# Picking the right mortgage depends on your needs

When you are looking around for a new home, it is important to spend some time looking into various financing options. Banks, trust companies and other financial institutions offer a variety of ways to finance your new home purchase, but it's up to you to take the time to select a mortgage to meet your needs.

Just what is a mortgage? A mortgage is a long-term loan for the purpose of buying a home. The principal is the amount of the loan, or the cash you actually borrow. You are expected to repay the principal, together with the interest. Mortgage payments are applied toward both principal and interest.

**Obtaining a mortgage:** The first thing to do is to take a realistic look at what you can afford to pay for your new home. As a general rule, no more than approximately one-third of assured gross income should go toward the sum of mortgage payments, property taxes and estimated heating expenses. Also, no more than 40% of assured gross income should go toward the total of your mortgage and all other contracted payments, such as car loan payments.

When you're shopping around for a mortgage, check with a number of different financial institutions and gather information on various types, terms, conditions and interest rates. The following section explains some of the terminology that you might run across.

### Types of mortgages

**Conventional mortgage:** A mortgage loan which does not exceed 75% of the property value. In the case of a purchase, the property value is established as the lesser of the purchase price or appraised value. Lenders require that mortgages that exceed this limit are insured against default, usually at the borrower's expense.

**Conventional high-ratio mortgage:** A mortgage which is insured against default by The Mortgage Insurance Company of Canada (MICC). This mortgage enables purchasers to buy with as little as a 5% down payment. The cost of this is passed on to the consumer by the lender. The insurance premium can be added to the mortgage amount or paid in cash.

**National Housing Act (NHA) mortgage:** A mortgage which is insured against default by Canada Mortgage and Housing Corporation (CMHC). Borrowers must pay an application fee to CMHC (which usually includes the cost of a property appraisal) and an insurance premium (which is usually added to the principal amount of the mortgage, though it may be paid in cash). NHA mortgages are usually high-ratio mortgages, meaning purchasers can buy with as little as a 5% downpayment.

### Terms and conditions

The actual number of years it will take to repay a mortgage, loan in full is called the amortization period, which may be up to 25 years. The term of the mortgage is the period for which the interest rate as well as other conditions of the mortgage are fixed.

Customers are offered choice and flexibility in mortgage terms, payment frequency, interest rates, amortization periods, prepayment options, and renegotiation and renewal features. These help you to create the mortgage that is best for you. Some of the options you may choose are:

**Open Mortgage:** A mortgage agreement which allows the borrower to repay the debt more quickly than specified and usually without prepayment charges.

**Closed Mortgage:** A mortgage agreement which does not provide for prepayment prior to maturity. In most situations, the lender will permit prepayment but may levy a charge for doing so.

**Prepayment options:** Most financial institutions offer a number of options for people to prepay their mortgage in full or in part at any time, without interest penalty. A clause in the mortgage agreement specifies when and how prepayments may be made.

**Fixed-rate mortgage:** A mortgage loan for which the rate of interest is fixed for a specific period of time (the term). Terms of up to seven years, or even longer, are available from some lenders.

**Variable-rate or floating-rate mortgage:** A mortgage loan for which the rate of interest changes, usually not more than once a month, as money-market conditions change. The monthly payment usually stays the same for a specified period; however, the amount applied toward the principal will vary according to the change (if any) in the rate of interest.

**Payment options:** You can usually choose how frequently you prefer to pay your mortgage installments. Options include weekly, bi-weekly, semi-monthly and monthly payment frequencies. The option you choose can mean considerable savings on the cost of your mortgage.

### Other mortgage options

**Mortgage life insurance:** Most financial institutions offer mortgage life insurance. Premiums are based on your age and on the amount of your mortgage when you apply for coverage. The cost can be added to the mortgage installment. If you are buying a new home, coverage will usually begin when your mortgage application is approved, even though your house may not be completed. Your first insurance premium would be paid with your first mortgage payment. Joint life insurance coverage is available.

**Mortgage rate protection:** In the last year of your term, you can renew your mortgage early to take advantage of the rates. This is handy if you expect interest rates to rise. Except for open mortgages, you may be charged an early renewal fee and the interest rate differential.


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