FROM YOUR ADVISOR

PAYING DOWN YOUR MORTGAGE

You can shave thousand of dollars off mortgage interest costs if you boost monthly payments or make an extra lump-sum principal payment

When shopping for a mortgage, most Canadians focus on the monthly payment and how much they can save with a lower interest rate.

But paying a few extra dollars every two weeks instead of the usual monthly payment or making an extra lump-sum payment to reduce the original mortgage principal once a year also can save borrowers thousands of dollars in interest and shorten the time required to pay off a mortgage by years.

Homeowners need to understand how much they can afford to pay and work from there, says Wade Stayzer, vice president, retail banking and investment, at Meridian Credit Union in St. Catharines, Ont.

"You really need to understand your personal financial situation and what you're trying to accomplish," says Stayzer.

The rules governing how much borrowers can increase payments or put down in a lump sum vary, depending on the mortgage contract, so reading the fine print is important.

For those looking to pay off a mortgage faster, Stayzer recommends increasing regular payments vs saving up and making an annual lump-sum payment.

"We all know that we'll find things to do with money if it's just sitting around waiting to [be applied against the mortgage principal]," he says.

Meanwhile, accelerated biweekly payments are calculated by taking what the monthly payment would be and dividing it by two, then making that revised payment every two weeks.

The effect is that you make the equivalent of an extra monthly payment every year compared with 12 monthly payments. The change could save you thousands in interest costs and shorten the time required to repay your mortgage by years.

Extra payments now also may serve as a cushion against future increases in mortgage payments if interest rates rise.

Omar Abouzaher, regional vice president, Eastern Ontario Division, Ottawa East Market, at Bank of Montreal, suggests that windfall gains from things such as an increase in income or the end of another regular expense be used to pay down your mortgage.

"If your kids are out of daycare or you get a promotion and you're OK with your lifestyle [and] you're OK with your cash flow, why not apply this extra money to your mortgage payments," he says.

Abouzaher also suggests another tactic: use your income tax refund to make an annual lump-sum mortgage prepayment: "This lump sum goes directly toward the principal and not toward the interest, so [this payment] will allow you to save a lot of money in terms of interest."

With mortgage interest rates near record lows, Stayzer notes, putting more money into investments rather than making extra mortgage payments may be tempting.

But, he adds, that choice will depend on your financial plan and risk tolerance.

"What's going to help you sleep at night?" he asks. "I know people who are really comfortable with mortgage debt and people who are saying, 'I can't wait to get this thing paid off'."

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By Craig Wong (CP)

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