

Uncertain about your next mortgage move? We make things clear.



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Mortgage considerations

True or false?

- Making extra principal payments saves you money.
- A large down payment will save you more money over time than a small down payment.
- A 15-year amortization will save more money over time than a 30-year amortization.
- The interest rate is the main factor to consider when choosing a mortgage.
- You are more secure having your house paid off than financed 100%.

Contact us for answers to these deeply held beliefs!

Should I make a pre-payment on my mortgage?

When you make a pre-payment on your mortgage, does the value of your home increase?

Answer: No

When you make a pre-payment on your mortgage, does the amount of your monthly mortgage payments go down?

Answer: No

When you make a pre-payment on your mortgage, do you have access to that money?

Answer: No

Then why does anyone even consider making pre-payments?

Answer: To pay off the mortgage sooner and therefore pay less interest.

The problem is that when we use capital to make a pre-payment, we permanently give up our ability to earn interest on that money.

You finance everything you buy: You either pay interest or you give up interest you could have otherwise earned.

Inflation is a major consideration in paying down a mortgage. Consider the following:

Mortgage payments stay the same for the entire mortgage term. A new mortgage with a five-year term will have the same mortgage payments for the next five years. As we all know, the value of a dollar today is worth more than the value of a dollar one year or five years from now. Consider keeping your valuable “today dollars.”

Wealth transfer occurs when you transfer wealth to someone else. Once the wealth has left, you no longer earn interest on it.

Sources:

<https://www.rbcroyalbank.com/mortgages/amortization.html>
<https://smithmanoeuvre.com/>

What is the opportunity cost?

Consider the opportunity cost of giving up your money for a mortgage pre-payment.

You don't earn interest on your pre-payment, and your pre-payment money is no longer accessible to you. Imagine what your pre-payment would be worth if you were able to invest it for five years.

Mortgage amortization

The number one reason to choose a shorter amortization period is the belief that a shorter amortization will save a homeowner money on interest.

The perception is that a shorter loan duration reduces the cost of the loan.

If you follow this logic, then the best alternative is paying cash for the house.

Reach out to us to discuss your mortgage and financing options.

With so many mortgage options, which of the following is best for you?

Amortization: Long versus short?

Fixed versus variable?

One-year term versus five-year term?

Open versus closed?

The RBC Homeline Plan allows you to choose up to five different mortgage segments, which means you do not have to pick just one of the above. Contact us to learn more.

Is the interest on your mortgage payment tax-deductible?

The answer is no — unless you implement The Smith Manoeuvre. The Smith Manoeuvre allows Canadians to pay down their non-deductible mortgage debt faster, generate valuable tax deductions every year, and invest for the future without any extra money above and beyond the regular mortgage payment.

Contact us to discuss these key mortgage considerations.