# Fixed-rate Mortgages and Variable-rate Mortgages

When you apply for a mortgage, you have choices with either fixed or variable interest rates and the differences between Fixed and Variable rate mortgages are as follow;

## Fixed interest rate mortgages

With a fixed interest rate mortgage, the interest rate is determined when you are approved for a mortgage. This interest rate is locked in for the entire term of the mortgage. The amount of regular mortgage payments is also set for the term, providing you with the security of knowing precisely the amount of interest you will have to pay (assuming you don't make any prepayments), and how much of the original loan amount will be paid off during the term.

Fixed rate mortgages are usually closed mortgages. (prepayment charges may apply if partially prepaid or paid off prior to maturity).

## Variable interest rate mortgages

A variable interest rate mortgage is a mortgage with an interest rate that can change during the term. The interest rate varies with changes in market interest rates. With a variable rate mortgage, mortgage payments are also set for the term, even though interest rates may fluctuate during that time. If interest rates go down, more of the payment is applied to reduce the principal and if rates go up, more of the payment is applied to payment of interest.

Variable rate mortgages can be open (may be partially prepaid or paid off at any time without prepayment charge) or closed (prepayment charges may apply if partially prepaid or paid off prior to maturity).

A variable rate mortgage also allow you to convert to a fixed rate mortgage at any time.

The interest rates on variable rate mortgages are often lower than on fixed interest rate mortgages with the same term length when you sign your mortgage agreement, so variable interest rate mortgages may be attractive in the short term.

However, whether you are better off with a variable interest rate mortgage compared to a fixed interest rate mortgage depends on whether the market interest rates go up or down during your term. This change is very difficult to predict and the choice is yours.

## Making a decision between fixed and variable interest rate mortgages

Here are a few factors to consider when you make a decision between a fixed and variable interest rate mortgage:

| A fixed interest rate mortgage may be better for you if: | A variable interest rate mortgage may be better for you if: |
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| ▶ you want to know your interest rate is not going to change over the term of your mortgage<br><br>▶ you prefer knowing in advance how much of your mortgage will be paid off at the end of your term<br><br>▶ you think there is a good chance that market interest rates will rise over the term of your mortgage. | ▶ you are comfortable with the possibility that<br>– your mortgage interest rate could increase<br>– you could pay more in interest over the term of your mortgage than you would have paid with a fixed interest rate<br><br>▶ you follow interest rates closely<br><br>▶ you think there is a good chance of interest rates staying the same or dropping over the term. |