



**The Difference  
Between  
Real Estate  
Investing  
and  
Real Estate  
Guessing™**

## Assumptions for Math

Current Prime = **2.25%**



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## Realistic Perspective

- Prime was 6% in Jan 2007
- 5.25% in March 2008

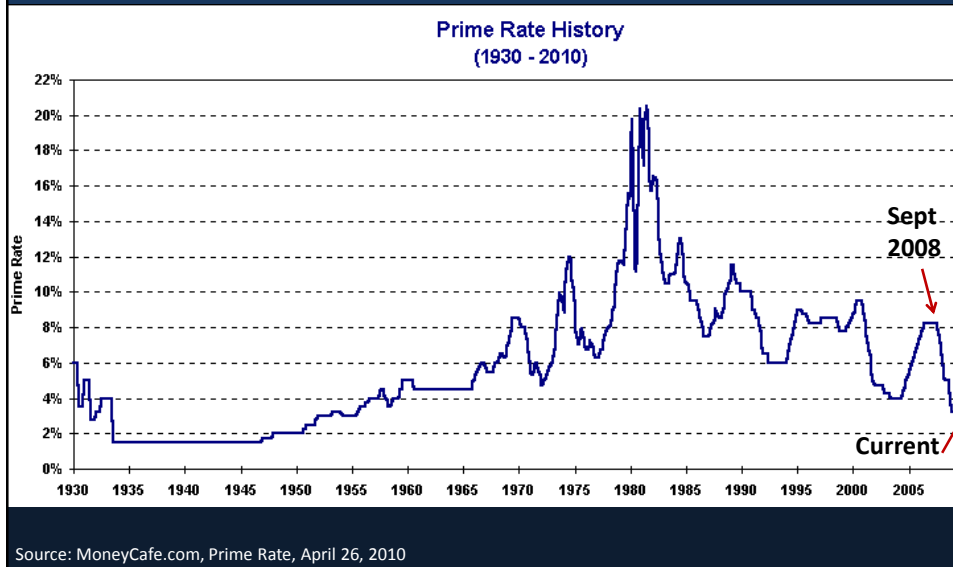


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# History of Prime Mortgage Rates

April 2010 Prime Rate: 3.25%



## Predictions by the end of 2011

How Much Will Prime Go Up:

- BMO: + 3.00%
- CIBC: + 2.25%
- Scotia: + 2.75%
- TD: + 3.00%
- RBC: + 3.25%
- Average 2.75% rate hike in 19 months



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## Scenario #1

# Choosing New 5 Year Term Mortgage Lock vs Variable



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## Scenario #1 – New 5 Year Mortgage

- Deciding whether to go 5 year variable or 5 year fixed rate
- Prime - 0.5% for the variable vs 4.5% for the 5 year fixed.
- Assuming a \$300,000 mortgage over a 35 year amortization

## Strategy:

- Don't lock-in - but make locked-in equivalent payments
- Locking eliminates your options and costs you money



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## Actual Payments if no strategy:

### Fixed

- Mortgage payment: \$1,412.05
- Principal: \$297.45
- Interest: \$1,114.60

### Variable

- Mortgage Payment: \$954.78
- Principal: \$517.78
- Interest: \$437.00



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## Strategy: Match payments to \$1,412.05

### Fixed

- Mortgage payment: \$1,412.05
- Principal: \$297.45
- Interest: \$1,114.60

### Variable

- Mortgage Payment: \$1,412.05
- Principal: **\$975.05**
- Interest: \$437.00



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## Total Interest and Principal Paid over 5-Year Term – Same Payments

### Fixed

- Mortgage payment: \$84,722.89
- Principal: **\$19,951.48**
- Interest: \$64,771.41

### Variable

- Mortgage Payment: \$84,722.89
- Principal: **\$36,559.65**
- Interest: \$48,163.24



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**You will paydown mortgage by  
\$16,608.17 more with Variable  
Which Means \$16,608.17 Interest Paid!**



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## Scenario #2

**Lock-in Current Mortgage:  
2 Years Into 5 Year Term**



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## Scenario #2 – Do I Lock In Current Variable Started in 2008?

- Current Mortgage = Prime minus 0.4%, (5 year variable rate in 2008). Near end of second year of the term
- Is it better to lock into the 3 year rate of 3.85% or continue on the variable rate for the remainder of the term?
- Assuming a \$300,000 mortgage with 33 years amortization left



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- Same Strategy – Increase payments to fixed – without eliminating your options.
- $\$1,333.80 - \$1,011.71 = \$322.09$
- Principal now being paid down is  $\$873.07$



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## Comparing Your payment with extra lump sum

### Fixed

- Mortgage payment: \$1,333.80
- Principal: \$378.93
- Interest: \$954.87

### Variable

- Mortgage Payment: \$1,333.80
- Principal: **\$873.07**
- Interest: \$460.73



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## Total Interest and Principal Paid over the Remaining 3 Years of the Term

### Fixed

- Mortgage payment: \$48,016.96
- **Principal: \$14,429.65**
- Interest: \$33,587.31

### Variable

- Mortgage Payment: \$48,016.96
- **Principal: \$23,602.39**
- Interest: \$24,414.57

You will pay **\$9,172.74** more principal



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