Mortgage Newsletter
June 2008

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FIXED RATE, VARIABLE RATE OR BOTH: HOW TO CHOOSE THE RIGHT TYPE OF MORTGAGE RATE FOR YOU

The case for fixed rate

Fixed rate mortgages are chosen most frequently because of the high level of stability they provide.

A fixed rate mortgage offers the security of locking in your interest rate for the term of your mortgage. This means you'll know exactly how much principal and interest you will be paying on each regular mortgage payment throughout the term you select.

The main advantage of selecting a mortgage with a fixed interest rate is that you can depend on an interest rate that stays the same during the term of the mortgage.

The down side is that you can't take advantage of a lower interest rate – and the ability to have more of your payment go towards the principal and less to interest – if interest rates drop during the term of your mortgage.

The case for variable rates

Many Canadians shy away from the option of a variable rate mortgage because of the potential risk of rate increases. However, while there is always a risk of interest rate fluctuations, this concern may be less of a factor than you may think and there are other reasons to consider a variable rate mortgage.

Many Canadians economic experts believe that a mortgage rate that varies with fluctuations in the bank prime rate will offer the greatest advantage when it comes to long-term savings on interest costs. Examining Canadian mortgage rate data from 1950-2000, Dr. Moshe Milevsky, Associate Professor of Finance at York University, found:

- Choosing a variable rate mortgage would have saved Canadians $22,000 in interest payments over 15 years (based on a $100,000 mortgage).
- Canadians would have been better off borrowing at a prime rate (variable) compared to a five-year fixed rate 88% of the time.

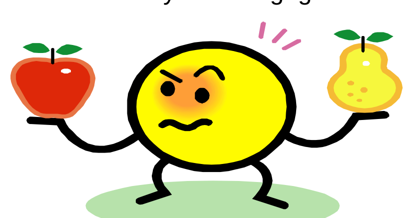
With a variable rate mortgage:

- Regular mortgage payments are set for the term, even though interest rates may fluctuate during that time.
- When rates go down, an increased amount of your payment goes to pay the principal. With more going into your principal, the less interest you pay, and the faster the mortgage is paid off.
- When rates go up, you'll see an increase in the portion of payment that goes into paying the interest. With less going into the principal, the amortization period is extended.
- Typically, variable rates include some of the lowest rates available and have discounts below the prime rate.

The case for both: fixed and variable rates in one mortgage

Not sure about putting all your eggs in one basket? Now you don't have to. If you have sufficient equity in your home that mortgage default insurance is not required, the RBC Homeline Plan® might be for you. It gives you the flexibility to choose both fixed and variable rate options, all in one plan.

You can split your mortgage between fixed and variable rates with different terms and maturities in order to benefit from potential interest savings and the security of a predictable rate. Whether rates remain stable or fluctuate, this strategy reduces the risk of making a bad decision and could save you thousands of dollars in interest costs over the life of your mortgage.



A fixed rate mortgage is best for you if…

- You enjoy the security of a rate that is guaranteed not to change for the term of the mortgage and are willing to pay a slightly higher interest rate for that security.
- You prefer the peace of mind of predictable mortgage payments and amortization that are guaranteed not to change during the term of your mortgage.

A variable rate mortgage is best for you if…

- You are comfortable with rate fluctuations to gain possible long term interest savings.
- You have the flexibility to accept possible increases in your amortization should the interest rate increase.
- Regular mortgage payments are set for the term, even though interest rates may fluctuate during that time.

An RBC Homeline Plan® is for you if…

- You are concerned about future interest rates and want to enjoy the security of a fixed rate, while wanting the potential long term savings of a variable rate mortgage.
- You have sufficient equity in your home that default insurance is not required.
- You want the best of both worlds.

Selecting the mortgage rate that works for you

The reality is no one can be certain what the future holds. Rather than trying to guess where rates are headed, it's best to consider your own situation. The life stage you are in, your current goals, your objectives and tolerance to risk all come into play. The important thing to remember is you are not alone in making a decision. I am trained to work with you to provide you with the mortgage advice you need to make the right decision based on your needs and your lifestyle.