Some Homeowners With "Rate Envy" Are Refinancing

When you signed your mortgage a few years back, you were thrilled with the rate you had negotiated: possibly the lowest in your home-owning memory. That was then. Who would have believed that mortgage rates would have continued that downward trend? Today, mortgage shoppers are still looking at some of the lowest rates in history, and many homeowners with existing fixed-term mortgages are experiencing some "rate envy" about today's rock bottom mortgage rates.

It might be worth a conversation with a mortgage broker about your options. 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 have been asking mortgage brokers for a mortgage analysis – a detailed look at the penalties versus the payoffs – to determine whether it's worth refinancing.

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). 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.

John Parato, AMP
Mortgage Agent
FSCO Lic. M08001500

Rob Mair, AMP
Mortgage Agent
FSCO Lic. M08001445

t 905.333.0544
f 905.333.5331
e jparato@sympatico.ca
robert.mair@migroup.ca
w www.parato.ca

MORTGAGE INTELLIGENCE®

Central Office: 5770 Hurontario Street, Suite 600, Mississauga, ON, L5R 3G5. FSCO Lic.10428
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