CANADA MORTGAGE AND HOUSING CORPORATION

MANAGING YOUR MORTGAGE

TIPS TO MAKE INFORMED HOME FINANCING DECISIONS

Whether you are buying a home or refinancing an existing home, it is important to make informed housing finance decisions that will help make homeownership viable and affordable over the long term. Take the time to plan and review your mortgage options, terms and conditions and prepare yourself for managing your mortgage in the future.

Mortgage Planning Tips

When financing a home, the following considerations can help you to save money and provide for greater economic stability in the event of financial challenges down the road such as lower income levels, increased monthly expenses and/or higher interest rates.

1) Consider a lesser mortgage amount than the maximum you can afford
Mortgage Professionals use two simple calculations to determine the maximum mortgage that you can afford. The first calculation, your Gross Debt Service Ratio, assumes that your monthly housing costs (mortgage principal and interest, taxes and heating expenses and half of the monthly condo fee if you are purchasing a condominium) should not be more than 32% of your gross monthly income. The second calculation requires that your entire monthly debt load (including housing costs and other debts such as car loans and credit card payments) not exceed more than 40% of your gross monthly income. This figure is your Total Debt Service ratio.

While these ratios help to determine the maximum mortgage and payment that you can afford, obtaining home financing at these levels may not leave you with much room to comfortably deal with any unexpected changes in your monthly budget. Taking a smaller mortgage can help to ensure that your monthly housing costs remain within your means.

2) Evaluate the impact of an increasing interest rate on your monthly payments
Over the past few years, interest rates have been at historical lows. While this helps to make homeownership affordable today, an increase in interest rates could have a significant impact on your future monthly housing costs. For instance, homeowners renewing a mortgage of $250,000 with a 5% interest rate could see an increase in payments of $300 per month if rates were to increase by 2%. Evaluating the impact of increasing interest rates on your monthly payment today may help you to avoid financial difficulties in the future.

3) Plan to be mortgage free faster by reducing your amortization period
The amortization period of your mortgage is the length of time it will take to pay off the entire mortgage. A longer amortization period can help to reduce your monthly housing costs, but will result in significantly higher overall interest costs. For example, choosing a 30 year amortization over a 25 year period on a mortgage of $250,000 would lower your monthly principal and interest payments ($1,334 vs. $1,454) but will result in additional interest costs of over $44, 000. Besides higher interest costs, maximizing both the amortization period and mortgage amount can leave little room for flexibility in the event of future changes in your financial situation.

4) Create a "cushion" in case of unforeseen financial difficulties
In addition to choosing a shorter amortization period, there are other ways to pay your mortgage down sooner, save money, and create some breathing room should you face unforeseen financial difficulties in the future. These include making accelerated weekly or biweekly payments, taking advantage of pre-payment privileges such as making lump sum payments to your mortgage principal, and increasing your regular payment amount. Ask your Mortgage Professional for additional information on these topics when arranging your financing.

5) Seek help if you have difficulty making your mortgage payments
When unforeseen financial circumstances impact your ability to make regular mortgage payments, it's important for you to take quick action. With early intervention, you can work together with your mortgage professional to find a solution to your financial difficulties. Your mortgage professional wants to establish and maintain a positive relationship with you over

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the long term, and is fully trained and equipped with the tools to help you deal with the temporary financial setbacks that you may be facing.

How can CMHC help?

CMHC offers you a wealth of housing information and tools to assist you in making informed homeownership and financing decisions. Visit www.cmhc.ca to access mortgage calculators that can help you to assess what you can afford, compare financing scenarios and evaluate your monthly household expenses.

CMHC is Canada’s national housing agency. For over 60 years CMHC has shared a wealth of knowledge and housing expertise to help create an informed and reassured homeownership experience for Canadians.

For more homebuying tips, contact me or visit CMHC’s interactive Step by Step Guide at www.cmhc.ca. CMHC is Canada's largest provider of mortgage loan insurance, helping Canadians buy a home with a minimum down payment of 5%. Ask your mortgage professional about CMHC.