An Ideal Opportunity to Improve Your Cash Flow

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With so many doom & gloom news headlines, it is refreshing to know Canadians can still get very low fixed rate mortgages. A recent Financial Post article (March 9, 2012) explains that with big banks competing strongly for new mortgage business, now is a great time for Canadians to refinance their mortgages to improve personal cash flow.

Taking advantage of lower mortgage rates can help improve cash flow by lowering interest payment obligations. Remember, refinancing a mortgage at a lower rate only improves your financial position when the extra cash flow is used for paying down non-deductible and high interest debt faster, paying down mortgage principal or investing for the future.

Canadians simply can't afford to leave money on the table when it comes to renewing a mortgage. The vast majority of consumers simply stay with their current mortgage lender without shopping for better rates.

Too many Canadians short-change themselves by not getting the best mortgage solution for their circumstances. What many consumers don't realize is that because mortgage lending is such a huge part of a bank's operations, most financial institutions will easily match a competitor's lower mortgage rate if it means keeping a customer.

When it comes to renewing a mortgage, the best strategy is to never automatically accept the mortgage renewal offer from the current lender. By checking competitor's rates, you will probably find that your current lender probably isn't offering you the very best rate available.

Some lenders try to retain customers through special offers on mortgage renewals. At first glance, it may appear to be a great deal. However, if we look at the numbers carefully, we see that appearances can be deceiving:

- *If a posted rate on a five-year fixed closed mortgage today is 4.59%, bank customers might get an offer as low as 3.98% at renewal. The catch is that an independent mortgage broker could probably find a rate of 2.98%. This means that if you went with the automatic renewal option, you just left a lot of your money on the table.*
- *Let's say there is $250,000 left on a mortgage after 5 years and the offer is 3.98% for the next 5 years with 20 years remaining. The monthly payment would be $1508. The interest cost during the next five-year term is $45,084. If you can reduce the rate to 2.98%, the monthly payment drops to $1,382 and the interest paid over the same term falls to $33,515.*
- *Anyone who takes the posted rate would pay $1,588 monthly for the same mortgage and their interest cost would jump to $52,205 for the first five year term.*

As you can see, a 1% reduction in your mortgage renewal special offer translates into about $11,569 in interest savings in just 5 years. While there are costs associated with switching a mortgage to another lender, very often the interest savings alone are worth it and, in many cases, the extra costs can be covered by the new lender. As with all good things in life, low interest rates probably won't last very long, so it makes sense to find a great mortgage deal while the opportunity exists .

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