

## **What exactly is a mortgage?**

The term "mortgage" is another word for "loan" but applies specifically to buying a property. The amount of a mortgage is calculated by taking the agreed selling price of a property and subtracting the downpayment made by the buyer.

## **Mortgage payments**

Mortgages are most often repaid over a 25-year period. If you like, you can choose to pay your mortgage back in a shorter period of time. You are free to choose how frequently you would like to make your payments:

- Monthly payments (12 per year)
- Bi-monthly payments (24 per year)
- Payment every 2 weeks (26 per year)
- Weekly payments (52 per year).

If possible, make more frequent payments. This will save you thousands of dollars and pay your mortgage offer more quickly.

The table below illustrates different mortgages and payment frequencies.

| <b>Payments</b>             | <b>Monthly Payment</b> | <b>Amortization</b> | <b>Savings</b> |
|-----------------------------|------------------------|---------------------|----------------|
| Monthly                     | 1 015,58\$             | 25 years            | 0,00\$         |
| Bi-monthly                  | 507,79\$               | 25 years            | 274,02\$       |
| Every two weeks             | 468,73\$               | 25 years            | 786,46\$       |
| Weekly                      | 243,37\$               | 24,9 years          | 914,37\$       |
| Every two weeks accelerated | 507,79\$               | 22,2 years          | 11 212,94\$    |
| Weekly accelerated          | 253,90\$               | 22,2 years          | 11 330,66\$    |

## **Mortgage conditions**

These are the contractual terms related to your mortgage. When choosing a mortgage, it is important to negotiate the most favorable terms that suit your needs. These terms include the interest rate, the possibility of reimbursing quicker, closing costs, transfers, penalties and other conditions.



Your mortgage is probably the most important financial decision you will make in your life. Give it the importance it deserves and choose a mortgage that meets your needs and gives you the greatest flexibility.

## **What mortgage rate is right for you?**

### ***Fixed rate***

You're cautious and like stability? Get fixed payments for a fixed term.

### ***Variable rate***

A great opportunity to get today's best rates if you're comfortable with market fluctuations.

### ***CMHC option***

You have less than 20% down payment? You'll need a CMHC-insured mortgage.

## **Understanding how interest is calculated**

Whether shopping for a mortgage or other types of financing, everyone is always looking for the best interest rate. But what is hiding behind that number? Do you really know how it's calculated? If you want to understand the operations performed by these calculators, read on for explanations that will shed a light on the process.

### ***Mortgage rates***

In Canada, the posted mortgage rates are annual, but are capitalized each semester. This means that the nominal rate you are given is not the actual rate you are paying. The latter is usually slightly higher.

For example, let's take a fixed annual rate of 3%. We'll start by finding the actual annual rate, and then determine the periodic rate, which is the one applied to your payments.

Since capitalization occurs twice a year, the periodic rate can be calculated by applying the following formulas.

*Posted annual rate / Number of capitalization periods*

For our example, that gives:  $3 \% / 2 = 1,5 \%$

Through capitalization, we also get our new annual rate:  $(1 + \text{Rate per capitalization period})^{\text{Number of cap. periods}} - 1 = \text{Actual annual rate}$

Our example gives us :  $(1 + 1,5 \%)^{2-1} = 3,0225 \%$

Since payments are made on a monthly basis (12 times a year), bimonthly (24 times a year) or every two weeks (26 times a year), we must adjust according to frequency.

If payments are monthly, the periodic rate is calculated as follows:  $(1 + 3,0225 \%)^{1/12} - 1 = 0,248452 \%$

Until the mortgage term comes to an end, each of your payments will go towards paying 0,248452 % of interest on the balance, and the rest will go towards reducing your capital (the amount of the loan).

The more you pay back your mortgage, the lower the portion of your payment going towards the interest will be, and the more the portion going towards the capital will increase. By adding a payment to your regular payment, you'll reduce your capital, which in turn will lower the portion going towards interest for your next payment. Make sure you respect the terms of your mortgage contract in regards to capital repayment. This also explains why a shorter amortization period will wind up saving you a lot of money in interest fees.