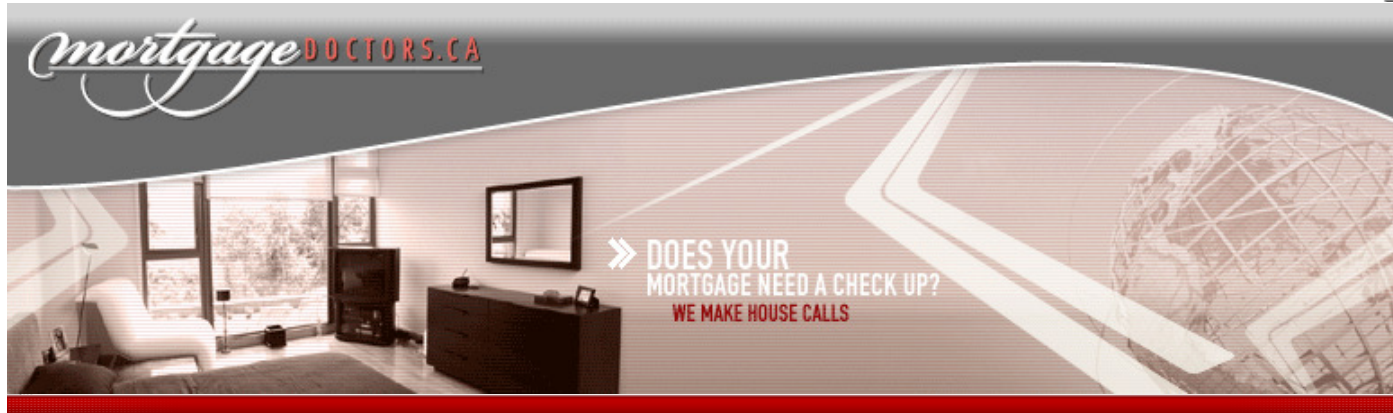


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High Rate Mortgage - Should you Refinance?

Happy New Year to all of you!

I have been receiving many enquiries from clients to see if it is worth paying out their existing higher fixed interest rate mortgages and redoing at today's much lower rates. This is a great question and the answer differs for each client. Many Canadians think that getting the lowest rate is the only consideration when obtaining a mortgage. While rate is a consideration there are more factors to look at such as how the payout penalty is calculated.

Different lenders have different calculations and this can have a big impact. Statistics show that the majority of 5 year term mortgages are paid out prior to their renewal date so knowing about the payout penalty is crucial.

Please note that the following discussion about Interest Rate Differential (IRD) only applies to closed Fixed rate mortgages. Adjustable and Variable rate mortgages are only subject to a 3 month interest penalty if paid out early - no IRD.

When a fixed rate closed mortgage is paid out early, the payout penalty is the greater of three months interest or something called the Interest Rate Differential (IRD). The IRD only applies where fixed interest rates have been falling(today's market). To show the possible payout penalties we will use the following example:

Use an existing mortgage of \$200,000.00 with 3 years remaining on a 5 year term of 5.70%.... Because there are 3 years remaining, the current 3 year rate is used to calculate the IRD If the lenders current 3 year rate is 4%, there is a difference of 1.7%.

So IRD calculation is \$200,000.00 times 1.7% times 3 years term remaining to equal \$10,200.00 penalty

This IRD calculation is an estimate and will change each time rates change. If differential increases so does the penalty.

3 month interest calculation is \$200,000.00 times 5.7% divided by 12 months times 3 months to equal \$2,850.00 penalty

Quite a difference!

Many lenders will explain that the payout penalty can be 3 months or IRD but never explain what the inputs are to help you calculate the IRD.

I even had a situation where I had the client call their bank (one of the Big 5) and ask what the payout penalty was. The bank mortgage person quoted a 3 month penalty to my client. We then did the refinance and when the deal finally made it to the lawyers office, it turned out IRD applied. This deal quickly died and the client will never do business with that lender again. Sometimes even the lender representatives don't know how to calculate IRD!

The other point to consider is that many of the big banks calculate the IRD based on their posted rates at the time of the payout versus discounted rates. Clients end up paying far more in payout penalties when the IRD is based on posted rates.

If you are considering refinancing your mortgage to take advantage of today's rates, please call me and I will help give you some guidance.

Remember there is more to a mortgage than just the lowest rate.

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Please Contact Bob Alexander For Further Information About This Commentary or To Discuss Your Mortgage Action Plan

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If you or anyone you know is not receiving ongoing mortgage planning with their mortgage, have them call us for a FREE mortgage consultation. If you have any friends or family you feel will benefit from this Monthly Mortgage Commentary, feel free to pass this article along.

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