Over 30-year mortgages puts that first home within reach

Let's call them John and Julie. Recently married, they're still struggling to pay off student loans and the new car they've just purchased. John and Julie have moved into a nicer apartment, but are watching their rent money go out the window while their more established friends enjoy the rise in the value of their homes. Interest rates are enticingly low, but John and Julie still aren't sure they can handle mortgage payments, even though they feel that they're missing out on a great opportunity in today's market, and they do want their own place to decorate and enjoy.

There's good news for John and Julie. Homebuyers can now stretch mortgage amortizations – the length of time calculated to pay off a mortgage – to 35 years. Not too long ago, it was almost impossible to get a mortgage amortization for more than 25 years. In 2005, the Canada Mortgage and Housing Corporation (CMHC) announced that they would insure 30-year mortgages with only 5% down in a special pilot project. The move was calculated to help Canadians like John and Julie get into their own home. Canadians went house shopping and took advantage of the opportunity, causing CMHC to make the 30-year mortgage part of their ongoing product offering and even extending amortizations to 35 years.

The rationale behind longer amortizations is simple; they help bring down the cost of monthly payments and bring homeownership within reach for young couples, new immigrants, self-employed Canadians, or prospective homebuyers with less-than-perfect credit. They are also good news for homebuyers who are struggling in an area where real estate prices are rising rapidly, or need a solution to help them through a tough financial period.

What kind of difference can homebuyers expect? Well, John and Julie hope to take out a mortgage of $250,000. At a rate of 6%, they would need to find $1600 per month to service the mortgage on a 25-year amortization. But they need only $1487 for a 30-year amortization or $1413 for a 35-year: similar to what they are currently paying for rent. Their mortgage planner can help them factor in any additional costs, but these longer amortization mortgages put mortgage payments within reach. They do increase the amount of overall interest paid, which is why they shouldn't be considered to simply reduce your monthly payment if you can afford a shorter amortization period.

So why would anyone want to spend over 30 years paying for a home and pay more interest in the long run? With good mortgage planning, it doesn't have to work out that way. The long amortization period helps new homebuyers get into the housing market at a lower threshold. As John and Julie finish paying off their loans, and as their income increases, they'll be able to shorten their amortization period and support a larger monthly payment. But until then, they'll have an early advantage that allows them to enjoy their new home now and begin building home equity; otherwise they'd be watching their monthly rent payment work for their landlord rather than for them.

And that – says John and Julie – is a great beginning. So too is contacting a mortgage broker who is trained and ready to help you achieve your financial and homeownership goals.

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