

Mortgage insurance a boost for many Canadian homebuyers and owners

Are you a first-time or trade-up buyer? Do you want to take equity out of your home? Whatever your situation, if you are borrowing more than 80% of your home's value, you will be required to pay mortgage default insurance directly to the lender. This insurance is a win-win situation, benefiting both the lender and the borrower. Lenders get protected from financial losses in case the loan is not repaid, while borrowers can enjoy the benefits of homeownership sooner rather than later. Mortgage default insurance is not the same thing as mortgage life or disability insurance, which is optional, and protection for you and your loved ones.

Mortgage insurance premiums are paid upfront, at the time of closing, and can either be added to your mortgage or paid separately. The premium rate varies from 0.50% to 3.3% – or higher for specialty situations like business-for-self – and depends on the size of your downpayment and the length of your amortization. If you have a 10% downpayment, your premium will be 2%. Dropping your downpayment to 5% increases your premium to 2.75% with a 25-year amortized mortgage, or 3.15% with a 35-year mortgage. There is also PST to be paid, which cannot be added to the mortgage.

Some buyers may prefer to save for a longer period of time so they can bypass paying mortgage insurance. That may be a solid long-term strategy for some, but may not be a wise tradeoff when home prices are rising. Say you're considering a \$250,000 home and currently have a 5% downpayment. Your mortgage insurance would be about \$6,531 (assuming a 2.75%

insurance fee). Perhaps you decide to wait a year and save for a larger downpayment, figuring you'd rather not pay the insurance fee. But what if that same house increased in value by 5%? Your home now costs \$12,500 more, greatly exceeding that insurance premium!

What about interest rates? More good news. Since mortgage insurance protects the lenders against default, the lender's risk is greatly minimized. As a result, many insured mortgages receive the same low interest rates that are offered to buyers with 20% or more downpayment. Certain situations like investment properties or not-so-perfect credit situations may require a slightly higher rate. Ask your mortgage planner for details.

Many Canadians today are choosing a high ratio mortgage even if they can make a larger downpayment. Why? Because of the flexibility to use the extra cash for renovations, business needs or for an investment in a retirement fund or investment property. Some people prefer to not leave equity in their homes so they can benefit from other opportunities and tax deductions.

There are several mortgage insurers (Genworth, CMHC, AIG) and many types of mortgage default insurance products. Your mortgage planner is very familiar with all of these options, and can ensure you get the best insured mortgage to meet your dreams of homeownership and long-term financial goals.

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