

Options are available to pay off mortgage

If you're like most homeowners, you eagerly anticipate the day when you make your final mortgage payment. You fantasize about the financial freedom you'll enjoy and what you can do with the money you would normally spend on your mortgage.

For most people, it can take a while for this dream to become a reality. But it doesn't have to be as far off as you may think. There are several options available to let you pay off your mortgage more quickly.

In fact, by choosing a shorter amortization period, when you arrange your mortgage, you can pay off your mortgage faster, thereby making substantial savings in interest over the years.

In most cases, each mortgage payment is blended and is applied to both principal and interest. At the beginning of a mortgage, the interest portion of the payment is extremely high. But as a mortgage matures, more and more of the payment is applied against the principal.

The most common mortgage amortization period is 25 years. By shortening that period to 15 years, you can save a substantial portion of money in interest, because you erode the principal amount of money you owe much more quickly. A shorter amortization period means larger payments, but to many people this is a worthwhile consideration because of the long-term savings.

For example, a mortgage of \$100,000 amortized over 25 years at 13.5 per cent interest would result in monthly mortgage payments of \$1,138 and a total repayment of \$341,409. Monthly payments for the same mortgage amortized over 15 years would be just \$136 more or \$1,274, resulting in a total repayment of \$229,347 and long-term savings of \$112,062 when compared to the 25-year schedule (provided the interest rate remained the same for the full amortization period).

While the above figures appear to be fairly astounding, keep in mind that the interest rate will fluctuate somewhat each time you renew a term of your mortgage.

Weekly and Biweekly Payments

Although most people make monthly payments, another popular method of paying off your mortgage involves weekly, biweekly or semi-monthly payments. This type of payment schedule will reduce the amount of principal you owe more quickly, because you pay on a much more frequent basis and less interest is accrued.

The drawback to a more frequent payment system, of course, is that you have to know precisely what your income is going to be for a set period of time, to ensure that you are able to meet the payments.

Accelerated payments are another option, allowing homeowners to make an additional monthly payment each year to the overall payment schedule.

The following chart shows how much can be saved by making weekly and accelerated payments, using a \$50,000 mortgage amortized over 25 years at 13 per cent.

	Monthly	Weekly	Accelerated
Payment	\$551.20	\$127.20	\$137.80
Payment Calculation		$\$551.20 \times 12$	$\$551.20$
Mortgage Repaid In	300 mos.	288 mos.	201 mos.
Interest Savings	—	\$6,943	\$45,851

(Calculation and example provided by the Bank of Montreal for OREA)

Some people commit themselves to a payment schedule that is too high and end up with cash flow problems.

As shown, the weekly payment plan provides considerable savings, because payments are made more often and earlier than a conventional monthly mortgage. The accelerated weekly plan allows the mortgage to be retired in just 17 years, instead of 25.

Annual Payments

Some people prefer to make a lump sum payment towards principal on the anniversary date of their mortgage, as is permitted on many mortgages (similar in principal to the accelerated payment plan above). This again reduces the amount of money you pay in the long term, because interest would then be calculated on the lower amount of principal.

As the interest component of your regular payments is reduced, more goes towards paying down the principal, resulting in a faster payback period.

However, if you're in a situation where you know your income is going to be stagnant for some time, then you may want to choose a normal amortization period. That way, if you can accumulate some extra capital in later years, you can make a lump sum payment - provided that your mortgage has prepayment privileges.

Some people would find it very difficult to accommodate regular weekly or biweekly payments because they just don't have the availability of funds to make these frequent payments comfortably. But making the equivalent of even one extra mortgage payment per year can save you a considerable amount in the long term.

Your REALTOR or a reputable mortgage company - a bank, trust company or mortgage broker firm - should be able to advise you about all of these possibilities and try to tailor a mortgage to your particular income flow and your needs.

Flexibility

When arranging a mortgage, it's important to look for flexibility. Shop around and establish terms that are going to be comfortable for you and make sure your mortgage allows you to make an optional principal payment once a year on the mortgage anniversary date.

The ceiling on these prepayment privileges can vary, but most are between 10 and 15 per cent. In many cases, you will have to pay a penalty for these privileges, but you gain flexibility.

It's also important to make sure you have a clear understanding of what your payment obligations are.

Your real estate professional is well equipped to let you know about various mortgage options and the types of payment plans available from local lending institutions.

Real estate practitioners are aware of their clients' and customers' needs and are very capable of giving sound assistance and direction, to help them get the best possible terms.

This article is provided by local Realtors and the Ontario Real Estate Association (OREA).

Being overloaded with debt can lead to personal crisis

Easy credit lets consumers buy what they want now and pay for it later; but what do they do if it leads them deeply into debt?

Whether it's because they're out of work or owe more than their income can handle, being in debt over their head can often lead to crisis and despair.

The first step, advises Marilyn Gurevsky of the Ontario Ministry of Consumer and Commercial Relations, is to put aside credit cards in a safe place out of easy reach. Leave them there until debt problems are resolved.

The next step is to develop a repayment plan, beginning with a summary of each amount owing and its interest rate.

"Paying off the debts with the highest interest rates is a priority. Generally, your bank, department store and oil company credit cards cost you the most in interest charges, so concentrate on paying them off first," says Gurevsky, a chief consumer advisor for the ministry.

One approach is to consolidate the debts by taking out a bank loan to pay off these higher interest creditors right away. As bank loans are generally at lower interest rates than credit cards, the debt can be paid off faster.

"If you're not able to solve your debt problems this way because you've lost your job or are unable to work, or don't have sufficient income coming in to qualify for a bank loan, contact your creditors

and explain your situation," says Gurevsky.

"While this may be embarrassing, creditors will usually help people who are experiencing an unexpected crisis but want to resume payments as soon as possible. Most creditors will agree to delaying or spreading repayment over a longer term, rather than take strong measures. Ask creditors what arrangements can be made. They may allow you to make no payments for a long time or propose a new repayment schedule."

For help, Gurevsky recommends contacting a credit counselling service, offered at no cost to the client. Funded by the Ontario Ministry of Community and Social Services and the credit granting community, credit counselling services mediate between the individual and the creditors. The counselling service helps develop a repayment plan which determines how much the person can regularly pay and then divides that money according to each creditor's share of the total debt. The person brings the payment to the counselling service which acts as a trustee and forwards the money to the creditors.

Bankruptcy is a last resort and may be the only alternative for those unable to pay their living expenses and make payments on their debts.

For more details about credit, The Ministry of Consumer and Commercial Relations has produc-

ed the Ministry's Consumer Information Centre at 555 Yonge Street, Toronto, Ontario, M7A 2H6. Tel: (416) 326-8555 or toll free 1-800-268-1142. The TDD line for persons with impaired hearing is (416) 326-8566.

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