

Money Saving Tips When Buying A Home

Here are some ways you can save thousands of dollars when buying a home. Considering buying a home is the largest purchase most people will ever make in their lives, it makes sense to save as much money as possible. Here we will focus on the financing side.

Typically when buying a home, most people will require financing and so they go visit their bank and sit down with the bank's "mortgage specialist". Often they can offer you a very attractive interest rate which is all most people focus on but remember that the "mortgage specialist" works for the bank, whereas a mortgage broker works for you by shopping many different Lenders.

But there is more involved than simply getting the lowest rate that the bank's employee may not tell you. Mortgages have different terms and amortizations and whether or not it is fixed, open, variable, re-advanceable, mortgage plus improvements, and also the amount of down payment you put down, can have a greater impact on how much you pay over the term of the mortgage. On top of that, you can even negotiate the interest rate. Insuring your home mortgage is a good idea but you can use a third party instead of the bank's insurance which can save you money too.

Typically the more money you put down for your down payment, the better interest rate you receive. In most cases, a down payment of 25 percent or more will enable you to negotiate a variable-rate conventional mortgage, which has the lowest carrying costs because, unlike mortgages with smaller down payments, mandatory insurance isn't imposed against payment default.

Having a shorter amortization period will enable you to pay it off sooner which will save you thousands of dollars in interest but your monthly mortgage payment will obviously be larger than one with a longer amortization. If you go for a shorter amortization period and the larger monthly payment, many lenders will allow you to skip a payment if you are sick, laid off work or need to take parental leave, which is good to be aware of when considering your monthly budget and how much you can afford.

Variable mortgages interest rates fluctuate up and down but historically you will pay less interest if you choose this type of mortgage. Open mortgages will allow you to pay off a considerable chunk without incurring a penalty which is something to consider if you know you will be selling soon. There is no point getting the lowest interest rate and locking in for 5 years if you are looking to renovate and sell within the year because the penalty for breaking the mortgage will be staggering.

Closed mortgages give the security of knowing what your mortgage payments will be each month and can be beneficial if interest rates are rising. Most closed mortgages allow for a 10% or sometimes 20% annual pre-payment option, which help you to pay it down sooner and once again, save you thousands of dollars in interest. Weekly or bi-weekly payments are good but an accelerated bi-weekly will help pay it off even sooner. Some lenders will let you make double payments each time which really helps to pay down the principal quickly as the extra payment goes straight towards paying this off.

The goal here is to pay off your mortgage as soon as possible without incurring penalties so you save yourself thousands of dollars. Once your mortgage is paid off, if you consider to use a Secured Home Equity Line of Credit (Heloc) and buy an investment property with it, then any interest payments are now tax deductible (this is different in U.S. than Canada, but check with a knowledgeable accountant for all the ins and outs for doing this) so that is a way to save money while making money.

As everybody's situation is a little different, please consult with your mortgage specialist/advisor/broker to explain any the above terms and concepts as this has been given for educational purposes only.