Mortgage Optimization Strategy For:

The Smith Family

October 16, 2012

The Advantage of Converting to a 10-Year Fixed Mortgage….

Even with over 100 years of past data, no financial analyst can clearly predict the future and, with the current turbulence in the financial market analysts are having a difficult time coming to a consensus of what they believe will happen over the next 5 - 10 years. With so much uncertainty and debate I have been recommending that my clients consider looking at locking in their mortgages for as long as possible, and have designed this report to give you the details of why I believe this is the best option for you and your future financial stability. Here are the main topics we are going to cover:

Lowest cost of borrowing - I will show you how over the next 10 years, I anticipate that the 10 year rate will have the lowest average interest cost, and if set up properly, will allow you to pay off your mortgage years sooner.

Payment certainty – Only a 10 year rate gives you the certainty of knowing that your mortgage payment will not need to change for the next 10 years, giving you the ability to live your life without the concerns of rising interest rates and, increasing monthly payments.

Safest mortgage - With the uncertainty of what is to come in the financial markets the 10 year rate gives you the opportunity to skip these turbulent times, and ride through any future rough times without the worry of renewing your mortgage rate in the middle of a 'worse time'. Plus with the features that are built into your 10-year mortgage, you will see how you are even more protected.

Lets review these statements in more detail together....

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Preview of your Improvement

Your Mortgage is Reduced by	Your Amortization is Reduced by	Your Interest Savings is
$21,049.81	3.6 Years	$28,459.61

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Why Should I Consider a 10 Year Fixed Rate Mortgage?

Currently, in 2011 and 2012 we are being offered rates that are considerably lower than we have ever been offered before. These unusually low rates have been caused by the current global economic down turn, and have given us what financial experts are calling "emergency rates", to help stimulate the economy. As a result Canada has seen long term mortgage rates decrease to a point where you can now get a 10 year fixed mortgage lower than the average 10 year variable rate. Leaving Canadians with the decision of deciding whether or not they should pay the penalties and costs associated with breaking their current mortgage to get a new low rate mortgage with a longer-term.

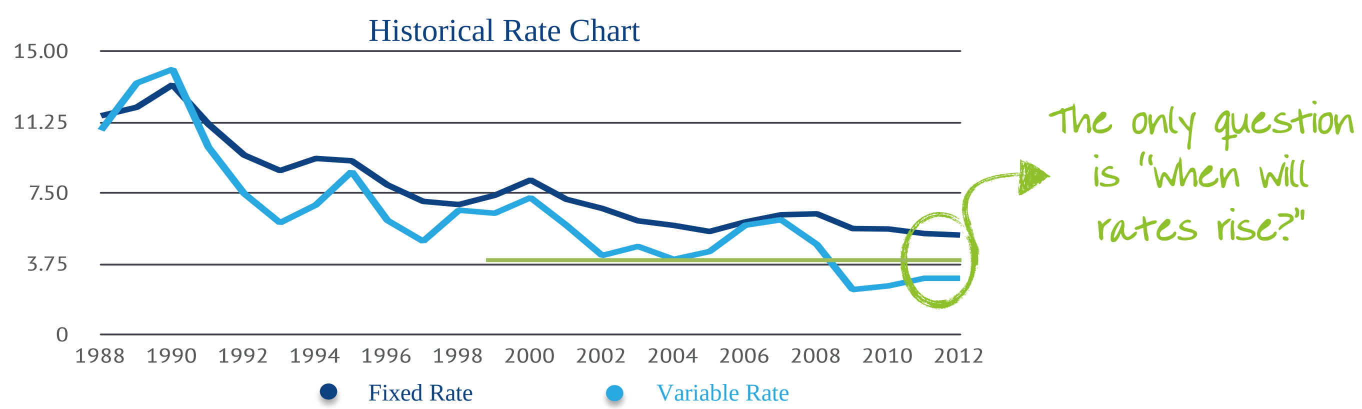
	Variable Rate	5 Year Fixed Rate	10 Year fixed Rate
Average Rate Since 2000	4.09%	5.47%	7.47%
Average Rate Since 1987	5.87%	6.57%	8.57%
Current Rates	3.00%	3.09%	3.89%

Source: Bank of Canada, CIBC

This is the lowest 10-year rate in Canadian History!

There has been substantial research completed showing the power of the variable rate mortgage, York University did a study headed by their associate professor of finance Moshe A. Milevsky saying that 88% of the time its better to be in a variable rate than a fixed, and up until recently you would have found me recommending variable rates to my clients. However, no one can predict what is going to happen with rates in the future, and with the current instabilities in the global economies we are even more in the dark than normal. By locking into a 10-year term at the current lowest historical rate you get the comfort of knowing that no matter what happens in the economy you will be protected for 10 years.

We must look beyond the short term benefits of a 5-year fixed and see that if we are looking for protection, the 10-year offers double the protection with lower overall interest costs. I believe that trying to traverse through the next 5-10 years with a variable rate is too risky when compared to the cost of locking in for 10 years and gaining certainty and protection from whatever may come.



When we are reviewing the options for the five-year rate, I am forecasting that at the maturity of the current term you will be looking at getting a new mortgage with a rate of 5.50%. Of course, at maturity your rate could end up being much higher.

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What Are The Experts Saying?

When the experts review the current data that is available they make some pretty strong comments. On May 6 2012 Jim Flaherty, Canada's finance Minister said, "Rates have no place to go but up", and Garry Marr financial writer for the Financial Post said the same thing almost 3 months earlier, "The writing is on the wall for rates to rise". On April 17th 2012 Mark Carney, Governor of the Bank of Canada stated, "In light of the reduced slack in the economy and firmer underlying inflation, some modest withdrawal of the present considerable monetary policy stimulus may become appropriate." Translation: he wants to raise rates as soon as he can. These statements are clear indicators that the window of opportunity to lock in rates is diminishing and some believe that we may never see rates this low again.

What Impact Will Rising Rates Have On My Finances?

Although you may be locked into a fixed mortgage currently, or your variable rate may be extremely low, it is important to extend your view of your finance's out over the next 10 years and view the impacts that rising rates will have on your personal financial wellness. "Payment Shock" is a common term used in the financial industry for an individual who locks into a mortgage at a low rate and than at renewal is faced with a new mortgage rate that has a significantly higher monthly payment that is difficult and sometimes painful to incorporate in their budget.

"What if your mortgage rate went up by 2 points?" – Garry Marr, Financial Post

"Interest rate jump poses threat to many B.C. homeowners"- Tracy Sherlock, Vancouver Sun

The comments made by these experts are both timely and accurate; with mortgage payments representing such a huge portion of our monthly obligations, any changes to that payment could have dramatic effects on a family's ability to manage their lifestyle. With interest rates being so low for so long we have grown accustomed to managing our lifestyle based on payments that may soon disappear at your next renewal.

Canada has been able to manage through the current economic crisis with significantly less pain than that which the majority of other countries are feeling. The citizens of those countries are being shown the consequences of not preparing for the worst-case financial scenario, and currently a lot of Americans are being taught this lesson, at the cost of their family's home.

In Canada, because of the strength of our financial system we have been given the opportunity to learn these lessons without having to go through the pain ourselves. The only reality that we need to face is that it could happen in Canada and it might be prudent to take this opportunity to ensure that we are protected for the long term in the event that it does.

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Is It Worth It For You To Protect Yourself For The Next 10 Years?

On the surface I believe that the 10-year fixed rate mortgage is the best solution for every Canadian, however it may not be feasible due to potential penalties and costs associated with breaking your current mortgage contract. So we must determine if this opportunity is cost effective and appropriate to your personal financial situation. In order to help you make a decision the next section will show you the impact to your mortgage over the next 10 years if you decided to convert. It is also going to show you that simply taking advantage of the low five-year rates that are available and are being highly promoted by the major financial institutions doesn't provide you with the adequate protection that you need to ensure your family's future financial stability.

To get started we have to understand where your mortgage is at today and create a forecast of where it will be in 10 years. To do this effectively I have selected a rate of 5.47% to be used at maturity and 5.47% to be used as your effective rate of interest for the balance of your amortization. I believe these rates are reasonable anticipated rates that you will likely be charged upon maturity. Using that rate we can do direct comparisons between the available options that you have today, which are; doing nothing, breaking your current mortgage and selecting a five-year rate, or breaking your mortgage and selecting a 10-year rate.

Your Current Mortgage Details:

	Today 16/Oct/12	At Maturity 7/Oct/15	After 10 Years
Outstanding Balance	$300,000.00	$282,278.89	$237,352.02
Rate	3.59%	5.50%	5.47%
Payment	$1,358.00	$1,663.89	$1,659.57
Amortization	30 Years		

In order to maintain your current amortization at maturity your anticipated monthly payment increase would have to be $223.70(Payment Shock).

As previously mentioned we also need to factor in the costs of breaking your current mortgage into the future forecasts that we are presenting to you. These costs for the purpose of this report will be estimated to the best of our ability, and will be added to your current outstanding mortgage balance. It is important to understand that for the balance of this report these costs are already factored into any stated benefits. I have done this so that you can see a true apple to apples comparison, to assist in making your best final decision.

Estimated Penalty	Estimated Closing Cost	New Required Mortgage
$5,310.00	$1,000.00	$306,310.00

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For Your Consideration:

Making the right decision for your family is crucial in today's tough economic times, and a wrong decision could have a devastating impact on your long term financial stability. However the challenge today is figuring out what decision is ultimately the best. This page will show you not only how to protect yourself and your family's finances for the next 10 years, but how this protection ultimately pays down your mortgage faster and with an overall lower cost of interest.

My Best Recommendation For Your Mortgage

	Current Mortgage	10 Year Fixed with IHS
Balance	$300,000.00	$306,310.00
Payment	$1,358.00	$1,440.19
Rate	3.59%	3.89%
Amortization	30 Years	26.4 Years
Mortgage Balance After 5 Years		
Balance	$272,548.85	$268,832.38
Rate	5.50%	3.89%
Mortgage Balance After 10 Years		
Balance	$237,352.02	$216,302.21
Rate	5.47%	5.47%

Reduced Interest	Balance Reduction	Amortization Reduction
$28,459.61	$21,049.81	3.6 Years

The Benefits of the 10 Year Fixed Mortgage with Inflation Hedge Strategy

In addition to the overall balance reduction and interest saved on your mortgage by converting to a ten-year fixed, you also receive the following benefits that aren't easily seen in the numbers above.

1. Helps avoid future payment shock – Currently in approximately 36 Months your mortgage will be up for renewal and your payment will be increasing by $223.70. The inflation hedge strategy slowly increases your mortgage payment by $55.93 to absorb the payment shock over a five-year period, instead of absorbing it all that once at maturity.

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Current Mortgage	$1,358.00	$1,358.00	$1,358.00	$1,663.89	$1,663.89	$1,663.89	$1,663.89	$1,663.89	$1,659.57	$1,659.57
10 Year Mortgage	$1,440.19	$1,496.11	$1,552.04	$1,607.96	$1,663.89	$1,663.89	$1,663.89	$1,663.89	$1,663.89	$1,663.89

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2. Reduces the amount of money required to pay off your mortgage - As a result of being able to take advantage of the low rate of the 10 year fixed mortgage you're actually able to save money monthly in two different ways. The first way is by slowly increasing your monthly payments over the initial 5 year period. You will save money based on not having to increase your payment as fast as you would have with your current mortgage. The second way you save money isbecause we have canceled 3.6 Years worth of mortgage payments by shortening the amount of time you have to pay your mortgage. Here's a summary of the additional savings you get by converting to 10 year fixed mortgage:

Mortgage Payments Cancelled Due to Lower Rate

	First Five Years	Amortization
Current Mortgage	$188,550.75	$586,674.08
10 Year Mortgage	$193,234.96	$519,465.43
Total Savings	**($4,684.21)**	**$67,208.66**

This is because your mortgage will be paid off
3.6 Years
Faster!

3. What if I used a lower 5 year fixed rate and applied the same Inflation Hedge Strategy to it? - As your mortgage professional I have already compared 10 to 15 different options for you for including the 5 year fixed-rate and have determined that the 10-year has the best protection, and the lowest overall cost. This is due to the fact that the 5 year fixed mortgage renews back into market rates at maturity a full 5 years sooner. The impact of keeping your interest costs lower for the additional five years makes a staggering difference. Here is a summary to show how the 10 year term out performs the 5 year fixed mortgage:

Five Year Fixed Mortgage Compared to the Ten Year Fixed Mortgage

	Interest Rate Today	Interest Rate In 5 Years	Mortgage Balance after 10 years
Five Year Fixed	3.09%	5.47%	$222,232.99
10 Year Mortgage	3.89%	3.89%	$216,302.21
	Total Estimated Savings by Selecting a Ten Year Term		**$5,930.78**

The 10 Year rate provides the most protection and the lowest overall Interest Costs!

4. Protection against rising rates and the certainty that you know how much you will owe in 10 years - Although this benefit has no real monetary value, the peace of mind that you will have once you are certain that your mortgage rate and payment are not going to change for the next 10 years, is priceless. Many of my clients use the certainty to allow them to plan for other major expenditures, or even begin setting aside additional money for investing and long-term planning. What you decide to do with your monthly savings, is a personal choice, whether it's a well-deserved vacation or even simply applying that additional interest savings back onto your mortgage as principal payments to allow you to pay off your mortgage even faster than stated in this report would be up to you, but don't worry I'm here to help you make that decision.

"Little changes to your mortgage, can make a huge impact! An optimized mortgage will save you thousands of dollars in interest". - *Kyle*

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Mortgage Summary

As you can see setting up your mortgage properly and looking beyond what you are simply told by the bank can have a dramatic impact on your mortgage. As a Professional Mortgage Planner it is my responsibility to help you manage your debt and teach you how to pay it off the fastest, safest way possible. In today's current economic climate, and with the emergency rates that are currently available I think the best way to achieve both of those goals is to use a 10-year fixed rate. As part of my commitment to continually monitor your mortgage I will enroll you in my automated email alert system. The Inflation Hedge Strategy is designed to ensure that your mortgage payment combats inflation and rising rates by making small increases to your mortgage payment on regular intervals. I have developed the strategy using an electronic notification system that will automatically notify both you and me when an increase to your mortgage payment is suggested based on the current market trends. This system is not available through any major financial institution, and is provided to you as a premium service only offered to my personal clients.

Your New Mortgage	=	$306,310.00
New Interest Rate	=	3.89%
New Term	=	10 Years
Net Effective Amortization	=	26.4 Years
Payment	=	$1,440.19

These specialized mortgage lenders only deal with a limited number of Mortgage Agent's

Frequently asked questions about converting to a 10 year Mortgage

1. What if I have extra debt I would like to pay off? If you currently have any additional, unsecured debt like credit cards, lines of credit, or vehicle loans now is a great time to consider repositioning those debts into your mortgage. Before we go any further with converting your mortgage to a 10-year fixed we will take the time to show you the advantages and the additional interest that you can save by including those debts in your mortgage, creates extra monthly cash flow as a bonus.

2. What if I want to buy a new home within the next ten years? Your new 10 year fixed mortgage is completely portable, which means if you buy a new home you can bring your mortgage and transfer the low guaranteed rate associated with the mortgage to your new home, with no additional penalties.

3. What if I start using the Inflation Hedge Strategy, and I can't afford to increase the payment?
The Inflation Hedge System is designed to notify you when I would recommend for you to increase your monthly payment, but it is not a requirement, you could choose to keep your payment the same. I feel that it is my job to ensure that you're getting the advice that you need in order to make the best decisions for your financial future. I understand and respect that ultimately you are the one that needs to make the decisions that are best for your family, as long as I'm giving you the advice that I think you need, I am comfortable with whatever decision you make.

4. What if I simply want out of my mortgage? The 10 year fixed mortgage has the same prepayment cost as the 5-year fixed mortgage, which is an interest-rate differential for the first 5 years or a three-month interest penalty. Once you are 5 years into your 10-year term, the maximum prepayment cost for breaking your mortgage would be a three-month interest penalty. The prepayment penalties on the 10 year fixed mortgage are actually better than what you would get with 2 five-year terms because the interest rate differential disappears after the first 5 years when using the ten year fixed mortgage, and it will be there the entire time with two 5-year terms.

5. What are the steps to get this started? If this is something that you are interested in I will begin getting everything ready for you right away. Once I have a commitment from the bank to provide you with the mortgage we will meet again and review all the specific details of your new mortgage.

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