



Maybe your mortgage needs a check-up

While about 80% of Canadians visit a doctor at least once a year to help ensure they remain physically healthy, the number of people who check their financial health by regularly reviewing their mortgage is far less.

Plenty can change in someone's life in a year, never mind during the standard five-year mortgage a lot of Canadians sign up for. A career change, kids, retirement or newfound money or it could be that such a major event is on the horizon. All can affect the type of mortgage that fits just right.

"A lot of people don't like to face up to it but, doing an annual financial check-up is a very smart thing to do," says Peter Aceto, CEO and president of Toronto-based ING Direct Canada. "Managing your financial lifestyle is just as important as managing your diet and exercise."

Aceto says people often just wait for a renewal letter before they look at their mortgage, and even then they'll likely send the contract back without considering if it is meeting their current needs because they feel changing providers or the terms is futile. But they should put just as much thought into a renewal or a review as they did when they signed the initial deal.

Kelvin Mangaroo, founder of RateSupermarket.ca, which compares mortgage rates and brokers across the country, agrees. "Canadian consumers tend to become complacent about their mortgage payments and they could be saving a lot of money." He says home owners should annually review three main things: their current and expected future risk profile and net income as well as rates.

For example, the more adverse you become to risk, the less likely a variable mortgage will be right for you. Aside from comparing rates, Ratesupermarket.ca has a few other online tools that can help consumers figure if a change is a good thing, such as a mortgage calculator and a mortgage penalty calculator that will show how much you can expect to pay to break your existing mortgage. You can also sign up for e-mail alerts that tell you when rates change.

Rates are an obvious thing to pay attention to. If they're going up, make sure you can make the higher monthly payment that may come at renewal time, or lock into a fixed rate if you're on a

variable. If rates are dropping below your existing rate, you might want to refinance or renew early.

“You’re making a commitment to be mortgage free in 25 years so you should have a longer term view of what interest rates will look like over that period, says Aceto. “Make sure you’re comfortable with them and comfortable making those payments.”

Even though banks are in the business of getting as much interest from you as they can, many will allow people to pay a lump sum of the principal on the mortgage’s anniversary and increase their monthly payments. An extra \$100 a month on a standard \$200,000 mortgage could save almost \$18,000 in interest and shorten the amortization period by about four years, according to Aceto.

Paying down your mortgage faster may seemingly put a crimp into your future finances if something happens and you need the money — unlike, say, putting it into a tax-free savings account or other low-risk liquid investment. But many financial institutions have a re-advance clause that allows you to retrieve some of the money spent accelerating mortgage payments, says Peter Veselinovich, vice-president of banking and mortgage operations at Winnipeg-based Investors Group.

Of course, it may become more difficult to get those funds back if there is a dramatic downward change in housing values and you haven’t built up enough equity. But that’s where understanding your entire financial situation, not just your mortgage, can help. “Most of us don’t like to think about debt, says Veselinovich. “It’s just something that somehow comes up and ends up as part of our personal balance sheet and we make payments.”

Even something simple such as making renovations could affect the type of mortgage desired. For example, topping up or refinancing an existing mortgage can pay for renovations, providing you’re comfortable with a blended interest rate. If you’re buying a new home, you may be able to port your current mortgage. Or maybe you just want to consolidate higher-interest unsecured debt into your mortgage. “Rolling that into your mortgage can significantly save on interest costs and that will help you get out of debt sooner,” says Feisal Panjwani, a Surrey, B.C.-based broker with Feisal & Associates under the Invis Inc. umbrella.

A mortgage can also help you become more tax efficient if you’re thinking of investing in a business, buying a rental property or putting some money into mutual funds or the stock market. That’s because the interest paid on money borrowed on a principal property can be written off against revenue from those investments.

But the biggest reason for making changes to your mortgage mid-stream may be because it could be a lot easier to do something before your situation changes. “Making changes to your

mortgage before you go into a new venture or before you retire would allow you to qualify much easier rather than waiting for your mortgage to come up for renewal,” says Panjwani.