

Types of Mortgages Alberta

Kinds Of Mortgages - Helping Clients Pick The Right Deal

Open Mortgages

Open mortgages are great for individuals who would like to have the ability to make large payments on their mortgage or be able to pay off their whole mortgage without incurring penalties. These kinds of mortgages offer maximum flexibility. The landowners who select this particular alternative are willing to accept some variation in the interest rate in a trade off for the flexibility of paying off the whole mortgage prior to the term being complete.

Nearly all mortgages would just allow a homeowner to make lump sum payment one time a year without penalties. Normally, the borrower would only be allowed to make payments of 20 percent. Within the industry, these are known as "privilege payments". That payment is applied directly to paying down the principal of the borrowed amount. Hence, to be able to make additional payments on your mortgage, you do not necessarily need to choose the open mortgage alternative with its interest rates that are higher.

Closed Mortgages

Closed mortgages are different compared to an open mortgage in that the borrower is locked into a commitment over a certain time period at a pre-set rate of interest. Typically a buyer who picks a closed mortgage should pay a penalty to the lender if the loan is paid in full before the end of the closed term.

Throughout the term of a closed mortgage, the interest rate will not change over the length of the term. In addition, in this particular kind of mortgage, the duration of the term will not change; hence, payment amounts are predictable. Likewise predictable is the principal amount left owing at the end of the term.

Closed mortgages will typically be offered at lower interest rates than open mortgages. Nearly all closed mortgages would let the landowners pay one time a year up to 20% of the whole mortgage with no penalty. This payment is applied directly toward paying down the principal of the amount owed.

Convertible Mortgages

A convertible mortgage agreement is the type which will allow for the borrower to make changes in the kind of mortgage over the life of the term. For example, if a homeowner wants to start with an open mortgage and then lock into a closed mortgage, then a convertible mortgage is the proper alternative. This way they are offered the lower rates of an open mortgage and still maintain the alternative of changing to a closed term.

Reverse Mortgages

The reverse mortgage is typically only utilized for older landowners who want to convert their equity in their home for cash payments which are often used to cover their living expenses. The homeowner's equity would be slowly withdrawn over a series of monthly payments with this particular kind of mortgage. Upon the homeowner's death or at the end of the loan period, the loan balance is due. Normally, this amount is settled by the heirs who often sell the property to be able to meet the outstanding obligation.