit card debt on renovations with a new kitchen still on the way. We recommended they consolidate their debt onto their mortgage, which cut down on payments, saved them interest and still allowed them to get their mortgage paid off on time. And they got their new kitchen – worry free."

As told by a Credit Union Member Service Rep

I would like to buy my dream home, but...

I don't want to be paying down my mortgage for the next 40 years!

40 year mortgages – is it really a good idea?

It is time to take out a new mortgage or renegotiate your current mortgage and you are offered the option to increase your amortization period… what do you do?

The amortization period refers to the length of time you have to pay back your mortgage. Until recently the longest period was 25 years. The amortization period combined with the interest rate is what determines your payment amount. There are two pretty straight forward relationships you have to remember – the higher the interest rate, the higher the mortgage payment and the longer the amortization period, the lower the payment. In an era of low rates and long amortization periods borrowers can walk away with a mortgage payment at historic lows. Sounds like a great way to improve your monthly cash flow – right?

There is no such thing as a free lunch – and the banking industry is not known for its charitable behaviour towards customers - so who really walks away from the table ahead?

For the borrower – The day of the $100,000 starter home is over. Improved cash flow is a terrific benefit of a longer amortization period. In a time when housing prices are climbing it can seem almost impossible to pay off or qualify for a mortgage in the traditional 25 years and still be able to put groceries in your new cupboard. By improving your monthly cash flow, you can afford to furnish your house and live your life. That's the good news.

What's the bad news? – Pretty simple – because you are paying for your home over a longer period of time the total cost of your home increases. Let's say you have a $250,000 mortgage, in a fixed 5 year term at 7.29%, with bi-weekly payments. Paying off your mortgage in 25 years means the total interest paid is $287,935. Extending the period to 40 years increases interest charges to $510,336 – almost double! What about the cash flow savings? Bi-weekly payments are decreased by $96.20, giving you an extra $2,501.20 a year in cash flow. Over the lifetime of your mortgage the increased cash flow only totals $100,048, but you are still out of pocket an additional $122,353.

Additional interest is not the only other expense. High ratio mortgage premiums are increased for every 5 years added to the amortization.

To make it work – it is best to make sure that your mortgage is one where you can make extra payments whenever you have the chance. As well, do not plan to stay in the longer amortization period. Make sure that your mortgage fits your financial circumstances, so that when your income increases or your expenses decrease you can afford to shorten your amortization period. By doing so, your interest costs will decrease.

For the lender – Of course, the main reason a lender wants you in a long term mortgage is to improve their bottom line. The longer you pay, the more interest they get to collect. Not only that, lower payments can translate into bigger mortgages (more interest again) and also allows more people to get into a home sooner. All of this serves to increase the lenders' profit – they really do not have a downside.

When to avoid? – Longer amortization periods are really meant for only a few specific circumstances. If you are thinking of choosing a long amortization period and you cannot foresee a time where you can afford to increase your payments or shorten the period, then a long amortization period is not for you. These longer term mortgages are best suited to individuals who have little money in the short term, but have excellent earning potential.

Likewise, if you are borrowing to fund a lifestyle that you really cannot afford then it is time to rethink your choices. This is where it can get really hard to avoid consumer temptation and it may be time to talk to your financial advisor about where you are financially and what you really can afford. A great place to start is by taking our Financial Fitness tests. All of our tests are available online at www.mycreditunion.ca – just click on the "Get Financially Fit" icon. Not sure where to start, want a paper copy, or need some help completing the tests – call, email or drop by your branch to get started.

There can be a fine balance between what you want and what you can afford – being your financial advocate means we are here to help you make sure that you are on the right side of the financial scale – now and into the future.

Turn over to read more about paying off your mortgage.

We'll show you how…

Go to mycreditunion.ca for:

- New Credit Union Mortgage Options,
- The Personal – Avoid Insurance Crime,
- Telpay Bill Payment Enhancements,
- QuickTax – Tax Deadline

Paying off your mortgage sooner than later

You have picked your amortization period – but there are still ways to pay off your mortgage sooner than later. Basically there are 4 ways you can work to shorten the time before you own your home free and clear.

1. Frequency of mortgage payments

The faster you pay down the balance of your mortgage, the less interest you pay. One of the easiest ways of getting out of your mortgage faster is to increase the frequency of your payments. Rather than choosing a monthly payment, choose a bi-weekly or weekly payment frequency, then divide the monthly payment by the new frequency and you will pay-off your loan faster and pay significantly less interest.

2. Lump sum payments at renewal

When determining your savings budget make sure you set aside a bit each month to make a lump sum mortgage payment. Some products allow one lump sum payment on the anniversary date and some only at renewal. Either way, by taking extra cash and putting it towards your mortgage you are on your way to being mortgage free faster.

3. Accelerated or extra payments

Like a lump sum payment, making extra payments or increasing the size of your payment means you are paying down your balance faster and paying less interest in the long run. Many products allow accelerated payments, by increasing your regular payment amount by the equivalent of an extra monthly payment, spread across your regular 12 payments. Check with your mortgage lender to see if your mortgage allows this type of option. If it does, it makes good sense to take advantage of it.

4. Mortgage term

The term of the mortgage refers to the period of time an interest rate is used. Variable rate mortgages have no fixed term and fixed term mortgages can go from 6 months to more than 10 years. Generally speaking, the longer the term the higher the interest rate that will be applied to the balance. And the more interest you will pay. Choosing a term can be tricky and very much depends on your appetite for risk. When mortgage rates are forecasted to stay low, then shorter terms are attractive. But if mortgage rates are expected to rise, then fixing at a longer term can save you money.

If your financial circumstances improve from one renewal period to the next, you also have the option of shortening your amortization period. Remember, just because you picked your amortization period when you first negotiated your mortgage does not mean you have to keep it for the life-time of your loan. Along with the term and interest rate it is one of the features that can be changed at renewal.

Not sure what to do with your mortgage – come in, call or email us – even if your mortgage is at another financial institution. We welcome the opportunity to work with you so that you can be mortgage free faster.

Amortization vs. Interest Costs

$250,000 mortgage, 7.29% rate
Bi-weekly payment

Payment	Amortization	Cost
$731	40	$510,336
$780	30	$358,814
$827	25	$287,935
$906	20	$220,988

Frequency of Payment

$250,000 mortgage, 7.29% rate
25 years

Years to repay	Cost
monthly payment	
25 years	$288,809
accelerated bi-weekly payment	
20 years	$226,040
accelerated weekly payment	
17 years	$184,425

Calculations on mortgage scenarios can be made by going to www.mycreditunion.ca, click on "Planning Tools", then "GO Figure", then "Calculators" and then "Mortgage".

New mortgage options and rates have arrived. Check out our website for more details.
www.mycreditunion.ca

Member Assistance:
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