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John Chand
204-781-7737

Food for Thought

It is not the same to talk of bulls as to be in the bull ring.

- Spanish Proverb

REAL ESTATE SMARTS

Million Dollar Question: *"With Mortgage Interest Rates likely to start rising by mid 2010, should I Refinance my Mortgage?"*

In order to answer this question I considered a residential mortgage of $ 200,000 at the interest rate of 5.25% for a 5 year closed mortgage, the rate that was prevalent 3 to 4 years ago. For the current interest rates I have used the mortgage rates for TD Canada Trust. The two factors that would need to be considered are (a) the prepayment penalty the lender will charge for paying off the mortgage before the end of the term and (b) the interest rates that are likely to be prevalent at the time the current mortgage term ends and comes up for renewal. **I have assumed that the 5 year mortgage rates will rise to 5.25% in the next 1 to 2 years.** I have calculated for two scenarios: First Case, where the 5 year fixed mortgage started on 1st January 2006 and in the Second Case, where it started on 1st January 2007.

Pre-payment Penalty: This is the single most important factor that will determine whether one should refinance the existing mortgage. As the mortgage rates have gone down significantly during the last 3 to 4 years, the penalty would most likely be based on the interest rate differential. Your lender will provide you the figure for the pre-payment penalty that would be charged if the existing mortgage were to be paid off before the end of its term.

The following Table shows for the two Cases the Prepayment Penalty if each mortgage were to be paid off in January 2010. A new mortgage is then taken at the current 5-year fixed rate, after adding the prepayment penalty to the outstanding principal balance. The second column shows the Principal Balance if the current mortgages are allowed to run their full course and renewed at the predicted interest rates at the time of renewal. The last column shows the principal balances at the end of the new 5 year terms ending on 31st December 2014 upon refinancing. Amortization periods are adjusted in all calculations to maintain a monthly payment of $ 1191.

MORTGAGE START DATE 31/12/2014	PRE-PAYMENT PENALTY 0N 1/1/2010	PRINCIPAL BALANCE ON 31/12/2014 RUNNING FULL TERM	PRINCIPAL BALANCE ON REFINANCING IN JAN/10
1/1/2006	$ 4,738	$ 154,438	$ 150,236
1/1/2007	$ 8,621	$ 158,102	$ 160,692

The above table shows that for the mortgage commencing in 2006, there is a saving of about $ 4,200 by refinancing; while for the 2007 mortgage, one loses about $ 2,500 by refinancing. These calculations are done only for illustration and each case will be different. So have your lender advise you on your specific mortgage.

ESSENCE OF SERVICE REALTY
154 Linmar Way, Winnipeg, MB R2J 4H6 • Fax: 204-663-4421
Phone: 204-781-7737 • Email: jpchand@mymts.net