Mortgage management— Get the most out of your personal finances

1. I've seen and heard a lot lately about "flexible mortgage accounts" but aren't they the same as "home equity loans"?

No, not really. A flexible mortgage account could be viewed as a home equity loan, but a home equity loan is not a flexible mortgage account. Home equity loans provide a certain percentage of the value of your home (typically 60% to 75%) to pay off your mortgage and to access some of the accumulated equity (i.e. the amount of your home you've paid for) in your home. They are extremely popular because their interest rates are among the lowest for mortgages and many people use their accumulated equity to consolidate other debts (like credit cards) at this low rate.

But a flexible mortgage account does more than this. It combines your chequing and savings accounts with your mortgage (and other debts) and uses the flow of your income into the account to help pay off your mortgage years earlier.

Most people who have a home equity loan also have separate chequing accounts, rainy day savings accounts, etc. But with a flexible mortgage account, all of these are combined into one. So, any money you may have had in separate accounts that was earning you little or no interest, is now applied against your debt to help lower your borrowings and reduce your interest costs. Now, whenever you get paid, your income flows directly into your mortgage to drive down your debt until you need to take that money out for monthly expenses.

The key here is that every day you have even a dollar of your income in the account you have less debt and so you pay less interest. What's more, any time you have any money left over at the end of the month, it's automatically applied against your mortgage until you need to take it back out. The Manulife One flexible mortgage account has a calculator that enables you to run your own numbers to see how it works. Check them out at www.manulifeone.com.

2. I'm refinancing my mortgage – anything I should consider?

Absolutely. There are a number of things you should consider whether you're refinancing your existing mortgage, upgrading or buying a new home. Among them:

• Start shopping around early.

Your financial institution would like nothing more than for you to quietly sign those mortgage renewal papers, no questions asked. Don't wait until the last minute and then feel pressured. Start to consider alternatives to traditional mortgages at least three to four months before your mortgage comes due.

• Recognize that you have options.

If you've been locked into a fixed four or five-year mortgage that's about to come due, you may not be aware of innovative new alternatives to traditional mortgages that are now available to you. If you have equity in your home, you may want to consider some of the new options, such as the "flexible mortgage account". This new alternative to traditional mortgages and lines of credit combines banking and borrowing into a single account to quickly reduce your debt and interest payments.

• Consider a floating interest rate this time around.

A recent study has shown that you would have been better off borrowing at the floating (prime) rate vs. a fixed five-year rate, provided you can tolerate moderate fluctuations in your mortgage payments. Conducted by Dr. Moshe Milevsky, a leading expert in personal finance and Associate Professor of Finance with York University's Schulich School of Business, the study demonstrates that the average savings over the last 50 years would have been $22,000, based on a floating rate over a five-year fixed rate on a 15 year, $100,000 mortgage.

3. What is the difference between High Ratio Mortgage Insurance and Mortgage Life Insurance?

High Ratio Insurance is a government-legislated program to protect deposit-taking institutions when lending in excess of 75% of the lesser of a property's appraised value or sale price. In Canada, the insurance premium is paid to either of two approved insurers and the benefit covers the lender. Mortgage life insurance protects the estate or co-owner of an insured homeowner. Term insurance is sometimes used in place of mortgage insurance, but you should talk to your financial advisor before signing on the dotted line.

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