



74% of Canadian Homeowners Are Getting These Things Wrong About Their Mortgages!

Description

A survey that was conducted for the Financial Consumer Agency of Canada, and the Bank of Canada in 2019 suggested that 74% of homeowners or soon-to-be homebuyers did not fully understand what a mortgage term or amortization period were.

Buying a home can easily be the most expensive big-ticket item in our lifetime. So, let's get these terminologies straight!

What is the mortgage term?

The mortgage term is the length of time your mortgage contract will be in effect.

Back in May 2019, the Bank of Canada governor Stephen Poloz stated that the five-year fixed-rate mortgage was dominant in Canada and made up 45% of all mortgage loans.

These mortgages had a mortgage term of five years, which meant that corresponding homeowners would be making mortgage payments with a specific fixed interest rate for the duration of five years.

The normal course of action would be that when five years are up, the homeowners would renew their mortgages — potentially with a different term, interest rate, and other conditions.

The contract might allow them to make prepayments (i.e., greater mortgage payments) without penalty so that they could pay off their mortgages sooner and save money.

What's the amortization period?

The amortization period is the length of time that it would take for you to pay off your entire mortgage. Amortization can range from a few months to 25 years or longer. Typically, a shorter amortization requires greater periodic mortgage payments.

Is it better to go for a longer mortgage term?

According to the survey, 60% of Canadians didn't know that longer-term mortgages are available. Since interest rates are at historic lows, it may make sense to lock in a low interest rate for a longer time, such as going for a mortgage term of 10 years instead of five years with a fixed interest rate — even if that rate is likely to be a little higher than a five-year term.

You won't have any surprises for your mortgage payments for 10 years, and you save the hassle of having to renegotiate a new contract sooner.

If you believe interest rates will go lower in the future, you would want a shorter term to give you the opportunity to renew at a lower rate.

Is it better to have a shorter amortization period?

The shorter the amortization period is, the sooner you get the debt off your chest. However, mortgages are low-cost loans. The 10-year fixed mortgage rate is at about 3-4.4% in my city.

If you're able to consistently make higher returns by investing, why not have a longer amortization period so that you can leave more money in your pocket to invest each month instead of paying off your mortgage sooner?

A real estate stock you'd love

If you dread making mortgage payments (I don't know anyone who doesn't), how about making some [real estate investments](#) to help pay them off?

One top-notch real estate stock that I love is **Brookfield Property Partners** ([TSX:BPY.UN](#))(NASDAQ:BPY), and that's why I want to share it.

At writing, the stock offers an incredible yield of 6.65%. From its cash distribution alone, you can already earn greater returns than the mortgage rate. To make things even better, BPY will likely raise its cash distribution by 5-8% next month, according to its usual schedule of dividend hikes.

Assuming a conservative raise of 5%, the real estate stock's forward yield would be nearly 7%. That's the average market returns right there!

A positive piece of news came out: Brookfield Property stock is about to be added to the **S&P/TSX 60 Index** on Friday. This explains why BPY stock may have run up nearly 9% last week.

Notably, Brookfield Property generates rental income from a globally diversified portfolio of real estate

assets, including office, retail, multifamily, logistics, hospitality, triple net lease, self storage, student housing, and manufactured housing.

The company is also [a value investor that has the operating expertise](#) to improve and draw out massive value from mispriced assets, which is one big reason why it's been able to provide such a succulent yield.

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:BPY.UN (Brookfield Property Partners)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

Tags

1. Editor's Choice

Date

2025/08/24

Date Created

2020/01/20

Author

kayng

default watermark

default watermark