Be Home

# “Home ¢ents©” Help Tips

## Arranging Your Mortgage Doesn’t Have to Be a Baffling Experience

Buying a home today is an extremely attractive proposition. Interest rates are at their lowest in decades and the housing market is full of homes to suit just about any budget or family requirement. Still, you'll inevitably have to deal with financing and this will mean taking on a mortgage.

Sorting through the numerous mortgage options available to today's home buyers can be intimidating for everyone from first-time purchasers to long-time owners. The rules seem to change constantly and there's a smorgasbord of terminologies to learn.

Fear not--the basics are fairly simple and there are a host of real estate professionals more than willing to help, with your REALTOR® and bank's mortgage specialist at the top of the list.

Nonetheless, you'll want to at least familiarize yourself with the mortgage process, how to arrange one and the different financing strategies involved.

First, it's necessary to know exactly which kinds of institutions will lend you money. Banks and trust companies lead the pack, but credit unions and private lenders also offer funds.

There's also an option to consult a mortgage broker. Brokers have access to a wide variety of lending sources, including domestic banks and trust companies, but they can also employ other alternatives such as pension funds, real estate syndicates and foreign banks.

You may also find yourself in a situation where you can 'assume' an existing mortgage held by the seller. Advantages of assuming a mortgage are that you can speed the buying process due to reduced paperwork and save money in lower legal fees and closing costs. A disadvantage is that the current lending rate may be less than that of the assumed mortgage.

Now that you have an idea who will lend you money, you'll need to know the different kinds of mortgages that are offered. The most common by far is the 'conventional mortgage.' Lenders will loan you up to 75 per cent of the appraised value or purchase price of the property (whichever is lower), and you must come up with the remaining 25 per cent yourself. Many people save specifically for this purpose, but in some cases, alternate or 'secondary' financing maybe available.

A 'high-ratio' mortgage is one alternative if you don't have the 25 per cent down payment. These are available for up to 95 per cent of the appraised value or purchase price of the property (whichever is lower) to a maximum set by government regulation. The proviso is that high-ratio mortgages must be insured, and the cost, from one to three percent of the mortgage amount, falls to you.

Variable-rate' mortgages are usually offered for both conventional and high-ratio mortgages. Typically, your monthly payments remain fixed for the term, while the interest rate fluctuates with economic conditions. This means that if interest rates climb, you'll be paying more per month in interest. If rates drop, you'll then be paying more off your principal. Conversely, 'fixed rate' mortgages maintain the same rate of interest over the entire negotiated term.

There are some other concepts to become familiar with that will impact your mortgage and financial well-being.

Amortization refers to the time period in which the mortgage is assumed to be paid. A common amortization period is 25 years. This means interest and principal payments are set as if you were paying the amount borrowed over a 25 year payment schedule. Obviously, the shorter the amortization period, the less interest you will pay.

Prepayment privileges are very important for borrowers to consider. These arrangements allow you to pay money against the principal, reducing the total amount of interest you'll ultimately pay.
Open mortgages generally denote those that allow prepayment with few restrictions, while closed mortgages carry no prepayment options.

Don't be daunted by the many concepts and terms regarding mortgages. Arranging one isn't that difficult-¬all it takes is a little brushing up on your part and the experience and advice of a good REALTOR® or mortgage professional.


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