

HOW ARE YOU PREPARING FOR HIGHER RATES?

By Peter Kinch



We're certainly living in interesting times. In January, everyone was bracing for higher interest rates. The Bank of Canada had given us an artificial target of July before it would start to raise rates, and indeed it did.

However, long-term rates have not followed suit. In fact, they've dropped sharply. In the meantime, the Harmonized Sales Tax in Ontario and BC exacerbated an already slow summer market, followed by a predictable drop in prices.

So what does this all mean to you as a homeowner? In the short term, it translates into a prolonged period of lower rates, which can be good for consumers.

But are you taking advantage of today's lower rates to protect yourself from uncertainty in the future?

There's no way of knowing where the market will be in two, three or four years. Personally, I think we'll see a prolonged period of lower rates followed by a slow, steady climb with prime settling in at around five per cent over the next three years.

But, what if rates rise faster and prices fall off more than expected? Is it possible? Of course. Possible, yes. Probable, no. But none of us can say for sure.

So here's my advice. The one thing we do know is that we are sitting in a record low-rate environment today. If the economy took a turn for the worse, would you be better off with less debt? My guess is yes.

What are you doing today to protect yourself from the possibility of a downturn in the markets? Don't get me wrong. I like to have a very positive outlook. But at the same time, today's low rate environment provides an excellent opportunity to accelerate your debt reduction and pay down your mortgage or other higher-interest debt. Doing so today will make you bullet-proof against potential changes in the market in the future and help you sleep better at night.

Here are three simple ways to take advantage of today's low rates and accelerate your debt reduction without impacting your family budget dramatically:

1. ROUND UP YOUR PAYMENTS

This is a simple and cost-effective strategy most consumers are aware of but don't take the time to do. Virtually every mortgage has an odd-number payment, such as \$1,137 per month. Simply round up your payments to the nearest

hundred (or as much as your family budget can afford), such as \$1,200 or \$1,400. It's unlikely your family budget will notice the difference, but you'd be amazed by how much that extra few hundred dollars a month will reduce your mortgage.

2. MAKE BI-WEEKLY ACCELERATED PAYMENTS

Bi-weekly accelerated payments is different than simply making two payments a month. It is the same as getting a paycheque on a bi-weekly basis – you end up with 26 payments over the course of the year instead of 24. Those extra two payments go straight off of your principal balance.

3. TAKE ADVANTAGE OF ANNUAL PRE-PAYMENT OPTIONS

Virtually every mortgage has the option to pre-pay up to 20 per cent of your mortgage balance in any given year. Most mortgages also allow you to double your payments with no penalty. Taking advantage of any of these options will have an obvious benefit, but the reason many people don't is the lack of excess cash at the end of the year. Instead of waiting until the end of the year to make a lump-sum payment that will impact that month's budget, create a family budget. Determine how much extra you can allocate toward the mortgage every month without having a major impact on your lifestyle, and increase your existing monthly payments to match that amount.

Remember, every dollar you pay against your mortgage over and above the minimum amount is a dollar you don't have to pay interest on. Following these simple strategies in our current low-rate environment will allow you to accelerate your debt reduction. None of us know exactly what the future holds in store, but you'll never regret having too much equity, regardless of which direction the market goes.

Peter is the founder of the Peter Kinch Mortgage Team and the PK-Approved group of Dominion Lending Centres mortgage brokers across Canada, and co-owner of the Pacific Bridge Mortgage Investment Corp. Feel free to forward any questions directly to him at pkinch@peterkinch.com

