When it’s worth refinancing your mortgage

Many homeowners wished they’d asked more questions when they got their mortgage. They assume there’s nothing they can do until the mortgage matures. Not so. A mortgage broker can review your mortgage at any time and offer tips on how to save money. Typically, we think of a fixed term mortgage as a non-negotiable contract. And it’s true that there are financial penalties to re-negotiate. But many homeowners ask mortgage brokers for a mortgage analysis – a detailed look at the penalties versus the payoffs – to determine whether it’s worth refinancing to get a lower rate, finance a renovation or roll other debt into the new mortgage. Like many Canadian homeowners, you may find that refinancing makes sense.

There are two approaches to refinancing: you can simply pay out the penalty on your existing mortgage and start fresh with a new mortgage, or you can opt for what is termed a “blend and extend.” Firstly, understand that you won’t reap immediate rewards when you refinance; it will take time to see the savings, since you’ll have some up-front penalties. So if you’re going to be selling the home in the next year, you’re unlikely to benefit from refinancing now. Your mortgage broker can help you to assess your “payback” period: the length of time required to see any savings, based on the penalties you will incur and the difference between your existing rate and your new one.

Speaking of penalties, what does it cost to get out of your existing mortgage? Generally, you can expect to pay out the greater of either a) three months’ interest, or b) the interest-rate differential. The interest rate differential can be high; in effect, your mortgage lender will expect you to pay them the equivalent of what they will lose by releasing you from your mortgage and lending the money at current rates. If you are close to the end of your mortgage, these penalties may not be too severe, but if you are early in your mortgage arrangement, the cost can add up. Don’t be put off by what looks like a big penalty: it’s only one factor in your analysis.

So is it worth it? Only your mortgage professional can tell you for sure, but many homeowners are experiencing significant savings – even with rate differentials of two points (or possibly more). Also factor in whether you can roll other high-interest debt into your new mortgage, slashing your overall interest costs. It’s also important to consider whether your long-term goals become more attainable. Begin with a visit to a mortgage broker, who has access to rate information from a broad selection of lending institutions – and who can provide you with the kind of detailed analysis you’ll need to assess your options.

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