CHOOSING THE RIGHT MORTGAGE FOR YOU

For most Canadians, buying a home means taking out a mortgage. A mortgage is money you borrow to buy a home, using the home as security (or "collateral") for the loan.

There are many different kinds of mortgages in Canada. There are also many different financial institutions that lend money for mortgages, including banks, trust companies, credit unions, caisses populaires, finance companies and pension funds. With so many options to choose from, how can you be sure you're making the best choice for your family?

To help you choose the right mortgage for you, Canada Mortgage and Housing Corporation (CMHC) offers the following list of some of the more common types of mortgages:

- **Conventional mortgage—**a mortgage that is for no more than 80 per cent of the appraised value or purchase price of the home. To get a conventional mortgage, you must pay a down payment of at least 20 per cent of the purchase price of the home out of your own savings.
- **High-ratio mortgage—**a mortgage loan for more than 80 per cent of the price of a home. With a high-ratio mortgage, you can pay as little as five per cent of the cost of the home as a down payment. If you get a high-ratio mortgage, however, you will also need mortgage loan insurance. Mortgage loan insurance protects the lender if you are unable to pay back the loan, and most Canadian lending institutions are required by law to have it. CMHC Mortgage Loan Insurance has helped millions of families buy a home of their own, with as little as five per cent down.
- **Open mortgage—**a mortgage that you can repay in part or in full at any time without having to pay an additional penalty cost. Open mortgages generally have a higher interest rate than closed mortgages, but they can make sense if you know that you will be selling your home soon, or if you plan on making extra payments on your mortgage from time to time.
- **Closed mortgage—**a mortgage that does not allow you to make extra payments, or which charges you a penalty if you want to pay off the mortgage ahead of schedule. Closed mortgages offer a lower rate of interest, but they are also less flexible than open mortgages.
- **Fixed rate mortgage—**a mortgage where the interest rate doesn't change during the life of the mortgage.
- **Variable rate mortgage—**a mortgage where the interest rate changes according to changes in the overall financial market. With a variable rate mortgage, your monthly payments usually stay the same, but the amount that goes to pay either the principal or the interest changes as the interest rate changes.

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- **Assumed mortgage—**an existing mortgage that the seller of the home already has, which you take over as part of the purchase. Taking on an existing mortgage can save you money on the appraisal and legal fees. Plus, depending on whether interest rates are rising or falling, an assumed mortgage could have a lower interest rate than you would get if you negotiated a new mortgage.
- **Pre-approved mortgage—**a mortgage that is already pre-approved for a certain amount, before you even begin looking for a house. Getting pre-approved for a mortgage can help make your search easier, by telling you in advance exactly how much your lender is willing to loan you to buy a home.

There are many other options that you can choose from when you get a mortgage, from the term of the mortgage (this is the length of time that the agreed-upon mortgage contract conditions, including interest rate, will be fixed. It can vary from six months to 10 years) to the amortization period (the length of time you have to repay the entire loan). For more information, talk to your financial institution, lender or mortgage broker.

You can also use CMHC's Mortgage Affordability Calculator to calculate the different mortgage options available, and figure out how much home you can afford. Visit the CMHC website at www.cmhc.ca and search for the terms "Homebuying Tools – Calculators."

For more housing information, please visit Canada Mortgage and Housing Corporation at www.cmhc.ca/newcomers.