

“Wow!” you say to your spouse as you hit the brakes on the car.
“Did you see the mortgage rate those guys are advertising?”

Fixed or variable-rate mortgage?

Your worries are over, you're thinking. Just lock in a rate like that for the next ten years, and you've got it made.

Not so fast. That rate may not be the one for you. Typically, the lowest available rate – and the one that makes the rate sign look great from the street – will be for a variable or adjustable-rate mortgage. That rate has the potential to be like a roller coaster. The posted variable or adjustable rate is the rate you're getting today. Unless you have an economic ouija board, you won't be able to predict what kind of ups and downs are ahead of you. Let's take a closer look. A lender will offer different rates for different types of mortgages. The rates are determined based on financial risk – to the institution and to you. When a customer is willing to take on the risk, he/she is rewarded with a lower rate. If the lender is taking on the risk (that is, the customer is promised a particular rate... regardless of what happens in the future), the rate is higher. The longer the term, the higher the risk for the financial institution.

So how do you decide? Fixed-rate mortgages, because they require a low risk tolerance, are usually better suited to first-time buyers or those who haven't owned a home for a very long period. Ask yourself these questions: Do you like or need to know exactly what your payment is going to be over a longer period of time? Do you want to avoid the need to consistently watch rates? Do you have less than 20% down? If you answered “yes” to all, or most of these questions, a more conservative fixed-rate mortgage could be the better choice for you.

A variable or adjustable-rate mortgage is best suited to people who have a flexible budget and can tolerate higher risk. Ask yourself these questions: Do you watch market conditions? Can you handle any sudden rate increases that could increase your payment? If you answered “yes” to all, or most of these questions, a variable or adjustable rate mortgage might best suit your needs. Some lenders offer a special promotional rate for the first few months of a variable-rate mortgage, which you should discuss with your mortgage broker. Also discuss what your rate will be based on – the lender's prime rate or on Bankers' Acceptances (BAs). Most variables or adjustables allow you to exercise an option to “lock in” a fixed rate at any time for the remaining portion of your mortgage term or for a longer term.

If the uncertainty of a floating rate is going to give you sleepless nights, you're in good company. Many Canadians prefer the certainty of a fixed-rate mortgage. They know exactly how much they will pay over the term of their mortgage, and they can plan accordingly... with no financial surprises. But if rates do drop... and drop... and drop... you are committed to the “promise” that you have made. Your best option - have a professional help you decide which financing best meets your needs.

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