What type of mortgage is right for you

Sorry to rain on your parade folks, but there is a lot more to choosing your mortgage than simply hammering your banker into submission and nailing the lowest interest rate possible.

Would you choose the cheapest new home on the market, regardless of where it was located? Of course not!

Today's post focuses on the early stages of mortgage selection. In the next article, you will figure out what type of mortgage customer you are. And finally, and only then, you will be able to choose the best mortgage for your circumstances.

Who will help me pick the right mortgage?

You can walk into your bank and ask them what they have to offer. Or you can be a do it yourselfer; scour the internet and teach yourself all you need to know, and then make life miserable for a mortgage broker or bank specialist. Maybe you will then deal directly with a rate website.

Another approach is to find yourself a good solid mortgage broker who is already expert at all the things you need to know, and trust that person to help select the right mortgage for you.

My down payment

If your down payment is less than 20% of the purchase price, you are considering what we call a “high ratio” mortgage. If you are dealing with “A” lenders, this means the lender will want protection against you reneging on your mortgage payments.

There are three insurers offering this protection to mortgage lenders. CMHC, Genworth, and Canada Guaranty. You will have to pay the one time insurance premium (it can be included in your mortgage)

If you are dealing with an alternative lender, such as Home Trust or Equitable Trust, you may need to pay a lender fee, and your interest rate will be higher than that of an “A” lender

If you have at least a 20% down payment your deal is called “conventional.” Certain lenders will still need to insure your mortgage, but usually they absorb that cost themselves.

Ironically, safer conventional mortgages often do not qualify for as low an interest rate as a high ratio mortgage.

Do I need an open or closed mortgage?

It rarely makes sense to choose an open mortgage. Open means you can break it anytime without penalty. If it is open and fixed, the rate will be a good bit higher than the same term of a closed mortgage. And if it is open and variable, you will be at the mercy of interest rate fluctuations.

Nevertheless, open mortgages have their place. Some people renew their mortgages into an open mortgage while they assess their options elsewhere. Others stay open because they plan to make large payments against the mortgage soon. And others stay open because they envision lower interest rates in the near future, and they do not wish to incur a penalty when they break their present mortgage and move to another.

Should I lock in my interest rate, or should I float with Prime?

That's a fancy way of saying should I take out a variable rate mortgage, or should I lock in a rate for a given period of time? It has almost always been right over the past thirty years or so to select a variable rate mortgage, but we may now live in an era when we can no longer say that.

Rates are currently at a fifty year low, and have more room to go up than down. And five year fixed rate mortgages are only slightly higher than five year variable rate mortgages. For some, there is a good argument to protect yourself against sudden rate increases, when the (interest rate) premium to do so is so low.

That said, if you can stomach the potential swings, a variable rate mortgage may be right for you. I'd say more than half the mortgages I have placed in the past several months have been five year VRM's.

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