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Should I break my current mortgage???,

Here is the quick way for you to tell what it is going to cost you to break your current mortgage.

The Banks say it will cost you to break your loan agreement term. It will be the greater of 3 months interest or an IRD Calculation.

INTEREST RATE DIFFERENTIAL: (IRD)

A penalty for early prepayment of all or part of a mortgage outside of its normal prepayment terms. This is usually calculated as "the difference between the existing rate and the rate for the term remaining, multiplied by the principal outstanding and the balance of the term".

For example.

1. \$100,000 mortgage at 9% with 24 months remaining.
2. Current 2-year rate is 6.5%.
3. Differential is 2.5% per annum.
4. IRD is $\$100,000 \times 2 \text{ years} \times 2.5\% \text{ p.a.} = \$5,000$.

To figure out if it's worth it for you to break your contract you must first establish your savings and any other benefits that may arise from redoing the mortgage at today's low pricing.

You must calculate what the loan balance will be at the end of the term (5years for most people) and see how much lower it will be with today's interest rate.

This of course has to be compared to the exact same date that the original mortgage is coming due. You will have further time of savings out into the future as well to consider. (An added benefit) I always like to compare apples to apples though first.

Another thing you must add to the savings is the amount every month that you will keep in your pocket. If your new mortgage payment is \$200 lower every month then you will be saving \$2400 per year that stays in your pocket. You would take the difference in monthly payment between your current rate and the new lowered rate and then multiply that amount by how many more months you have remaining in the original mortgage.

Once you have these two dollar amounts it will give you a very good idea whether or not you should get your bank to give you a more exact estimate of what they will charge you to break the contract and have the mortgage redone at today's pricing.

If you would like our office to double check your calculations or discuss your options please feel free to contact us directly.

Kind Regards,

Dan



Have the Banks Fight For Your Business!

Dan Heon
Broker/Owner