

WHY MORTGAGE PAYMENTS MATTER MORE THAN MORTGAGE RATES



Inflation in Canada is starting to ease, and that is positive news for those renewing or taking out a mortgage in the future. If you are looking to buy a home or have an upcoming renewal, rates should not be your biggest consideration. Instead, ask your mortgage broker about your payment options.

Of course, you want the lowest interest rate possible, but the rate doesn't tell you the full picture of what you can afford, which is the most critical part of making a mortgage decision.

WHAT PAYMENT MAKES SENSE?

The most critical question: What can you afford to spend for a mortgage payment? You may have some idea about what payments you want to make, or maybe you have a specific property in mind. Your mortgage broker can also help you calculate your debt servicing ratio to determine how much you can comfortably spend on housing costs.

WHAT ABOUT THAT MORTGAGE RATE?

You will need to consider the mortgage rate. With rates poised for incremental reductions over the next 2 years, they should only be part of your focus as you weigh your purchasing options.

Several factors go into determining a mortgage rate, and the posted rate can be higher than the rate you'll be offered. Rates are affected by a person's credit history and income as well as the amount of the mortgage, amount of the down payment, length of the term, amortization, prepayment privileges and other features of the mortgage.

Ask your mortgage broker to run the numbers for you. You might be surprised to find you can afford a mortgage at the current rates.



CONSIDER AN ALTERNATIVE LENDER

Your mortgage broker might propose an alternative mortgage for you. Alternative mortgage lenders look at people more than numbers. They offer products suited to individuals who might not qualify at one of the big banks and are willing to work with mortgage brokers to help you secure a mortgage.

Alternative mortgage products are a common option since new mortgage rules were released in 2018. Their rates tend to be a bit higher because they are taking on more risk, but the monthly payments on the mortgage aren't significantly different. Again, look at the payment, not the rate. Another advantage of choosing an alternative lender is having a shorter commitment period of one to three years and not having to lock in for five as mortgage rates start to come down.

EXAMPLE: MORTGAGE PAYMENTS ON A \$300,000 LOAN

Let's say you will have a \$300,000 mortgage. An alternative lender offers a 1-year term at 6.99% compounding semi-annually with a 25-year amortization and an upfront fee of 1%. One of the big banks offers something similar at 6.79% compounding semi-annually and no fee. You can't qualify for a mortgage at the big bank and you are questioning the higher rate your broker is proposing.

The table below shows the difference this makes in the monthly payment. While you pay a little more each month, you can get your mortgage today. Focus on the affordability of the payment and how that works within your monthly budget.

	AIR Rate	APR Rate	Term	Monthly payment
Alternative lender	6.99%	7.99%*	1 year closed	\$2099.40
Big bank	6.79	6.79%	1 year closed	\$2062.86

A mortgage broker will shop around for rates as part of their commitment to mortgage affordability. Then they'll come back with the great news about a manageable monthly payment.