

4 ways to pay down your mortgage sooner

Though it may seem unlikely now, spring will be here sooner than you think. A busy house-hunting season, spring is also a busy time for starting and renewing mortgages — so be prepared.

Here are four ways to save money on what's likely to be your biggest lifetime purchase.

1. Use your tax refund. Most lenders allow homeowners to make a penalty-free prepayment of up to 25% of the original mortgage principal on the mortgage anniversary date or on any payment date throughout the year. The amount you can pay down will be outlined in your mortgage contract. If you're expecting a tax refund, or have received one, this is a great way to use it.

These prepayments go directly against the mortgage's outstanding principal. A \$5,000 prepayment made at the start of the fifth year of a \$100,000 mortgage at 6% will take more than two years off of the 25-year repayment schedule and will reduce the total interest cost by more than 12%.

2. Index your payments to your income. Many lenders will allow you to increase your regular mortgage payment by as much as 100% per year. So if you get a raise at work, switch to a higher-paying job, or reduce your household expenses, consider directing that extra cash flow to your mortgage.

Even small amounts make a big difference over time. For example, a \$30 increase in the monthly payment on a 6% \$100,000 mortgage clears the loan more than two years early and cuts the total interest cost by more than 12%.

3. Accelerate your schedule. If you're currently paying monthly, consider switching to accelerated biweekly or weekly payments. This strategy produces the equivalent of one extra monthly payment each year. You might even want to match mortgage payments to the timing of your paycheques.

The effect is similar to compound interest, only in reverse. Each overpayment reduces the loan. That reduces the interest due for the next payment, creating even more extra money to pay down the outstanding balance. This powerful spiral can knock four years off of the normal 25-year repayment schedule and reduce the total interest cost by almost one-fifth.



4. Renew smart. When your mortgage comes up for renewal, you have the opportunity to pay down as much of the principal as you want, without incurring a penalty. Consider the following strategies:

- **Shop around for the best rate.** Don't just automatically renew with the same lender and under the same terms. A mortgage broker can help you find out if there's a better rate or better terms available to you.

- **Reduce your amortization.** If your previous mortgage was amortized over 25 years, for example, choose a 20- or 15-year amortization. Your payments will be higher, but you'll pay less interest in the long run and be debt-free sooner.

- **Keep your payments at the same level.** You may be looking forward to seeing your regular payments go down, since you're renewing for a smaller amount. Unless you really need the extra cash flow, however, try to keep your payments at their previous level — your debt will disappear more quickly.

Professional advice can help you determine the most effective way to pay down your mortgage sooner — freeing up cash for your other important goals. 🏠

Mortgage ABCs

Helping you be an educated homeowner

■ Conditional Offer

An offer to buy a property if certain conditions will be met. For example, an offer to purchase pending a successful home inspection.

■ Certificate of Title

A legal document which states that the title to property is legally held by the current owner.

■ Purchase and Sale Agreement

A written contract signed by both the purchaser and vendor outlining the terms and conditions under which a property will be bought and sold.

Assembling a winning home-buying team

If you're shopping for a home, or about to start, take some time to arrange for a first-rate home-buying team:

■ **Mortgage broker.** Start with professional input to help you determine how much you can afford to spend. You'll then also have someone working for you who will search for the best rates and mortgage options for your situation.

■ **Real estate agent.** Most homes are sold through realtors, who collect commissions that are normally paid by the seller, not by the buyer. Realtors vary widely in quality of service. Find one who understands what you want, will indicate whether your wish list is reasonable, and then has the patience to help you find what you're looking for. Your realtor is also a valuable source of help in finding a home inspector or lawyer.

If a deal involves two agents — one for the seller and one for the buyer — the commission is normally split. If one agent serves both sides, it's not, and the agent might reduce the fee to clinch a quick sale.



■ **Lawyer.** You will need a lawyer, preferably one who specializes in real estate. Don't wait to find one; deals can be completed very quickly in high-demand areas. Ask if your lawyer would like to review your purchase offer before it's presented. His or her wording might be more precise than the clauses found in most standard documents.

■ **Home inspector.** Offers on resale homes are normally made conditional on passing an inspection. Often, you'll have just two or three days to have the property inspected and either "firm up" your offer or withdraw it. You may want to line up an inspector ahead of time.

The inspector will check every major structural and mechanical system, except for appliances. The Canadian Association of Home & Property Inspectors is a voluntary national association with a code of ethics. If you're buying a brand-new home, you may want to consider hiring your own inspector to check the builder's work. 🏠



Your RRSP can help to buy a home

Almost half of the first-time buyers polled in a 2006 national survey used the RRSP Home Buyers' Plan (HBP). Here's a plain-language explanation of the basics.

How much you can withdraw. A qualifying home buyer can withdraw, tax-free, up to \$20,000 from his or her RRSP. That's \$40,000 for a couple — \$20,000 each.

Who can use it. You qualify only if you have not owned a home in the past five years (this stipulation is waived if the money is used to buy a more suitable home for a disabled person). The home must be intended for use as your principal residence.

Repayment. Repayments must be made annually over 15 years, beginning in the second year after the year of withdrawal. Missed repayments are taxed as income.

No quick withdrawals. You can access money only if it has been in the RRSP for at least 90 days. In other words, you can't make a contribution, claim the tax deduction, and then immediately make a withdrawal under the HBP.

The unseen cost. While withdrawals are tax- and interest-free, it's not free money. The cost is the RRSP growth sacrificed until the withdrawal is repaid. And because of the HBP repayments (which aren't tax-deductible), you may find it difficult to make your full yearly tax-deductible contribution.

Professional advice can help you build a sensible and realistic plan to help you buy a home. 🏠

Winter Almanac

It's all about the heat

For most homeowners, energy bills and environmental concerns are at their peak when temperatures outside are at extremes. However you heat your home this winter — do it efficiently and safely!

- 1 Have a heating system professional inspect your furnace and perform any necessary work.
- 2 Replace your furnace filter now and every two to three months.
- 3 Have chimneys and wood stoves cleaned.
- 4 Order your firewood. Don't stack it up against your home — this could be a fire hazard!
- 5 Test your fireplace flue for a tight seal when closed.
- 6 Invest in draft-proofing and insulation upgrades to reduce your home's heating load.
- 7 Consider replacing your old thermostats with programmable models. Establishing temperature settings could result in overall energy savings. 🏠



Get snow smart

In many urban centres, and rural towns too, it's the homeowner's responsibility to keep not only their walkway and driveway safely clear of snow and ice but also the sidewalk in front of their homes.

Here are some tips to get you through the season.

- Clear snow within 10 hours of a snowfall, before ice begins to form.
- Shovel every few hours during a heavy snowfall — it's easier to split the task into smaller jobs and new snow is lighter.
- Make a pile on the left side of your driveway (when looking at your home from the sidewalk) so that the snow plow doesn't push most of it back into your driveway.
- Try to push the snow rather than lifting it. If you do need to lift a shovelful — bend your knees, not your back!
- Invest in a sturdy but lightweight, ergonomically designed shovel. Spraying the blade with a silicone-based lubricant helps the snow slide off. 🏠



Is your home computer adequately insured?

You may think your home computer system is fully covered by your insurance, but it's wise to check. Your first step? Make sure that the value of your personal property and your computer hardware, software, and peripherals (such as a printer, modem, and scanner) doesn't exceed the limit of your contents coverage.



Also consider the following factors:

- If you're using your computer for a home-based business, your home policy may not offer enough coverage. If you have an exclusion clause in your policy stating, "...does not cover property pertaining to a business, profession, or occupation," you need additional insurance.
- Your insurance may not cover a unit, such as a laptop computer, used outside of your home if it gets lost, stolen, or damaged. You'll need a comprehensive policy instead.
- If your computer is being used for a home-based business, you need special coverage for breakdowns, data replacement, protection against loss of income, and extra expense. Review your coverage annually as you add to or update your system. 🏠

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