

FIXED RATE, VARIABLE RATE OR BOTH.

How to choose the right type
of mortgage rate for you.

Submitted by Angela Hainsworth-Brousseau



Whether you are purchasing, renewing or refinancing your mortgage, one of the biggest decisions you face as a homeowner is choosing between a fixed or a variable mortgage.

A few years ago, it was clear that going with a variable rate mortgage could result in savings. Now, discounts on fixed rate mortgages and the narrowing spread between short term and long term interest rates have made the choice less obvious. Choosing between a fixed or variable rate mortgage is no longer a simple decision, which is why many people are looking for advice to help them decide which type of mortgage will work best, based on their personal circumstances. You can choose

to go with a stable, less flexible fixed rate mortgage or you may feel more comfortable with the risks and potential rewards of a variable rate mortgage. For the “best of both worlds”, you might decide on a mortgage that combines both. It really depends on your tolerance for risk, as well as your current goals and the life stage you are in. Here is some information about each option to help you make the right choice.

The case for fixed rate

Fixed rate mortgages are chosen most frequently because of the high level of stability they provide. A fixed rate mortgage offers the security of locking in your interest rate for the term of your mortgage. The most popular term is five years. This means you'll know exactly how much principal and interest you will be paying on each regular mortgage payment throughout the term you select. The main advantage of selecting a mortgage with a fixed

interest rate is that you can depend on an interest rate that stays the same during the entire term of the mortgage.

The case for variable rate

Many Canadians shy away from the option of a variable rate mortgage because of the potential risk of rate increases. While there is always a risk of interest rate fluctuations, this concern may be less of a factor than you may think. Many Canadian economic experts believe that a mortgage rate that varies with fluctuations in the bank prime rate will offer the greatest advantage when it comes to long-term savings on interest costs. With a variable rate mortgage, regular mortgage payments are set for the term, even though interest rates may fluctuate during that time. When rates go down, an increased amount of your payment goes towards paying the principal. When rates go up, you'll see an increase in the portion of the payment that pays the interest. With less going into the principal, the amortization period is extended. Some banks variable rate mortgages offer a convertible option. A convertible mortgage can be converted to another term at any time. This feature provides you with security and flexibility, as it enables you to convert to a longer closed term should your variable rate mortgage no longer meet your needs.

The case for both: fixed and variable rates in one mortgage

Not sure about putting all your eggs in one basket? If you have sufficient equity in your home, many banks offer mortgages that can "contain" both fixed and variable segments. You can split your mortgage between fixed and variable rates with different terms and maturities in order to benefit from potential interest savings and the security of a predictable rate. Whether rates remain stable or fluctuate, this strategy reduces the risk of making a bad decision and could save you thousands of dollars in interest costs.

Which option should you take?

Advice is important! I can help you decide which option best fits your situation and risk tolerance. The reality is, no one can be certain what the future holds. Rather



than trying to guess where rates are headed, it's best to consider your own situation - the life stage you are in, your current goals, your objectives and tolerance to risk all come into play.



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mortgage advice.
I do.**

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