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BMO asks Canadian Home Owners- How Low Can You Go?

TORONTO, Ontario, February 12, 2010 — It's time more Canadian homeowners and prospective buyers consider taking a shorter amortization for their mortgage, according to BMO Bank of Montreal.

"While many people choose the longest length of time to pay back their mortgage, they could pay thousands of dollars more in interest in the long run," said Jane Yuen, Senior Manager of Mortgages, BMO Bank of Montreal. "Cutting your amortization period by 5 years from 30 to 25 years could save you over $53,000 in interest. You will be mortgage-free faster and your monthly payments will only increase by $84." [1]

Comparison ($200,000 mortgage at 7 per cent interest on a fixed term[2]):

Amortization Period[3]	Monthly Payments	Total Interest you'll pay	Interest Saved
35 years	$1,263.73	$330,673.02	-
30 years	$1,317.21	$274,130.94	$56,542.08
25 years	$1,400.83	$220,207.26	$110,465.76

"Shortening your amortization period during an expected rising interest rate environment makes good sense," according to Sal Guatieri, Senior Economist, Bank of Montreal. "To ensure to you aren't negatively affected when rates go up, it is important to work with a banker to stress test your financial budget using a mortgage payment based on a higher interest rate," added Yuen.

For news media inquiries, please contact:
Toronto, 416-867-3996

[1] Example is based on $200,000 mortgage, at 7% APR amortized for 25 years.
[2] Per annum, calculated half-yearly, not in advance. The rate shown is an example only and is not necessarily applicable to an actual mortgage.
[3] Assumes same interest for entire amortization period.