Understanding Your Mortgage Options

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Congratulations! You've decided to begin your search for a new home, or perhaps you've already found the home of your dreams and are ready to make an offer. It's now time to consider your mortgage options. But with so many different choices available, how can you select the right kind of mortgage for your needs?

To help you make an informed decision, Canada Mortgage and Housing Corporation (CMHC) offers the following answers to some of the most common questions Canadians have about choosing a mortgage:

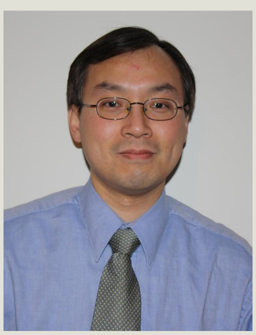
- **What is the difference between conventional and high-ratio mortgages?**
  A conventional mortgage is a loan for up to 80 per cent of the purchase price (or market value) of a home. With a conventional mortgage, the buyer supplies a down payment of at least 20 per cent, and mortgage insurance is usually not required. If your down payment is less than 20 per cent of the purchase price, however, you will typically need a high-ratio mortgage. High-ratio mortgages normally have to be insured against payment default.

- **What are fixed, variable or adjustable interest rates?**
  When you choose a mortgage, you have to decide whether you want the interest rate to be fixed, variable or adjustable. A fixed rate is locked-in for the entire term of the mortgage. With a variable rate, the payments remain the same each month, but the interest rate fluctuates in accordance with the overall market. For adjustable rate mortgages, both the interest rate and the mortgage payments vary based on market conditions. Talk to your lender to find out which option is right for you.

- **Should I choose an open or closed mortgage?**
  With a closed mortgage, you pay the same amount each month for the entire term of the mortgage. Closed mortgages can be a good choice if you want a fixed payment schedule, and you don't plan on moving or refinancing before the end of the term. An open mortgage allows you to pre-pay a lump sum or even the entire loan at any time without a penalty. An open mortgage can be a good choice if you're planning to sell your home in the near future, or if you want the flexibility to make lump sum payments.

- **What about the term, amortization and payment schedule?**
  The term is the length of time (usually from six months to 10 years) that the interest rate and other conditions of your mortgage will be in effect. Amortization is the period of time (such as 25 or 30 years) over which your entire mortgage debt will be repaid. Lastly, the payment schedule sets out how frequently you will make payments on your mortgage – usually either monthly, biweekly or weekly.

(Source: Canadian Mortgage Housing Corporation)



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Five Ways to Pay Off Your Mortgage Loan Faster

Most homeowners would love nothing more than not to have to put that mortgage check in the mail every month. But trying to pay off your mortgage ahead of schedule is not something to be undertaken lightly. You must make sure you are financially secure, with no other significant debt, and have money in reserve for emergencies.

One strategy for paying off your mortgage loan faster is to increase your payment schedule.

There are also compelling arguments for **not** paying off your mortgage ahead of schedule. For instance, you may want to enjoy your money now. By allotting less of your income toward your mortgage, you have more money available for vacations and other uses. Or you could use the money for home improvement, which can make your home more comfortable and valuable when you are ready to sell.

In your haste to be rid of your monthly mortgage burden, you cannot afford to mortgage your financial future. Make sure you will be able to finance your children's college education and your own retirement.

However, if you are in a debt-free financial position where you can pay off your mortgage more quickly without sacrificing other aspects of your life, there are ways to accomplish this. Naturally, you will have to consult your lender to see what you can and cannot do. Here are a few of the most popular options.

1. **Increase your payment schedule**. Bi-weekly mortgage payments have become increasingly popular as a way to pay off a mortgage more quickly. This will allow you to make 1 extra payment per year and will end up saving you thousands of dollars in mortgage interest while cutting years off of your loan. Signing up for a bi-weekly or accelerated mortgage payment program will not only help you save money and cut the term of your loan down but it they will also help you build equity into your home faster.

2. **Make lump sum payments**. Depending on the terms of your mortgage agreement, you may be able to make lump-sum payments at specific times. For example, you could earmark your bonus check of $5,000 to pay off part of your mortgage. A lump-sum payment is applied directly to your outstanding principal if there is no outstanding interest owing. This saves you money over the course of your mortgage.

3. **Shorten the time frame of your loan**. You could elect to refinance and change your 30 year mortgage to a 15 year mortgage. Bear in mind, though, that your monthly payments will be considerably higher.

4. **Increase your payments.** If your financial situation has improved and you are making more money, you may be able to make higher payments or balloon payments. Most loans will allow you to increase your payments in this manner with certain restrictions.

5. **Refinance at a lower interest rate, but pay the same amount each month as you did before.** If you maintain a 30-year mortgage, but the interest rate drops from 6.25 percent to 5.10 percent, the money you were paying in interest can now to toward the principal.

To help arrange mortgage financing, some home buyers choose to work with a mortgage broker. The mortgage broker will recommend the best type of lender and financing for a particular personal financial situation and will facilitate the process.

Remember, the first step is to make sure you can afford to pay off your mortgage more quickly. If you can, talk with your lender to find out which of these strategies is best for you.

(Source: AllBusiness.com)

Capital Gains Exemption

What
is a capital gains exemption?

A lifetime exemption that allows you to access up to $750,000 tax-free on the sale or transfer of your qualifying small business corporation, family farm or fishing property.

How
can it be used?

- To lower your taxes by claiming the capital gains exemption on the sale of your qualified property.
- To access up to another $250,000 in exemption if you have already used your first $500,000 and still own a qualifying property.
- To complement an estate freeze.
  - An estate freeze allows you to pass the future growth of your eligible business to your children, and with your capital gains exemption you pay no tax on your gains up to the threshold.
  - In the future, your children can each claim their own $750,000 in lifetime capital gains exemption.

Who
uses it?

- Small business owners planning to sell or transition a qualifying business in their lifetime, or through their estate.
- Farmers planning to sell or transition qualifying farming property in their lifetime, or through their estate.
- Fishermen planning to sell or transition qualifying fishing property in their lifetime, or through their estate.

(Source: CI Investments)

Registered Education Savings Plans

Many parents see higher education as the launching pad to a better career and a better life. Yet the cost of a post-secondary education keeps growing.

In 2009/2010, the average annual undergraduate tuition for a full-time student was $4,917. But tuition and related fees represent just one-third of the expenses that students face each year.
Add in accommodation, food, transportation, books and computers, and leisure, and the cost increases substantially.

The solution is to start saving today.

Why RESPs are your best option

1. The government offers a 20% grant on the first $2,500 contributed to an RESP each year, up to a lifetime maximum of $7,200. It's called the Canada Education Savings Grant (CESG).
2. The money that you contribute gets to grow tax-free. When it's time to withdraw, any gains would be taxed in the hands of the beneficiary (i.e., your child) at their presumably low tax rate.
3. The maximum lifetime contribution for each child is now $50,000 with no annual contribution limits.

Top three RESP tips

1. Start early and make it automatic. Enroll in a pre-authorized chequing program.
2. Contribute at least $2,500 a year to get the full $500 federal grant each year.
3. Don't withdraw your contributions from an RESP before your child starts post-secondary. Otherwise, you will have to pay back part of the grant.

(Source: Mackenzie Financial)