

## What's the Difference Between an Open and a Closed Mortgage? Invis 2011-11-08

An open mortgage typically allows the borrower to pre-pay all of the mortgage, renew, or refinance at any time before maturity. This also means that you can switch lenders at any time. The catch is that this flexibility to pay back the mortgage whenever you like usually comes with a higher interest rate.

**An open mortgage** can make sense for those who know they are receiving a large sum such as an inheritance and want to put this money onto their mortgage, or are intending to sell their home in the near future. Open mortgages can also be a good choice for those whose income will vary over time, such as self-employed individuals who will exceed the paydown allowance permitted on a closed mortgage.

**A closed mortgage** typically allows you to prepay a limited amount each year without a penalty, usually 15 to 25% of the original principal. This type of mortgage may also include the ability to increase the size of your regular payments, up to double in many cases.

The main advantage of a closed mortgage is that they almost always have a better rate compared to an open mortgage, although it pays to understand the pre-payment provisions in the fine print. Looking to pay off your debt early and have a closed mortgage? This type of mortgage may be renegotiated or refinanced in most cases with a pre-payment penalty.

For some clients (dependent upon their specific circumstances of course) we suggest a variable mortgage but encourage larger payments than required in order to pay down the mortgage more quickly, thus realizing significant interest savings. An additional benefit to this strategy is that you become accustomed to larger payments should interest rates rise in the future.

Details can vary from lender to lender, so it makes sense to talk to a mortgage broker early on, when you're starting to think about what financing is best for you.

Do you have questions about your choices, rates, and recent Canadian interest rate trends? Give us a call, we're here to help.

The LaLiberté Investment Team 604-575-6911.

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