Tips to remember on mortgage renewal

High interest rates are having a dramatic impact on new home sales - when mortgage rates go up, people simply stop buying. However, when rates escalate, people who already own homes may find mortgage renewal time a nightmare. Families don't want to lose their homes and yet paying another few hundred dollars a month is difficult.

George Hopkinson, Vice President and General Manager of DirecTrust, Canada's first 24-hour telephone trust service, says, "There are a number of practical things you can consider when renewing your mortgage to help minimize the pain of higher interest rates."

1. Pay down the principal

If you have some extra cash saved up, Hopkinson recommends that you pay down as much of the principal as possible. "Let's say you had a two-year mortgage of $100,000, amortized over 25 years, at 11 per cent. Your monthly payment would have been $963. If you are renewing at 14.25 per cent, by paying down about $17,500, you can maintain the same monthly payment."

2. Buy down the interest rate

Several financial institutions, including DirecTrust, offer flexible mortgages where customers can pay a fee up front or add that fee to their principal to buy down the mortgage rate to a more affordable level.

3. Investigate open mortgages

Although during times of high rates it always seems that things will never change, history proves that interest rates are cyclical in nature.

Hopkinson says, "I would suggest that people look at an open mortgage that allows repayment at any time. It would seem that a two-year term would safely see you through the current high rates. An open mortgage gives you the fl xibility to both pay down larger amounts when you can or to lock into lower rates when they fall."

4. Shop Around

Hopkinson advises consumers to shop around for good rates. "There often is a spread between the lowest mortgage rates and the industry average. Find the company that offers the best rates. But do keep in mind that many companies charge transfer and/or discharge fees. Balance these feels off against the savings from the lower rate."

5. Extend your amortization period

One of the least painful ways to reduce cash flow problems is to extend the amortization period for your mortgage. For example, if you currently have a $100,000 mortgage at 11 per cent amortized over 20 years, your monthly payment is $1016. If you renew the same mortgage at 14.25 per cent, your monthly payment jumps to $1230. However, if you extend the amortization period to 30 years, your payment becomes a more affordable $1173.

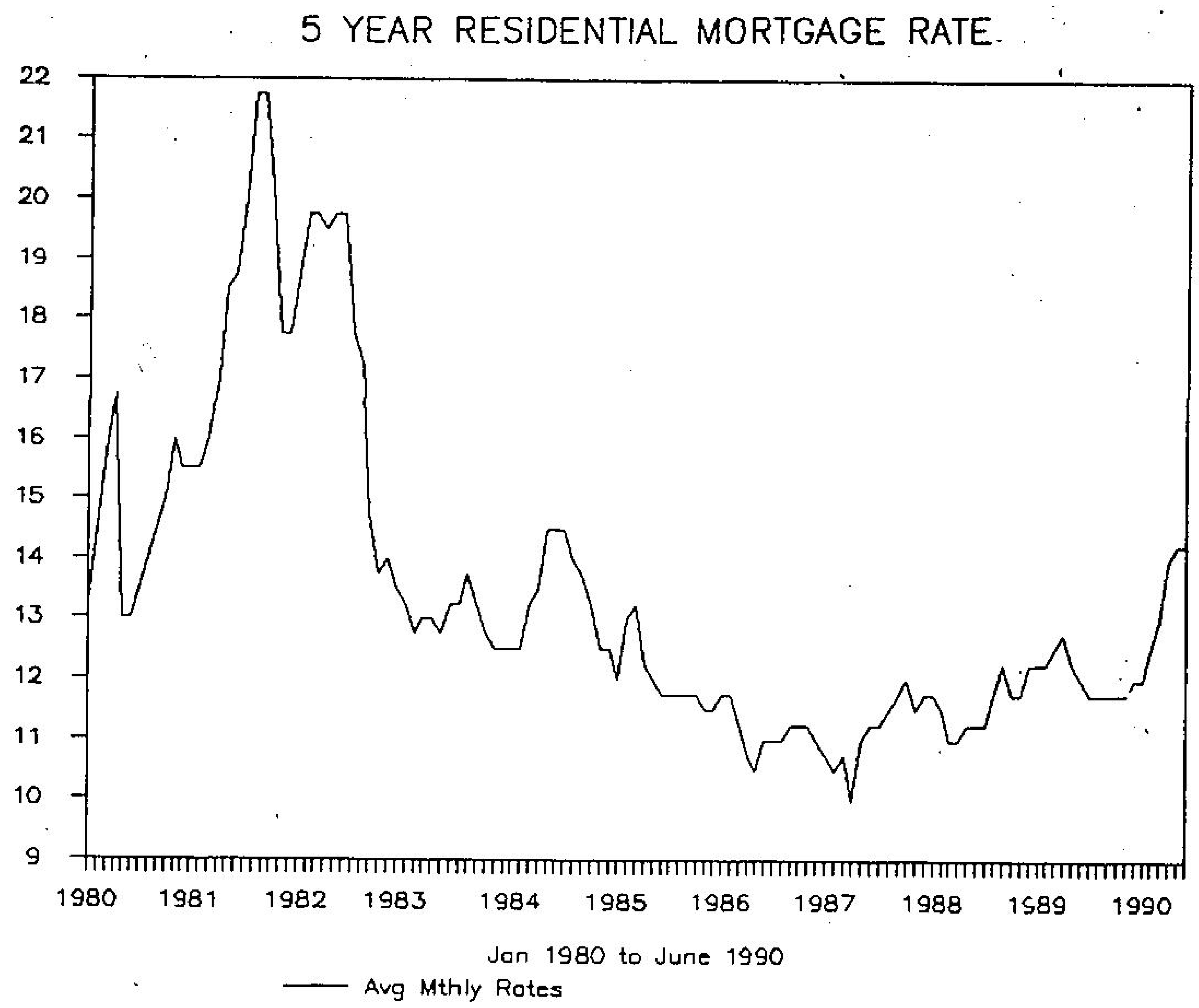
6. Re-evaluate your schedule of payments

If you are paying off your mortgage with bi-weekly payments, consider changing to semi-monthly. Payments will be lower but Hopkinson warns, "You will be adding to the amount you spend on interest over the life of your mortgage. This option assists short-term cash flow but will cost more in the long run. As soon as rates go down, you should move back to the bi-weekly payment method."

7. Refinance other debts with your mortgage

No matter how high mortgage rates may seem, interest rates on all other floating rate debts, such as credit cards, will be higher. Hopkinson explains, "Most financial institutions will allow you to increase your mortgage to re-finance other debts. The legal costs involved will typically be more than offset by the lower rates."

If a consumer owes $10,000 on a credit card charging 23.75 per cent, he will save $950 in the first year by consolidating that debt with a mortgage at 14.25 per cent. Even with legal costs of about $500, the saving is still considerable. Hopkinson adds, "It may even be worthwhile to refinance a fully-paid-for family home to consolidate other high interest loans."



Municipal bylaws block new housing concept

Dianne Maley
Your Business
Thomson News Service

TORONTO - Two Montreal university professors have unveiled a house that can be built for less than $40,000. It sits on a plot of land only 14 feet wide. It's cost, including land in downtown Montreal, would be less than $65,000.

The "grow home," as it is called, looks better than many houses in which Canadians live - and for which they pay more than $65,000. It's called a grow home because its use is flexible and a balcony or extra room can be added at little cost.

Professors Whitold Rybczynski and Avi Friedman of the McGill School of Architecture say their house can be built for $40 a square foot. That compares with an average cost of $70 a square foot for conventional houses.

Too good to be true? Maybe. The president of the Canadian Home Builders Association says builders could sell more than half a million of the houses. But municipal bylaws make them impossible to build.

"The sad reality is that this house, as wonderful as it is, could not be built today in Metro Toronto, Montreal of Vancouver, cities where there is a crying need for affordable housing," says Gordon Thompson.

Existing homeowners do not want cheap housing in their neighborhood. "Clearly this is NIMBYism" (not in my back yard), Mr. Thompson says. The implication is that it will be difficult, if not impossible, to change bylaws to create higher-density housing.

CHEAP TO BUILD

Never mind Toronto, Montreal and Vancouver. Inexpensive houses would be welcome elsewhere inthe country if bylaws will permit them. What is not so clear is whether Canadians outside of the three big cities have to settle for such modest housing.

A breakdown of costs prepared by the McGill professors shows how the pre-fabricated grow homes compare with conventional housing. The land-cost saving is important for urban locations. But the low construction costs will appeal to suburban and rural residents as well. The study is based on land costs in Montreal in 1989.

The first figure cited here is for a typical home: the second, for a grow home.

Construction costs: $60,000. $40,000; development cost: $3,000. $3,000; land cost: $48,000. $12,000; marketing cost: $3,500. $2,000; overhead and profit: $17,500. $8,000.

Total cost for a typical home. $132,000; for a grow home, $65,000.

The house is small but attractive. It's a two-storey building with only 1,000 square feet of living space. French doors open to a balcony on the second floor. The main floor has a kitchen, bathroom and living area. The second floor is open concept, but can be divided to create a second bedroom.

It's no palace, but it's better than a high-rise apartment. Presumably a basement could be added. The best thing about this house is that it would be built by the private sector without government subsidies.

Privately, people close to government say Ottawa is worried that Canadians will be divided into two classes: those who have houses and those who do not. This is a recipe for social unrest, politicians fear. The interests of the two classes will be opposed.

Whether the grow home is the solution to such an overwhelming social problem remains to be seen. Clearly, density must be increased in the big cities. It is not so clear why people who live elsewhere in the country have to live on 14-foot lots.

Prominent U.K. company expands to North America

Willan Canada recently launched its prominent line of home building products in North America. The company is a wholly owned subsidiary of Willan Building Services Limited, a family owned, diversified group of companies, headquartered in Cheshire, England. Like its parent, Willan Canada's activities are directed toward the sales, marketing and distribution of a wide range of products to the new home construction and renovation industries.

The parent company has been conducting business in the U.K. for three generations and has achieved a leadership position in the residential building market.

In the past few years Willan has expanded its operations into Northern Ireland, Holland and Germany. The Company now employs more than 300 people.

Willan most recently cast its corporate eyes toward North America where new home construction and older home renovations were booming. Canada's busy building program was identified as a major opportunity to offer the breadth of product range and specialist technical expertise gained over the last decade in Europe. The Company opened its North American head office in Mississauga, Ontario last year and is directing its overall operations from there.

One of the primary objectives of Willan Canada is the introduction of its ventilation products. Over the years, the ventilation line has grown and expanded to include specialist roofing accessories and the only molded insulated attic hatch.

Willan's "attic hatches" provide a high quality appearance and finish, and incorporate insulation and vapour seals. They are recognized as a major improvement over traditional ill-fitting hatches. As a result, they are increasingly specified by major builders wishing to improve the home finishes offered to their clients.

Tailoring their products to specific markets, Willan Canada also developed an exclusive "state of the art" range of roof ventilators designed to combat roof space condensation. Their unique matching of the colour, texture and profile of the roof system enables them to blend invisibly with the roof covering while at the same time providing the essential correct levels of ventilation. Willan's roof ventilators perform effectively with shingles, slate, clay, steel and concrete roof tiles.

The Company has already established an extensive distribution network in Ontario and the Atlantic Provinces and is now in the process of marketing its products throughout Canada and the United States. Sold under the "Willan" and "Glidevale" brand names, the products are appealing both to building contractors and do-it-yourselfers. They are available through local building supply dealers.