Money-saving strategies give borrowers control

By TONY ENGEL

First-time homebuyers are often surprised when they realize how much interest they'll be paying over the life of their mortgage. But, there are strategies that will cut these costs.

These money-saving strategies give borrowers more control over the factors that determine mortgage costs: the size and frequency of payments, the time in which the loan is repaid, the principal owed and interest rates.

Borrowers now have the flexibility to hike payment or pay off an extra chunk of the principal once a year. They can make payments more frequently and this can simplify budgeting. And they have more room to manoeuvre when interest rates are high, with shorter terms, open mortgages and other innovations.

With some mortgage agreements, monthly payments can be increased annually, from 10 to 100 per cent over the term of the mortgage depending on the lender.

To illustrate the savings, let's take a $50,000 mortgage with a five-year term in which the interest rate is fixed at 12 per cent. If the interest rate continued at 12 per cent over the following terms, you'd pay $105,000 in interest over 25 years, the standard repayment, or amortization, period.

But, if you augmented your monthly payments by 10 per cent each year, you could save $65,299 in interest expenses and have the loan repaid in less than nine and a half years.

Lump sum payment

Once a year borrowers can also opt to pay a lump sum payment over and above their regular payment (usually up to 10 per cent of the original amount of the mortgage free of charge). These prepayments are deducted from the principal.

Using the same example, let's suppose you prepaid $5,000 each year. You could save almost $84,000 in interest and have your mortgage paid off in just over seven years. That's two-thirds off on interest charges.

Of course, having a large down payment is still one of the best ways to keep down the amount of principal owed. And high interest rates on deposits make it easier than ever to save up this sum.

Conventional mortgages require a down payment of at least 25 per cent of the purchase price or appraised value. Government-insured mortgages can be arranged with as little as 10 per cent down.

However, insurance and application fees can add as much as three per cent to borrowing costs (although they are a one-time only charge).

Frequent payments can be easier on family budgets. With weekly, biweekly (26 payments a year, or semi-monthly (24 a year) payments, you can take a payment out of every pay cheque and save substantially on interest.

One extra payment

Normally these involve chipping in the equivalent of one extra monthly payment over the year. The more frequent the payment, the more interest costs are reduced.

With the $50,000 example, you'd save $38,220 in interest costs and reduce your amortization to 17.4 years if you paid weekly instead of monthly. Biweekly payments would reduce interest expenses by $37,796 and amortization to 17.5 years.

While these options give borrowers more flexibility with their payments, others help them deal with high interest rates.

Terms as short as six months can allow people who buy when interest rates are high to renew at lower rates. However, many prefer the stability of three, four or five year terms.

A one-year open mortgage may also let you renew at a better rate. And you can pay off part or all of the mortgage on any payment date without penalty.

Those buying resale properties can sometimes assume the seller's mortgage, blending the rate on the existing first mortgage with current rates to provide additional financing.

They not only benefit from a lower interest rate, but avoid the need for a more costly second mortgage. This means houses that would previously have been overlooked because the existing first mortgage is small, are now within the buyer's reach.

Further, some lenders will permit you to take your existing mortgage interest rate and loan amount with you when you move to another home. If additional funds are required these are advanced at the current rate.

The interest rate of your old mortgage will be blended with the new interest rate for the balance of your current term — and you still make only one monthly payment. If interest rates are higher when you move, you can save substantially by blending the rates.

As the mortgage business has become more competitive, the options have multiplied. That's why it's more important than ever to shop around for the deal best suited to you.

Key questions

To make sure your mortgage has the flexibility to meet your future needs, here are some questions to ask:

- Can monthly payments be increased during the term? By how much?
- How often can I make payments? Weekly? Biweekly? Semi-monthly?
- Can I pay extra with my regular payments? Is there a penalty for this?
- Can I assume the seller's first mortgage, increasing the amount with blended rates?
- Can your existing outstanding mortgage and interest rate be transferred to your new home? Can it be increased with blended rates?

This gives first-time buyers a lot to think about. Fortunately, information abounds. Booklets on mortgages are available from lenders and some government offices. Lenders are happy to discuss financing and mortgages.

EDITOR'S NOTE: Tony Engel is the manager of the Toronto Dominion Bank in the Markham Shopping Centre.

MORTGAGE RATES

Economist & Sun/The Tribune compiled these rates as of Monday, Dec. 15, 1986.

MORTGAGE LENDER	VAR. RATE	6 MTHS	1 YEAR	2 YEAR	3 YEAR	4 YEAR	5 YEAR
BANK OF MONTREAL	9.75	9.75	9.75	10.5	10.75	11	11.25
NOVA SCOTIA	9.75	—	9.75	10.5	10.75	11	11.25
C.I.B.C.	9.75	—	9.75	10.5	10.75	11	11.25
ROYAL BANK	9.75	—	9.75	10.5	10.75	11	11.25
TORONTO DOMINION	9.75	9.5	9.75	10.5	10.75	11	11.25
CANADA TRUST	9.75	9.5	9.5	10.25	10.75	11	11.25
FAMILY TRUST	—	9.75	9.75	10.5	11	11.25	—
NATIONAL TRUST	9.75	9.5	9.75	10.25	10.75	11	11.25
STERLING TRUST	—	—	9.75	10.25	10.75	11.25	11.25
STOUFFVILLE DISTRICT CREDIT UNION LTD.	—	—	9.75	10.25	10.75	—	—
ROYAL LEPAGE	—	9.75	9.75	10.5	10.75	10.75	11
GUARANTY TRUST	9.75	9.5	9.75	10.5	10.75	11	11.25

APPOINTMENT

W.J. (BILL) LEACH

WOOD GUNDY INC. is pleased to announce the appointment of Mr. W.J. (Bill) Leach to the position of Account Executive in the Markham office.

Mr. Leach joined WOOD GUNDY INC. with an extensive background in the investment industry.

Bill may be reached at 294-9151.

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