What types of mortgage are available to homebuyers?

Categories : First-time homebuyer, Rebate Blog

Many future homeowners don’t have enough money to buy a home with money saved up, which is where a mortgage comes in.

A mortgage is a loan from a financial institution that provides you money to buy a property, which you will then be charged interest for the loan you accessed.

First-time homebuyers may not realize that they will have multiple choices when it comes to choosing a mortgage. We go through the options you can choose from.

Traditional mortgage

This is probably the type of mortgage you’re most familiar with. You approach your financial institution for a mortgage and they will notify you about the specifics in terms of the amount of mortgage you qualify for, the interest rate you will be charged, the amount you owe and your amortization period. You will need a 20 per cent downpayment to qualify and you can either choose a fixed rate or variable interest rate for your mortgage. Typically, rates will apply for short periods of time, between two to five years and you will need to resign/renew a mortgage once that timeframe is up.

High ratio mortgage

This is another common mortgage option for homebuyers. If your downpayment is less than 20 per cent, you must also be insured for mortgage default insurance provided by either the Canada Mortgage and Housing Corporation (CMHC), Genworth Canada or Canada Guaranty.

Collateral mortgage

In this type of mortgage, your home is used as security to borrow funds from a financial institution. This allows a lender to sign up for a mortgage that’s greater than the amount they qualified for, which in some cases may be used to renovate a newly bought property. Keep in mind that not all financial institutions offer these types of mortgages and they may be difficult to switch out of, if you want to switch mortgage lenders.

Closed mortgage

If you don’t think you’ll be making extra payments to your mortgage in the short-term, a closed mortgage is beneficial for you since you can save on interest costs since the rates tend to be lower than an open mortgage. With a closed mortgage, you set your payment amount for a set payment time, such as bi-weekly or monthly and if you want to make any changes, you could pay a prepayment fee.

Open mortgage

If you expect that you could boost you mortgage payments with a lumpsum or that you may need to tighten the belt on mortgage payments, you'd be better suited for an open mortgage. These are better suited for homeowners who are close to paying down their homes since it offers them the flexibility of no prepayment charges. Keep in mind that interest rates for this type of loan are higher than closed mortgages.

Homebuyers may not be aware of the HST housing rebate, which can be claimed whether you plan to live in the property or rent it out and if you've bought a newly built property. Rebate4U can help you property claim your money back so you don't run into issues with the CRA in the future. Our priority is to provide our clients with the most professional and quality service in obtaining rebates for their new and renovated homes. We are proud to offer our clients the most personal and attentive service, and we make sure that all of our clients are 100% satisfied.