Mortgage financing options

For most of us, taking out a mortgage is the biggest financial commitment we'll ever make. And with today's uncertainty over interest rates, it's important to learn all you can about financing options to help you make the right choice.

The type of mortgage you qualify for generally depends on how much you have for a down payment and the amount you can afford each month for repayments. Here are some mortgage finance options available today.

A Conventional Mortgage is just that: the most common way of getting a loan to buy a house. It's offered to buyers who have at least 25 per cent of the purchase price to use as a down payment. The typical mortgage loan is written for a term of 25 to 30 years.

A High-Ratio Mortgage is a loan of more than 75 per cent but usually 90 per cent or less of a home's purchase price or appraised value. It must be insured against loss by the Canada Mortgage and Housing Corporation (CMHC) or the Mortgage Insurance Corporation of Canada (MICC).

The First-Time Buyer's Program was established by the CMHC and scheduled to run until 1998. It's designed to help people who have never owned a home before, and offers financing of up to 95 per cent of the purchase price, so your down payment can be as low as 5 per cent. To be eligible, you must buy a home in Canada to use as your main residence. You can't have owned your own home during the previous five years, but if you're applying with a spouse or a friend, only one of you needs to meet the requirements. The mortgage term must be five years, and in all CMHC insured mortgages a premium - usually 2.5 per cent - is added to the mortgage and paid off in monthly installments.

Second Mortgages can help you make up the amount necessary to buy the home you want if you have less than 25 per cent of the purchase price for a sown payment and don't qualify for the first-time buyer's program. Or maybe you don't want to pay CMHC fees, or anticipate a future rise in income. You can take out a conventional first mortgage and arrange a second mortgage to give you the extra money you need to buy. Second mortgages usually cost more because there's a higher risk to the lender. The first mortgage holder has first rights on the property.

A Fixed Rate Mortgage has the same interest rate from beginning to end, so you pay the same every month until it's finished. Fluctuations in interest rates do not affect it. A Variable Rate, Floating or Adjustable Rate Mortgage is based on the lending rate. You usually make a fixed mortgage payment, and when interest rates fall you pay less interest and more principal. If rates rise, you pay more interest, and less goes to the principal. A rapid rise in rates may mean your original payments aren't enough to cover both principal and interest costs, and you may have to increase your payments. Some variable rate mortgages can be converted to fixed rate mortgages to let you lock-in at a specific rate if rates rise.

An Open Mortgage lets you repay your mortgage when you want, without penalty. It's usually shorter term (six months to a year) and has a higher interest rate than a Closed Mortgage, which has the security of fixed payments and long-term financing. A closed mortgage can't be prepaid or renegotiated, and if you make extra payments, you may pay a penalty. They can range from six months to as much as 15 years, though one-to-five year terms are most common.

Vendor Take Back means the seller offers to provide some or all of the financing, usually at a lower rate than those offered by other lenders. If you have good equity in your home, or want to help a specific buyer, you can hold a first or second mortgage. This way, the buyer benefits from a lower interest rate, and his mortgage payments give the seller a monthly income.

Mortgage Buy Downs or Take Backs means the seller offers to prepay some of the interest to the lender. If, for example, a seller buys the interest rate down from 10 per cent to eight per cent on a $100,000 mortgage for a year, the buyer saves more than $1,500 in interest payments. That amount is added to the purchase price of the house.

Assuming a Mortgage allows the buyer to take over the seller's mortgage, providing the normal lending criteria is met. A low rate, long term mortgage is a very attractive selling point.

Porting a Mortgage means taking the one you already have along when you move. If you need more financing, you can blend the existing mortgage with a new one. By keeping your mortgage, you don't have to pay early discharge penalties.

A Pre-Approved Mortgage comes from your lending institution and lets you know what you can afford to buy and how much you'll be paying every month. Their interest rates are usually guaranteed for 30 to 90 days, which can give you time to find a house and complete the transaction before the rate guarantee expires. Remember the property you buy has to qualify for financing before you get final approval.

Switch a Mortgage is if you're not happy with your current lender. Financial institutions often have special "transfer" offers to attract new business. This saves you money if you want to move, and change your lender, but avoid new mortgage costs. The existing lender may require a fee unless you have an open mortgage, or your mortgage is up for renewal.

Your realtor can answer all your questions about mortgage financing options to help you make the right choice about the biggest investment you'll probably ever make.

This article is provided by local Realtors and the Ontario Real Estate Association (OREA) for the benefit of consumers in the real estate market.

Best Homes

IAN OLIVER
Publisher

Advertising: Neil Oliver (Manager)

Real Estate Rep: Andrea Boyle

Published by
The Canadian Champion,
191 Main St. E., Milton, Ont., L9T 4N9

878-2341

Fax: (905) 878-4943