

Do the research to make sure your mortgage is right for you

INTEREST | Of all the borrowing options, pick one that lets you sleep at night



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You pay your money and you take your choice in today's mortgage market. Three timely questions for home buyers are:

- How much money will you save if you make the right call between a variable rate and a fixed-rate mortgage?
- How well will you sleep if rates move in the wrong direction?

- Do you have a debt management plan that will allow you to pay off your mortgage as fast as possible?

The need for a mortgage strategy was reinforced Thursday as Bank of Montreal announced six-year and 10-year mortgages at better than five-year posted rates.

As consensus builds that Canadian interest rates have bottomed out, BMO is targeting customers who want security and a plan to become mortgage-free faster.

By increasing payments by 9.5 per cent annually, for example, someone borrowing \$100,000 can be debt-free in 10 years, saving more than \$40,000 in interest.

Despite this week's quarter percentage point cut in the bank rate, longer-term mortgage rates are trending upwards.

In June, you could get a fixed five-year rate of 4.4 per cent. On Thursday, the best available five-year rate was 5.05 per cent from National Bank or Scotiabank.

Confidence in the outlook for the Canadian economy is putting upward pressure on bond yields and longer-term interest rates such as those for

PAYING IT OFF IN 10 YEARS					
Want to be mortgage free faster? BMO offers the following plan, based on a \$100,000 mortgage at 6.5%:					
Year	Bi-weekly payments	Outstanding balance	Year	Bi-weekly payments	Outstanding balance
1.	\$334.91	\$97,624.52	6.	\$527.23	\$67,365.78
2.	\$366.73	\$94,238.79	7.	\$577.31	\$56,333.94
3.	\$401.57	\$89,695.14	8.	\$632.16	\$43,102.80
4.	\$439.71	\$83,828.53	9.	\$692.22	\$27,387.05
5.	\$481.49	\$76,454.00	10.	\$757.98	\$8,869.72

Note: Payments increase by 9.5% per year.

Or a \$100,000 mortgage based on a variable rate:				
Year	Bi-week payments	Balance	Rate	Cumulative Saving
1.	\$334.91	\$95,164.39	4.0%	\$2,460.13
2.	\$366.73	\$89,752.98	4.5%	\$4,485.81
3.	\$401.57	\$83,603.96	5.0%	\$6,091.18
4.	\$439.71	\$76,529.37	5.5%	\$7,299.16
5.	\$481.49	\$68,308.49	6.0%	\$8,145.51
6.	\$527.23	\$58,682.20	6.5%	\$8,683.58
7.	\$577.31	\$47,343.91	7.0%	\$8,990.03
8.	\$632.16	\$33,929.03	7.5%	\$9,173.77
9.	\$692.22	\$18,003.47	8.0%	\$9,383.58
10.	\$757.98	\$0.00	8.5%	\$8,869.72

Note: Assumes 0.5% interest rate increase each year Source: Invis Financial

multi-year fixed mortgages.

Variable rate mortgages, in contrast, are becoming more attractive in the short term because they float up and down with the bank rate, often at a discount of a quarter or one half of a percentage point.

Thanks to the Bank of Canada, the current prime lending rate is typically 4.5 per cent. The holder of a prime minus half a percentage point mortgage would pay 4.0 per cent until prime changes.

Variable rate mortgages may also have additional features such as an opening or "teaser" rate that applies for the first few months of a loan, and options that allow a borrower to lock-in at a fixed rate at any time, or at certain intervals.

In more than 88 per cent of cases, a consumer would have been better off borrowing at prime rather than at a five-year fixed rate over the last 50 years, according to research by York University professor Moshe Milevsky.

That said, the consumer has to be confident in their decision, says Rob Regan-Pollock, a senior mortgage broker with Invis Financial in Vancouver.

"A variable-rate mortgage is now a little more than a full

point cheaper than a five-year fixed rate mortgage. But you have to remember that with a variable mortgage, the rate you pay will move up and down during the term of the mortgage."

Typically variable-rate borrowers make a fixed monthly payment with more money going to pay down the principal when interest rates go down and more money siphoned off for interest when rates go up.

First-time buyers with CMHC-insured high-ratio mortgages, however, might be required to increase payments to maintain a declining amortization schedule.

And then there are buyers who simply prefer the greater sense of stability that a seven- to 10-year fixed-term mortgage provides.

BMO economists expect we will probably see steady shorter-term rates and mildly rising long-term rates through the end of this year, said Gail Kassie, the bank's director of mortgages.

"By the spring of 2004, however, even shorter-term rates will moderately rise, as the U.S. Fed and the Bank of Canada are expected to begin raising their policy rates."

Kassie says the BMO's six-year mortgage at 5.7 per cent will provide the typical five-year borrower with an additional year of security against rising interest rates. The bank's five-year rate is currently 6.55 per cent.

If security and savings are your goal, however, Regan-Pollock noted that the best rate on a seven-year mortgage Thursday was 5.6 per cent from Scotiabank.

Kassie counters that BMO's 10-year mortgage at 6.5 per cent is a great solution for first-time buyers.

"They will get a predictable payment schedule over the long run, a rate that is currently below the five-year fixed posted rate, and a fully-developed mortgage plan to help them become mortgage-free sooner."

For 10-year borrowers, the bank will even kick in a cash-back at half a per cent of the mortgage which customers can apply as a first prepayment to get a head start, Kassie said. On \$100,000, paying an extra 9.5 per cent in the first year allows the mortgage to be cleared in 10 years, rather than leaving a balance, as shown in the chart.

For illustration, the chart compares the bank's 10-year program with a conservative variable rate mortgage strategy that assumes interest rates go up at half a percentage point every year. Regan-Pollock notes that assumption would take prime to nine per cent in the 10th year and that most variable-rate borrowers would be free to switch to a fixed rate long before that happened.

He said BMO is to be commended for encouraging bi-weekly and escalating payments to reduce interest. However, he noted that the best 10-year rate available Thursday was 5.99 per cent through MCAP, Scotiabank and First National.

"So anybody could follow their formula and achieve better results, if they can get better rates," he said. "And they could be even better off if they are not risk averse and can handle the fluctuations of a variable-rate mortgage."

You take your choice and you pay your money.