

# The Turner Report

BY GARTH TURNER



There is no question I am asked more than this: Should I lock in my mortgage? Lately the number of times I hear that in one week has rapidly escalated. Seems everybody, suddenly, is an interest rate junkie.

Maybe it's the gas thing that has them bent out of shape over their family finances. After all, with gasoline at more than a buck a liter, with natural gas prices about to rise again, and with untold home heating oil horrors soon to come, anyone who lives by a budget is worried about cash flow. Now those people with variable rate mortgages are doubly concerned, thinking how the Bank of Canada can ruin their lives.

Why are rates rising? Many reasons, not the least of which is the fact we have been spoiled with the cheapest money in a generation, and it just can't last forever. Beyond that, however, government spending has taken a sharp turn higher in the last year as the feds increased their appetite by a whopping 15%. That proved to be inflationary, and the immediate consequence was a bump up for mortgages, lines of credit and business loans.

Will there be more to come? You bet, Pontiac. The odds are today's prime rate of 4.5% will at least 1% higher by this time next year, even though our high dollar might slow the increases a little. Still, this means people with variable mortgages will see their monthly payments increase by between 25% and 30%. New home buyers with honking big loans and precious little equity will be the ones most affected.

So, should you lock in? Not yet. Today, if you ask nicely, you can get a VRM at any of the banks for prime minus a half or three-quarters of a point - putting it at close to 4%. Meanwhile the posted rate for a five-year term is almost 6%, and even if you score a discount off that, the locking-in thing will still bump your monthly payments higher.

The best strategy right now in terms of your mortgage, is to do nothing. Do not lock in. Do not panic. Do not call your father for advice. Do, instead, consider one of the strategies I presented to you last week, making your mortgage interest tax-deductible, if you happen to have some other investment money lying around.

If you don't, and are one of those new homebuyers that Mattamy executives dream about, then you should work at paying off your mortgage as quickly as possible. The best strategy I know for that is to take your conventional monthly mortgage payment and convert it to a weekly payment plan.

The bank will set this up for you at no charge - and suddenly you'll be paying every week the equivalent of one quarter of your old monthly payment. What difference will this make? Well, in the course of a year you'll actually end up making the equivalent of an extra monthly payment, which is good. In addition, by paying weekly, you are eating into the normal amortization of mortgage interest, which saves you money. With the magic of this one change you should be able to pay off a conventional mortgage in ten or twelve fewer years, saving you enough money to impress even your mother-in-law.

Oh yeah, and when you borrow ensure your mortgage is portable. That means you will be able to take it along with you when you move, which is a good thing with interest rates inevitably rising.

And, finally, never give in to the bank's suggestion that you take life insurance on your mortgage (unless, of course, you plan to die soon). This insurance is ridiculously expensive, almost always unnecessary, and usually the result of guilt rather than intellect. Take the money that insurance would cost you and add it to the repayment of the debt itself.

And, remember, don't lock in. I'll tell you exactly when to switch, which means you can't afford not to read the Compass!

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