

Raise payments to avoid trap of a long mortgage

MORTGAGE from B1

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With a 25-year amortization, Harriet and Henry will pay \$564,131.35 in total (assuming they renew every five years at the same interest rate).

They will pay a whopping \$760,061.81 if they take 40 years to pay off the mortgage.

Let's look at the cost of interest alone.

With a 25-year amortization, it's \$260,131.35. And with a 40-year amortization, it's \$456,061.81 — or half as much again as the initial loan.

- You build equity more slowly and get back less of the money you paid in when you sell the house.

Suppose Harriet and Henry go for a 40-year amortization.

A decade after buying a home, they still owe \$276,589.17 on their \$304,000 loan.

After 20 years, they still owe \$228,783.96.

And after 25 years — when others have paid off their mortgages in full — they still owe \$192,856.70.

So, how can you avoid this trap?

Increase your mortgage payments as much as you can.

Throw any other cash you have (such as income tax refunds) into the mortgage.

Your goal is to shorten the pay-back period and interest paid — and to fatten your own bottom line instead of the lender's.

Ellen Roseman's column appears Wednesday, Saturday and Sunday. You can reach her by writing care of Business, the Toronto Star, 1 Yonge St., Toronto M5E 1E6; by phone at 416-945-8687; or at eroseman@thestar.ca.

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