
1 Huge Mortgage Mistake Over 70% of Canadians Are Making

### Description

Mid-2019 saw the Canadian government announce a reduction in its official qualifying mortgage rate, from 5.34% to 5.14%. However, the cut had little effect in helping aspiring homeowners purchase houses, due to increasing mortgage rates.



Despite high mortgage rates, the number of Canadian homeowners is increasing, and plenty of potential homebuyers are interested in purchasing their own homes. As such, there is a critical mistake that a majority of Canadians are making that needs to be addressed.

## Not understanding the mortgage

The Bank of Canada conducted a survey in 2019 for the Financial Consumer Agency of Canada to determine how much current homeowners and potential homebuyers know about mortgages.

According to the study, 74% of them do not entirely understand what mortgage terms or amortization periods. Not knowing these two terms and understanding what they mean can become the most expensive mistake you could make as a Canadian homeowner.

## Mortgage term

The mortgage term refers to the length of your contract with the bank or lender. The Bank of Canada study revealed that almost half of all mortgage loans are five-year fixed-rate mortgages. Homeowners with five-year fixed-rate loans need to make their mortgage payments, with a fixed interest rate, for five years. Then, they need to arrange another mortgage contract, and so on, until their house is completely paid for. Typically, homeowners renew their mortgage when their current term is almost up.

Homeowners can work with different terms, interest rates, and conditions to pay off their mortgage faster, to lower their payments, and/or to save money.

## Amortization period

The amortization period is the amount of time it takes to pay off your entire mortgage and become the sole owner of your home. The amortization period can range between a few months to more than 25 years. A shorter amortization period means paying more in every mortgage payment, but you pay off your mortgage faster.

## Longer mortgage terms and amortization periods

According to the survey, most Canadian homeowners went with the five-year mortgage term in their contracts because they did not even know they could opt for longer-term mortgages.

I suggest that if you're looking for a home right now, try to lock in a deal for a longer mortgage term to take advantage of historically low interest rates.

You might feel tempted to go for a shorter amortization period to rid yourself of the mortgage sooner, but I would not recommend it. Mortgages are low-cost loans. Going for a longer amortization period means you have the opportunity to save more on your earnings while you pay off the mortgage.



## A REIT to help you pay off the mortgage

The thought of making mortgage payments can take a toll on anybody. Who wants to dedicate a significant portion of their paycheque to paying off loans? Cash might already be scarce because you're dealing with rising costs due to inflation. There is a way you can invest in real estate and use your earnings to pay off your mortgage.

A real estate investment trust (REIT) stock like **Brookfield Property Partners Ltd.** (TSX:BPY.UN )(NASDAQ:BPY) is a fantastic option to consider to this end.

At time of writing, the stock trades for $25.21 per share and has a juicy dividend yield of 5.00%. Investing a decent amount of money in the stock can help you grow free cash in your account courtesy of Brookfield's capital gains and dividend income.

The dependable real estate company generates its income through a globally diversified portfolio. The company has real estate assets like offices, retail stores, logistics, industrials, triple net lease properties, and more.

## Foolish takeaway

Investing in a stock like Brookfield can allow you to supplement your overall income. You can use the dividend income you can get from the company's shares to relieve some of the pressure when it comes to making mortgage payments. Once you pay off the mortgage entirely, you can enjoy the dividends as a healthy boost to your spending money or savings funds.

**CATEGORY**

1. Dividend Stocks
2. Investing

**TICKERS GLOBAL**

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

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