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An Intelligent way to stay informed about the mortgage industry

Fast-tracking to “mortgage-free”

Just imagine – as you’re going through your favourite coffee drive-thru this week – that a well-dressed gentleman stops and offers you \$11,000 for your medium double double. Who would hesitate? We’d take the cash. It’s not so far-fetched. In fact, if you take that coffee budget and apply it to your monthly mortgage payment – a mere \$30 extra per month – you could save yourself about \$11,000 over the life of your mortgage.

Most of us can accept the idea that we must borrow money to purchase a home. We look for the best mortgage, and then just keep doling out the money for as long as it takes to pay it off. Most Canadians choose to amortize their mortgage over 25 years. That’s a long financial commitment, and it could more than double the cost of your home. But with good planning – and a few smart tactics – you should be able to enjoy your mortgage-burning party much earlier.

Here are a few strategies for fast-tracking your mortgage:

1. Increase your monthly payments. Rather than choosing your amortization period first, ask yourself how much you can afford each month. For example, you may feel that you can afford \$1,000 per month. You’re delighted when your \$125,000 mortgage only demands an \$800/month payment (at a 6% interest). But make a monthly payment of \$1,000 instead, and you’ll shave 8.75 years and almost \$46,000 off your total interest cost.
2. Take advantage of lower rates. In addition to reducing the overall interest component of your mortgage, you can take the opportunity to pay down more principal faster – simply by maintaining your original payment. You should

even increase your payment if you can, to reap the benefits of the cheapest mortgage money in memory. Again, you could take years – and thousands of dollars -- off your mortgage.

3. Tie mortgage payments to your pay schedule. Many Canadians are paid on a bi-weekly schedule. If you accelerate your payments to bi-weekly instead of monthly, you could improve your own cash flow and fit in an extra payment each year. That means that you’re paying off principal faster – leaving you with less interest to pay overall. It doesn’t seem like much but – like putting your coffee budget to work – the bi-weekly strategy can have you mortgage free four years sooner, with almost \$22,000 in savings.
4. Use any bonuses, tax refunds or “found money” to pay down principal. This is especially valuable in the early years of your mortgage. If you receive an annual bonus or other lump-sum compensation, see if you can put it against the principal. An extra \$1,000 per year is a great way to fast-track to mortgage-free!
5. Consolidate your loans into a new mortgage and use the savings to boost your payments. If you’re a homeowner with some equity, you can use your mortgage to consolidate your other loans: student loans, car loans, etc. Add the money you’ve been spending on loan payments to your mortgage payments, and you could see big savings in overall interest.

With mortgage rates at historic lows, you should take the opportunity to get an expert mortgage analysis from an independent mortgage broker with access to mortgages from a wide spectrum of lenders. You’ve got a great opportunity to put some fast-track tactics in place. You’ll remember what a good decision you made at your mortgage-burning party.



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