# Demystifying
# MORTGAGES

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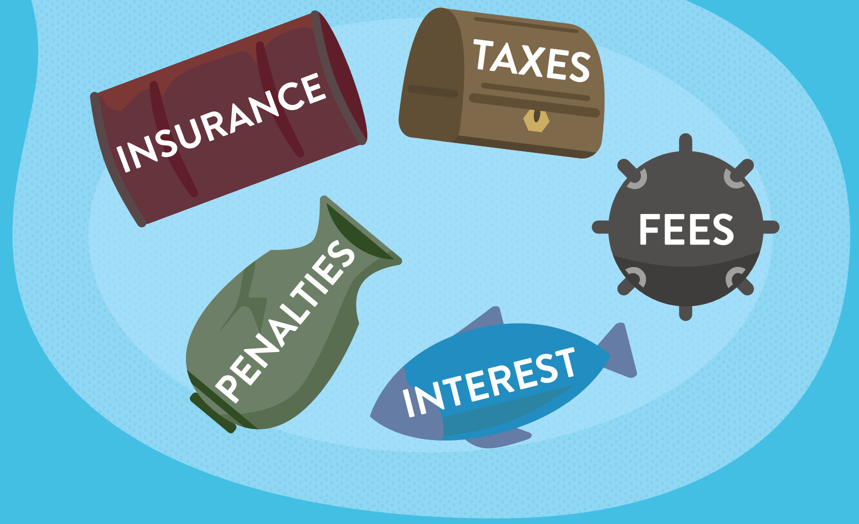
**Buying a home is likely the biggest purchase of your life, and you'll usually need a loan to make it happen**

*Comparing mortgages can be confusing and intimidating—let's break it all down so you can understand how it works*


When shopping for a mortgage, financial institutions have products with an advertised APR, which stands for Annual Percentage Rate.

But the APR doesn't tell the whole story—make sure to understand the type of mortgage being promoted. Plus, there are a wide range of additional costs to consider, including insurance, taxes, admin fees and any penalty fees that may apply.

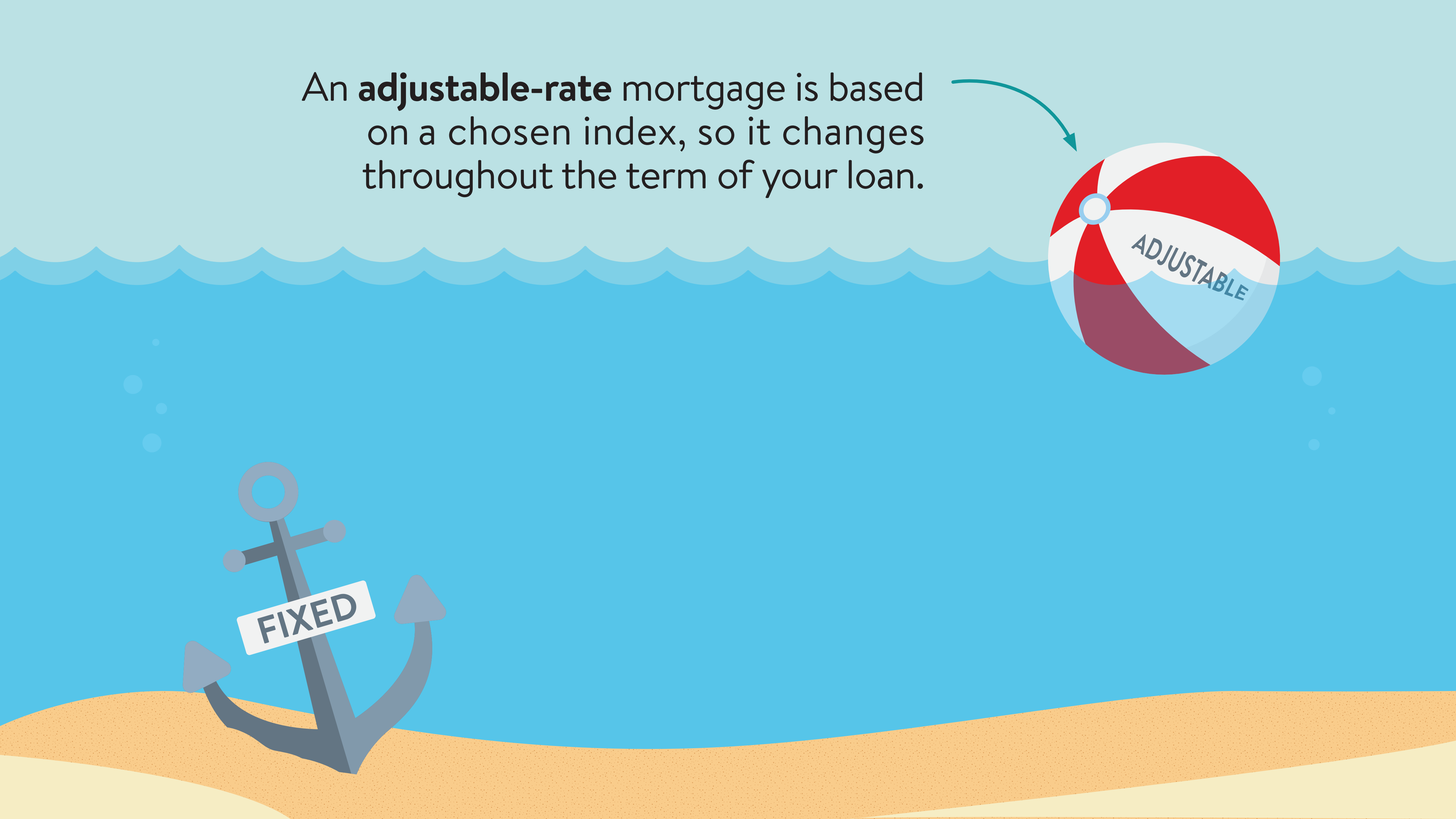


You'll need to decide between a fixed-rate and an adjustable-rate mortgage

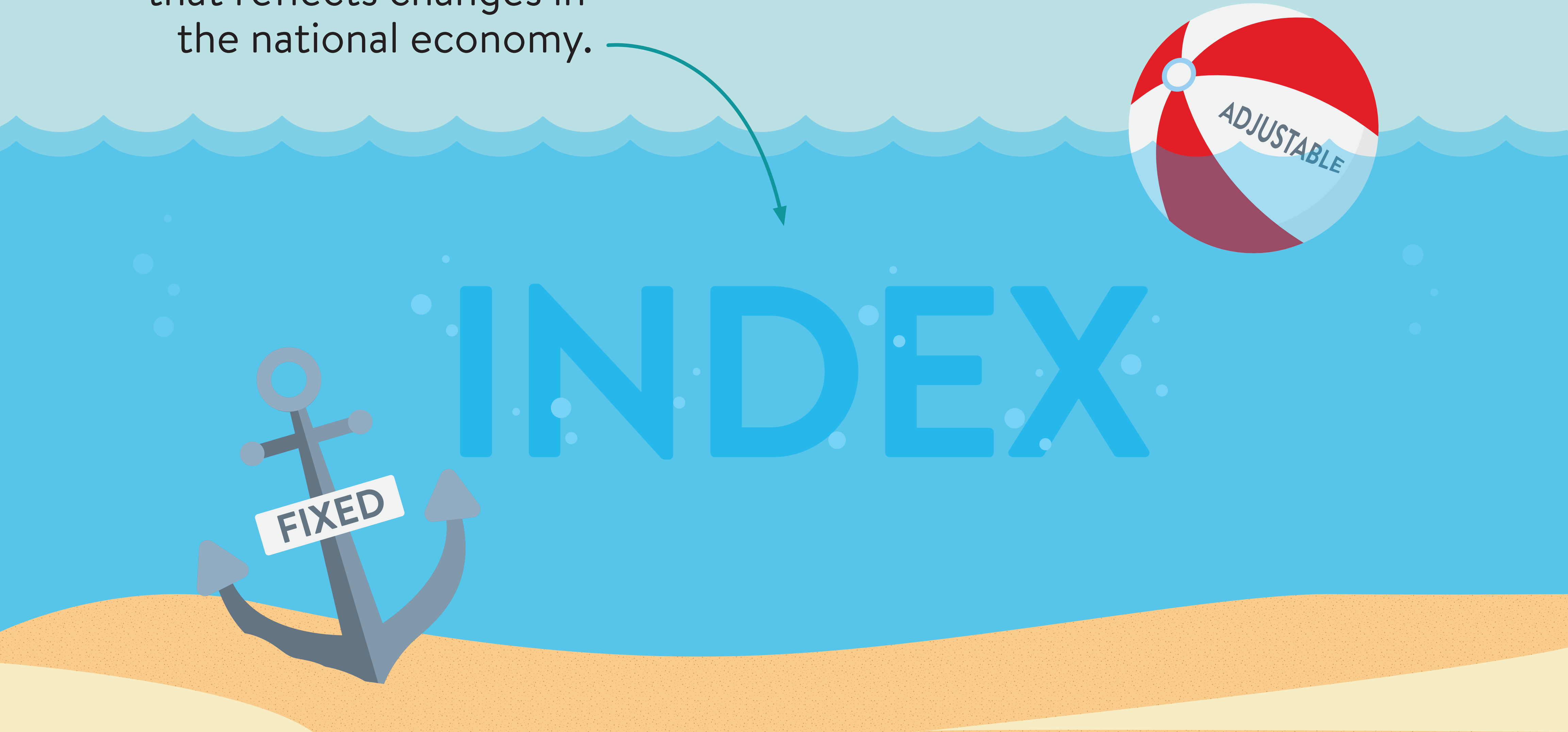
Also known as an **open** mortgage
or a **variable-rate** mortgage



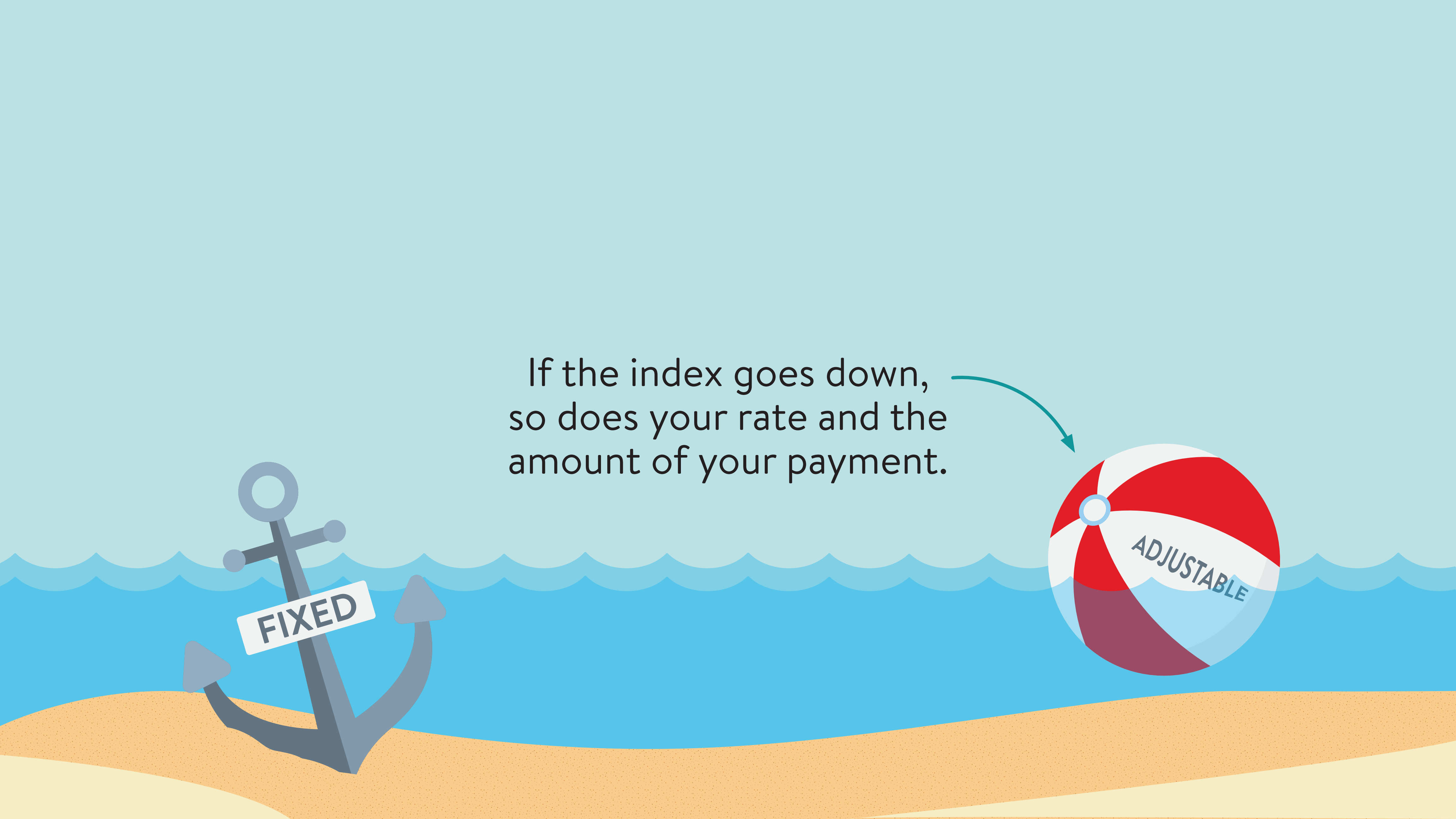
In a **fixed-rate** mortgage, the interest rate is set when you take out the loan and it does not change over time. The amount you pay monthly will stay the same for the entire term of your loan.


An **adjustable-rate** mortgage is based on a chosen index, so it changes throughout the term of your loan.
ADJUSTABLE
FIXED

The index is a benchmark that reflects changes in the national economy.




If the index goes up,
so does your rate and the
amount of your payment.


If the index goes down,
so does your rate and the
amount of your payment.
FIXED
ADJUSTABLE


Meanwhile, the fixed-rate interest rate and the payment amount stay the same.

# FIXED RATE

- **Stays the same** throughout the entire term of the loan
- Consistent and **easier to budget for**
- Tends to have **higher interest** to counter the effect of rates rising in the future


# ADJUSTABLE RATE

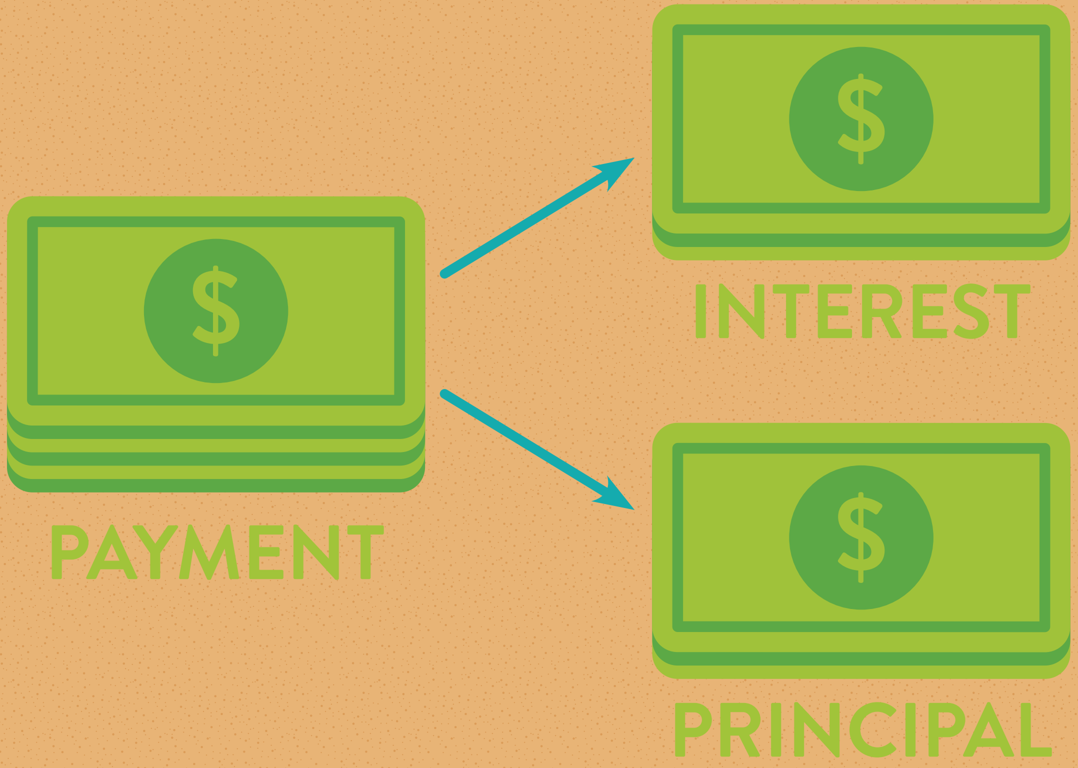
- **Changes over time** and is based on a chosen index
- Usually has a **lower advertised rate**, which is very appealing
- Unpredictable and **harder to budget for**


Think about your income, your future, how long you plan to live in the home and your risk tolerance before deciding which type of mortgage is right for you.

## How does the mortgage repayment work?

*An amortization schedule is how your loan repayment is broken down into regular instalments over the term of the loan.*

The schedule shows you how much of each payment is going towards interest and how much of it is going towards the principal.



## — FOR EXAMPLE —

Let's say you have a $150,000 fixed-rate mortgage with a 3% annual interest rate amortized over a 25-year period. Your payment will be $711 per month.

**25-YEAR MORTGAGE**

**$150,000**

**3% APR, FIXED**

**$711 per month**

The monthly payment for a fixed-rate mortgage is the amount paid by the borrower every month that ensures that the loan is paid off in full with interest at the end of its term.

*This is how the interest is calculated for each payment*

| TOTAL OWING | | INTEREST RATE | | ANNUAL INTEREST | | MONTHS IN A YEAR | | |
|---|---|---|---|---|---|---|---|---|
| \$150,000 | x | 3% | = | \$4,500 | ÷ | 12 | = | \$375 |
| | | | | | | | | INTEREST IN CURRENT PAYMENT |

In your first payment, $375 will go towards interest and only $336 will go towards your outstanding balance. So even though you've made a payment of $711, your balance has only decreased by $336.

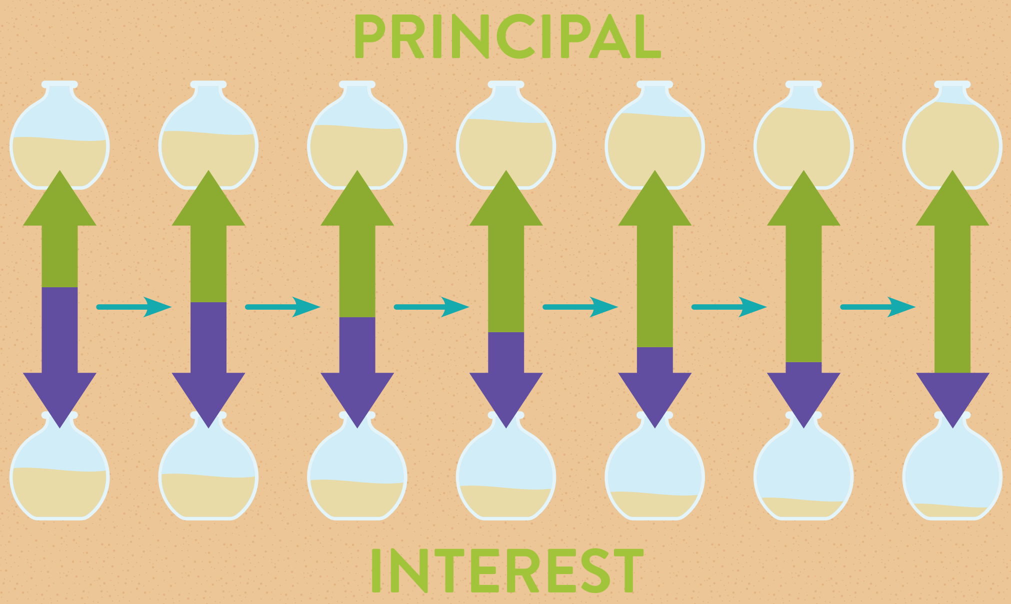
*The interest portion continues to decrease over time*

**$149,664 x 3% = $4,490 ÷ 12 = $374**

**$149,290 x 3% = $4,479 ÷ 12 = $373**

**$148,917 x 3% = $4,468 ÷ 12 = $372**

A big chunk of your monthly payments go towards interest at the start of the term. Over time, more of your payment will go towards the principal than towards interest.



That 3% interest rate may not seem like much, but after 25 years, you will have made $213,395 in payments on your $150,000 loan!

**TOTAL PAYMENTS**

**$213,395**

**AFTER 25 YEARS**

Understand before you sign

*People get in to trouble by committing to mortgages they don't understand. All the more reason to know exactly what you're getting into before signing anything.*


A mortgage can be an empowering experience or a burden. It all comes down to your understanding of the mortgage products available, honesty regarding your personal finances and clarity about your life situation.

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Sources: Amortization-Calc.com, Statistics Canada