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Money Saving Mortgage Strategies

Mortgages today are not like they were when our parents or grandparents bought their homes. As most of us don't have the cash to buy a home outright, we need to borrow from a lender. There are a number of strategies you can use to get the best deal, pay it off more quickly and pay off the debt in the event of premature death.

Using a mortgage broker - The days of walking into the branch of one of the big banks to get a mortgage are over. There are now dozens of lenders competing for your mortgage business. A mortgage broker gets constant updates from all lenders and can get you the best deal at the time. And it doesn't cost you anything to use them. It makes sense to spend your time on more important things than shopping for a mortgage.

Choosing the right house - Many houses today are a lot bigger than they used to be. It's easy to get caught up in the biggest-we-can-afford trap, rather than the as-big-as-we-need approach. Remember, the bigger the house, the bigger the mortgage and other ongoing costs. Factor in property taxes, utilities, cleaning and upkeep, and yard work when buying a home.

Letting it float - According to Dr. Moshe Milevsky, Associate Professor of Finance at the Schulich School of Business at York University, you will likely come out ahead about 85% of the time if you let your mortgage rate float rather than locking it in. To protect yourself from interest rate fluctuations, it makes sense to base the mortgage payment on a higher rate. For example, Jeff and Diane just got a $300,000 mortgage with an interest rate of prime (currently 2.70%).

A competitive five-year fixed rate is about 4.50%*, so they based their monthly payments on a 5.00% mortgage rate. At prime, their monthly payment would be about $1,308 (based on a 25-year amortization). At the 5.00% rate, the monthly payment is about $1,754. That means they pay down the principal by almost $5,400 in the first year alone.

If interest rates stay low, Jeff and Diane will pay off their mortgage sooner. If interest rates go up, they will already be used to a higher payment. By the way, if the rate were to stay at 2.70% and they kept making the payments based on 5.00%, they would lop about 8 years off their mortgage and save more than $30,000 in interest.

Applying tax refunds to mortgage principal - Even if Jeff and Diane leave the mortgage payment alone at prime, and assuming it stays at 2.70% for the entire period, they can save three years of mortgage payments by slapping their annual $2,000 tax refunds toward principal. They can keep almost $14,000 in their pockets instead of giving it to the lender.

Taking control of your mortgage insurance - A person's debts shouldn't last longer than they do. That said, it makes sense to acquire life insurance on your own rather than through the lender for a few reasons. First, the benefit gets paid to someone you choose, not the lender. They can decide whether to pay off the mortgage or keep making mortgage payments. Second, lender-provided insurance only pays out the mortgage balance which may be reduced if using any principal reducing strategies. Third, the survivor of a joint plan can continue their coverage.
RateSupermarket.ca, May 10th, 2016. Mortgage rates are subject to change without notice.

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