Mortgages and Housing

Description

Mortgages and housing in depth

- How much home can you afford?
- How to manage your mortgage
- How to make the most from refinancing
- What is a good credit score?

Few things compare to buying a home. The thrill of home shopping, of getting a place that's finally yours, of imagining the life you'll live in the four walls of your dream house.

But with so much excitement, it's easy to forget how to be rational. We take out mortgages for homes we can't afford. We forget about property taxes and CMHC insurance and all the costs that come with being a homeowner.

That's where The Motley Fool comes in. We want to restore the excitement around homebuying by making you a smarter homebuyer. Whether this is your first time buying a home, or you're familiar with the process, we aim to give you the knowledge you need to take out the right mortgage and have a great overall homebuying experience.

What is a Mortgage?

In a nutshell, a mortgage is a really big loan. Banks and lenders issue mortgages to homebuyers, who then pay the mortgage back with interest over a certain period of time.

How Do Mortgages Work?

Mortgages can be confusing, especially when so many parts try to command your attention at once. To help you understand how a mortgage works, let's look briefly at its components.

1. Every mortgage has an amortization period and terms

The amortization period is the total time it takes to pay your mortgage in full. In Canada, the most common amortization period is 25 years. The longer your amortization period, the lower your monthly payments, though mortgages with longer periods often means paying more in interest.

Your mortgage's amortization period is different from its *terms*. A mortgage term is how long you contract with a specific lender. Terms last anywhere from a few months to ten years, with five year terms being the most common. When your term is up, you have to renew it, until you've paid your mortgage in full. **Note:** your interest rate can change significantly from term to term, as you'll have to negotiate your rate each time you renew.

2. Your mortgage will have an interest rate

The mortgage rate, or interest rate, is the fee you pay to borrow money from a lender. Your mortgage rate can be fixed, meaning it stays the same during your mortgage term, or variable, meaning it can fluctuate. Numerous factors influence the interest rate a lender gives you, including your credit history, the amount of your down payment, the type of interest rate you choose, and even your lender.

3. You must have a downpayment

When you buy a home, you'll cover a portion of the purchase upfront called the down payment. In Canada, minimum down payments range from 5% to 20% of the home purchase, though the more you put down, the more likely you'll get a favorable interest rate.

Keep in mind: for down payments that are less than 20% of your home purchase, you'll pay CMHC insurance, which protects your lender if you fail to make mortgage payments.

4. You decide your payment schedule.

Your mortgage will have what's called a payment frequency, which is how often you make mortgage payments. Payment frequencies are usually monthly, semi-monthly, bi-weekly, or weekly.

5. Your mortgage can be opened or closed

Open mortgages allow you to pay your mortgage in full at any time. For example, you may expect a large sum of money in the future, which you'll use to pay off your house. Closed mortgages, on the other hand, limit how much extra money you can put toward your mortgage. If you pay your closed mortgage in full before your contract ends, you'll pay a hefty fee.

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