

Prepare for coming mortgage-rate rise

TORONTO — Many people are tempted to take advantage of low mortgage rates before they start rising again, and before housing prices recover completely from the slide they took in 2009.

But those rates aren't here to stay, warns the Bank of Montreal.

"While today's ultra-low borrowing costs represent a unique opportunity to purchase a property, homebuyers need to proceed with caution and keep in mind that renewal rates will likely be substantially higher in coming years," says Sal Guatieri, senior economist with BMO Capital Markets.

He adds that mortgage rates will start coming back up when the Bank of Canada's overnight rate starts climbing in July.

Here are some things homebuyers should consider, the bank says, in order to keep their mortgages affordable:

- Shortening the life of the mortgage cuts down on the amount you pay in interest.

- Making a larger initial down payment cuts the size of the mortgage you need and the amount of interest you'll have to pay.

- What happens when the mortgage rate goes up? A two per cent rate hike in a \$250,000 mortgage financed at 2.25 per cent will mean an extra \$260 a month on your pay-

ments. A rule of thumb is that total housing costs (mortgage payments, property taxes, heating costs, etc.) shouldn't be more than one-third of your income.

- Pre-payments can save you money. Pay weekly or bi-weekly instead of monthly, and take advantage of 20-plus-20 pre-payment privileges: Once a year, you can increase your mortgage payment by up to 20 per cent over the current payment without charge. You can also pre-pay up to 20 per cent of the original mortgage principal each calendar year. BMO says this option can be exercised in minimum amounts of \$100 without charge, though some conditions apply.

- Make sure you have some money to save —if you're maxed out, you'll have nothing in your pocket when the roof starts leaking.

- Do you want a fixed mortgage, or a variable one? Variable rates could save you money over the long term, but fixed-rate mortgages could give you peace of mind by insulating you against rate increases.

- Get pre-approved for a mortgage so you'll know what you can spend without overspending, and don't get caught up in a bidding war that will leave you with mortgage payments you can't afford.

— *Canwest News Service*