

# Real Estate Journal

Your Monthly Home & Financing News

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## DID YOU KNOW...

Ottawa says Canadians will be able to contribute an additional \$500 a year on their Tax-Free Savings Accounts starting January 1st. That means you can put in \$5,500 a year, with any investment income earned not subject to taxation while it remains in the TFSA.

[Click here](#) to read more from *The Star*.

## MORTGAGE MATTERS

When a mortgage term expires, the lender will usually approach the borrower about a new term, typically sending the

Welcome to the December issue of the *Real Estate Journal*, which is designed to help you make a more informed decision the next time you're buying or selling a property!

This month's edition suggests five important questions you should ask when seeking a mortgage, as well as highlights some key statistics surrounding the Canadian residential mortgage market. Please feel free to ask questions or offer feedback regarding anything outlined below via phone or email.

Thanks again for your continued support and referrals!

## In This Issue

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## 5 Key Questions Borrowers Should Ask

**A**s a mortgage borrower – particularly if this is your first time embarking upon homeownership – there's no doubt you have a load of questions related to the mortgage process. Aside from the most common questions, such as those relating to mortgage rate, the maximum mortgage amount you'll be able to receive, as well as how much money you'll need to provide for a down payment, the following five questions and answers will help you dig a little deeper into the mortgage financing process when speaking to your mortgage broker

a penalty. This charge may or may not be reimbursed with your new mortgage. Some lenders allow you to port your mortgage, but your sale and purchase have to happen on the same day, while others offer extended periods.

**4. What amortization will work best for me?**  
The lending industry's benchmark amortization period is 25 years, and this is also the standard used by lenders when discussing mortgage offers, as well as the basis for mortgage calculators and payment tables. Shorter timeframes are also available. The main reason to opt for a shorter amortization period is that

borrower a letter outlining the various terms and rates available from the lender. Most borrowers pick another five-year fixed term and move along with their lives. Banks are well aware of this practice and, therefore, don't often offer their best rates in the renewal letter, hoping uneducated borrowers don't bother to shop around.

## GOING GREEN

Avoid idling vehicles for more than one minute. Instead of letting your car idle, turn off the ignition. It uses less gas and emits less CO<sub>2</sub> to stop and restart your car than to let it run. In fact, idling uses twice as much gas as driving! If every driver in Canada avoided idling for five minutes a day, we could prevent 1.6 million metric tons of CO<sub>2</sub> from being emitted.

### *Saving Energy:*

There are some small things you can do to save energy around your home. For instance, when replacing hard-to-reach light bulbs, such as exterior porch lights, switch to energy-efficient compact florescent bulbs. You won't have to change them for several years! You can also use your window coverings to help warm or cool your home. Many detergents today clean just as well when using cold water. Make your home more energy efficient through improved insulation, caulking and weather stripping. The less energy you use, the less impact you have on the environment. Finally, install and use a programmable thermostat.

or lender.

**1. Can I make lump-sum or other prepayments on my mortgage without being penalized?** Most lenders enable lump-sum payments and increased mortgage payments to a maximum amount per year. But, since each lender and product is different, it's important to check stipulations on prepayments prior to signing your mortgage papers. Most "no frills" mortgage products offering the lowest rates often do not allow for prepayments.

**2. What mortgage term is best for me?** Terms typically range from six months up to 10 years. The first consideration when comparing various mortgage terms is to understand that a longer term generally means a higher corresponding interest rate and a shorter term generally means a lower corresponding interest rate. While this generalization may lead you to believe that a shorter term is always the preferred option, this isn't always the case. Sometimes there are other factors – either in the financial markets or in your own life – you'll also have to take into consideration. If paying your mortgage each month places you close to the financial edge of your comfort zone, you may want to opt for a longer mortgage term, such as five or 10 years, so that you can ensure that you'll be able to afford your mortgage payments should interest rates increase.

**3. Is my mortgage portable?** Fixed-rate products usually have a portability option. Lenders often use a "blended" system where your current mortgage rate stays the same on the mortgage amount ported over to the new property and the new balance is calculated using the current rate. With variable-rate mortgages, however, porting is usually not available. This means that when breaking your existing mortgage, you will face

you'll become mortgage-free sooner. And since you're agreeing to pay off your mortgage in a shorter period of time, the interest you pay over the life of the mortgage is, therefore, greatly reduced. A shorter amortization also affords the luxury of building up equity in your home sooner. While it pays to opt for a shorter amortization period, other considerations must be made before selecting your amortization. Because you're reducing the actual number of mortgage payments you make to pay off your mortgage, your regular payments will be higher. So if your income is irregular because you're paid commission or if you're buying a home for the first time and will be carrying a large mortgage, a shorter amortization period that increases your regular payment amount and ties up your cash flow may not be your best option.

**5. How do I ensure my credit score enables me to qualify for the best possible rate?** There are several things you can do to ensure your credit remains in good standing. Following are five steps you can follow: **1) Pay down credit cards.** This the #1 way to increase your credit score; **2) Limit the use of credit cards.** If there's a balance at the end of the month, this affects your score – credit formulas don't take into account the fact that you may have paid the balance off the next month; **3) Check credit limits.** Ensure everything's up to date as old bills that have been paid can come back to haunt you; **4) Keep old cards.** Older credit is better credit. Use older cards periodically and then pay them off; and **5) Don't let mistakes build up.** Always dispute any mistakes or situations that may harm your score by making the credit bureau aware of each situation.

As always, if you have any questions about buying or selling a home, your answers are just a phone call or email away!



## Annual State of the Residential Mortgage Market

**I**nterviews this fall with more than 2,000

Canadians indicate that those holding mortgages are comfortable with their debt, a majority plan to pay off their mortgage in less than 25 years and at least one-third are taking advantage of current low

- For mortgages that have been repaid since the 1990s, actual repayment periods have generally only taken two-thirds of the contracted periods.
- Among borrowers who took out a new mortgage in 2012, a record 47% obtained it from a mortgage broker.
- The average mortgage interest rate is

For every 1°C you lower/raise your thermostat, you can save 2% on your heating/cooling bill. A reduction of 3°C at night and when you are away during the day provides optimal savings and can reduce your GHGs by half a tonne.

interest rates to accelerate payments, according to the most recent survey report from the Canadian Association of Accredited Mortgage Professionals (CAAMP) released in late November entitled [Annual State of the Residential Mortgage Market in Canada](#).

Following are some key statistics revealed in the report:

- Among all mortgage holders, 65% have fixed-rate mortgages, 28% have variable-rate mortgages and 7% have a combination. For mortgages in 2012, there has been a significant shift to fixed-rate mortgages – 79% are fixed, 10% are variable and 11% are a combination of both.
  - 68% of mortgages obtained during 2012 have amortization periods of 25 years or less.
  - 32% of mortgage holders are making significant efforts to accelerate repayments, including taking one or more of the following actions in the past year: 16% have voluntarily increased their monthly payments; 15% have made a lump-sum contribution to their mortgage; and 6% have increased their payment frequency.
- 3.55%, which is lower than last year's average of 3.92%.
  - Among mortgage borrowers who have renewed a mortgage this year, 61% experienced a reduction in their interest rate.
  - The average actual rate for five-year fixed-rate mortgages is 1.85 percentage points lower than typical (posted) rates in 2012.
  - There has been a considerable amount of locking-in (converting from variable rate to fixed rate). Among the 3.85 million Canadian homeowners with fixed-rate mortgages, 13% locked in during the past 12 months.
  - Of the 9.7 million homeowners in Canada, 5.95 million have mortgages and 3.75 million are mortgage-free.
  - 87% of Canadian homeowners have 25% or more home equity.

# About



Royal LePage is Canada's oldest and largest Canadian owned real estate company. Founded in 1913 by Albert LePage when he was just 26 years old, Royal LePage is now Canada's largest real estate company with more than 14,000 agents in more than 600 locations across the country. And we firmly believe that you can only become the oldest and largest company by being the best.

Over the years, we've learned a lot about real estate – and how to provide the best possible service for our clients. Since the mid-1990s, Royal LePage has more than tripled the size of its sales force and almost doubled its market share.

Throughout our successes, we remain dedicated to helping you through the real estate process. Our commitment to innovation and customer service is as strong as ever.

We offer all of our REALTORS® – from those serving tiny communities to those in major urban centres – strong support from our national pool of knowledge, skill and technical expertise. We regularly invest time, money and resources to develop and provide the knowledge and tools they need to best market your home, including:

- Up-to-date information about local market conditions
- Quarterly housing reports
- Creative brochures and newspaper ads to showcase your home
- Ongoing negotiation, marketing and technical training

This communication is not intended to cause or induce breach of an existing agency agreement.

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\*\*Not intended to solicit Buyers/Sellers currently under contract.