

# Making Sense of Mortgages



## Amount

How much the lender is lending you



## Rate

The rate of interest a mortgage lender charges on the loan



## Payment Frequency

The frequency with which mortgage payments are withdrawn from your bank account



## Term

Period of time for which the lender is lending you money at that rate



## Amortization Period

The total length of time it will take to pay off your mortgage

## Small differences can have a BIG financial impact...

### Payment Frequency

- \$500,000
- Down payment: 20%, \$100,000
- Rate: 4.5%
- 25-year amortization



#### Monthly Payments

- \$2,214 payment
- 12 payments per year
- Paid in full in year 25
- \$264,168 in interest

#### Scenario 2 Accelerated Bi-Weekly Payments

- \$1,107 payment, every two weeks
- 26 payments per year
- Paid in full in year 22
- \$224,105 in interest

Choose accelerated bi-weekly payments and you'll only pay an additional \$2,214 per year. It takes 3 years off the time it will take to pay your mortgage in full, and it saves you

**\$40,063**

in interest over the original 25-year amortization

### Rate

- \$500,000
- Down payment: 20%, \$100,000
- 25-year amortization
- Monthly payments



#### Scenario 1 4.5% Rate

- \$2,214 payment
- 12 payments per year
- Paid in full in year 25
- \$264,168 in interest

#### Scenario 2 3.5% Rate

- \$1,998 payment
- 12 payments per year
- Paid in full in year 25
- \$199,125 in interest

Even a 1% difference in interest rates has a big impact on your monthly payments. This example saves you \$217 per month, and you'll also save

**\$65,043**

in interest over the original 25-year amortization.

### Amortization

- \$500,000
- Down payment: 20%, \$100,000
- Rate: 4.5%
- Monthly payments



#### Scenario 1 25-Year Amortization

- \$2,214 payment
- 12 payments per year
- Paid in full in year 25
- \$264,168 in interest

#### Scenario 2 20-Year Amortization

- \$2,522 payment
- 12 payments per year
- Paid in full in year 20
- \$205,189 in interest

If you can afford an additional \$308 per month as in the example, choosing a 20-year amortization instead of 25 years will save you

**\$58,979**

in interest paid on your mortgage.

**Note: The above examples assume that each time your mortgage enters a new term you maintain the same interest rate and the same amortization period.**

# Important information to remember about Mortgages

## Consider your down payment

A down payment is the part of the purchase price the buyer pays in cash rather than financing with a mortgage. Buyers typically need a minimum 5% of the purchase price as a down payment. You cannot borrow down payment funds.

## Ensure you have deposit funds

You need to provide a deposit with your offer to purchase. Your deposit is part of your down payment given when you make an offer. Your real estate professional can advise you on the best deposit amount.

## Get a sense of market conditions

Market conditions affect home prices. Sellers want to get as much for their property as they can and buyers want to pay as little as they can; the market conditions will dictate who has a stronger negotiating position. Your real estate professional can advise you.

## Could you pass the mortgage stress test?

All potential homeowners will now need to prove they can afford their potential mortgages based on their lender's minimum "qualifying rate". This may be different than the rate the lender is giving you.

## Connect with RECA



(403) 228-2954  
(888) 425-2754



[reca.ca](http://reca.ca)



[info@reca.ca](mailto:info@reca.ca)



[@RECA](https://twitter.com/RECA)



YouTube

[RECAAdmin](https://www.youtube.com/RECAAdmin)

The Real Estate Council of Alberta is the independent governing authority that sets, regulates and enforces standards for real estate brokerage, mortgage brokerage, property management and real estate appraisal professionals.