

Selling your home? Your first move is to review your mortgage options!

If you plan on selling your home and buying a new one, your first move should be to look into your mortgage options. You need to consider your current mortgage of course, and the mortgage that you'll need on your new house. If you are downsizing then there is no additional financing needed. But if you are "trading up" and planning on having a bigger mortgage, you need to examine your options, which include:

Bringing your mortgage with you

Most mortgages today are portable, which means you can take your current interest rate and mortgage contract to your new home, subject of course to certain conditions like the amount of your mortgage. If you need a bigger mortgage, you can often "blend" your current mortgage rate with the mortgage rate on the additional funds you need

Getting a new mortgage

With interest rates today still low, you might want to consider breaking your current mortgage and getting a new one for the total amount you need. To break your mortgage, your lender typically has the right to charge a penalty based on the greater of three months' interest or the interest rate differential (IRD), which is essentially the difference between your old rate and current rates for your remaining term. Lately, the IRD is often the larger penalty and the amount is surprising some people.

To determine your approximate penalty, you need to know your existing rate, time remaining on your term and the current rate for the remaining term. The three month interest calculation is the outstanding balance of the mortgage multiplied by the existing rate and then divided by four. The IRD is a bit more complicated at the balance of the mortgage multiplied by the rate

differential and then multiplied by the remaining term, which may be rounded up or down. The actual number from your lender may be lower if they use a present value calculation. And since lenders can calculate IRD differently, you should always get the actual penalty from your lender.

Obviously you'll want to compare your new blend/extend rate with the rate you'd get with a new mortgage. Remember your principal balance will be higher with the new mortgage if you roll in your penalty, or you could pay the penalty up front. If you are in a term longer than five years and you have passed the fifth year, the three-month penalty applies and not the IRD so this may make breaking your mortgage more appealing. Of course, the exact terms and conditions of your current mortgage need to be examined closely to determine if there are other factors to consider.

Keep in mind, too, that some mortgages are assumable, which means the buyer of your home assumes its mortgage, subject to meeting the financial requirements of your mortgage lender. If you have an attractive mortgage rate, offering an assumable mortgage to prospective buyers can help increase your home's marketability.

Sound confusing? It absolutely is. That's why you need to speak with an experienced mortgage planner who can help you make a realistic assessment of your situation. It's worth a professional mortgage analysis to determine which option is the most beneficial to you. There's no cost or obligation. We're up-to-date on current rates and all of the new opportunities available – from a wide range of lenders – so we can help you with all of your mortgage details when you sell your home.

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