

When the grass looks greener... should you break and escape your old mortgage?

If you're like many Canadian homeowners, you've got a little mortgage anxiety – and maybe some mortgage envy – right now. With advertised mortgage rates edging lower and fixed-rates at historic lows, the grass might be looking greener on the other side. Not surprisingly, many Canadian homeowners are looking for advice as to when it is worth breaking and escaping their old mortgage.

Until recently, most homeowners could expect to pay a three-month penalty and draw up a new mortgage at a better rate. However, with rates falling, if you check your mortgage fine print, chances are you'll find the clause that gives your lender 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. Since rates have fallen so much, the IRD is often now 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 with 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.

So back to the question, is it worth renegotiating your mortgage? For some homeowners, it can be an important moment of opportunity, while for others, it may just not be worth the costs involved. Most lenders will include the cost of the payout penalty and other costs into the new

mortgage so you don't have to be out of pocket to complete the transaction, as long as you qualify on the new amount. Typically there are a few rule-of-thumb measures that you can use:

- If you pay the penalty up front, then you want to determine if the interest you are saving over the remaining term is greater than the cost of the penalty;
- If you add the penalty to the new mortgage, then you want to make sure your mortgage principal is the same or less at the end of the remaining term;
- If you can blend the penalty into the new mortgage rate and the blended rate is lower than your current rate, then you are typically better off;
- If you are in a term longer than 5 years and you have passed the fifth year, the three month penalty applies and not the IRD.

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.

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. Especially if you have a mortgage of more than 5%, it's worth a professional mortgage analysis to determine if your benefit outweighs the cost and whether the lower payment and boost to your cash flow is an important benefit 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 – and if there's greener grass available... we can help you find it.

There's never been a better time to talk.

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