No simple answers for new buyers The choice: To lock-in or go variable

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Do you lock in or go variable? With mortgage rates tantalizingly low it is easy to see why so many people prefer the latter, but that could change if the rates start to rise.

Maria Dominelli, a mortgage specialist with independent mortgage brokerage firm Invis in Victoria, B.C., says deciding which route to choose depends on an individual or couple's short-and long-term goals, the amount of debt being carried and their overall tolerance to risk.

"I always ask clients whether they can afford to ride the wave, because there will be waves," she says. "If you cannot afford an extra couple of hundred dollars a month if rates rise, it is not for you."

Contrary to what many might think, there is not a downside to locking in, says Laura Parsons, a mortgage expert with BMO Financial Group in Calgary.

"Do your homework and if you do lock in, do not look back," she says. "It depends on the person and what they can tolerate. Some people can't sleep at night because they're worried about what the rates are going to do. In that case, of course, a variable rate would not be suitable. You may want to just know what your mortgage rate is going to be for the next five years."

Karen Blomquist, a mortgage associate with Invis affiliate Mortgage Intelligence based in Calgary, conducts a needs analysis with her clients to "find out a little more about who they are.

"If they can't sleep at night, what's the point?" she asks. "[But] if someone has enough money and enough savings and risk, why wouldn't you go variable? But if you are a little tight, you have a fear of fixed changing and you like to look at the long term, then I would say absolutely, lock in."

For anyone who is undecided, BMO offers a service called Online MortgageMate, which involves answering six questions in order to "pick the mortgage that fits."

"This slows someone down and helps them work through the thought process and making that decision," Ms. Parsons says.

"After they answer the questions online it will automatically tell them that they should be in a fixed or a variable, based on the information they provide. You should be setting your payments higher in order to avoid payment shock. It is the payment shock that most people have a problem with. At least have an emergency fund that you can draw on and lump sum your mortgage in order to reduce your payments as well."

Ms. Dominelli says that mortgage professionals have a responsibility to make sure that consumers really understand what they are getting into.

"Not all fixed rates are equal in terms of the product and not all variables are equal," she says.

"As an example, bi-weekly does nothing for you. It gives the lender your money more often. Accelerated is when you have 26 payments. You may think you have an accelerated payment, but in reality you don't. You have to really make sure you are signing the right document."

For the purpose of this story, she calculated the difference between a $250,000 mortgage, amortized over 25 years at a five-year fixed rate of 3.69%, and a variable mortgage at prime minus 0.80%. In each case, the monthly payments were $1,273.38.

"Assuming the current prime rate of three per cent steadily increases to five per cent by the end of the term at the end the five-year period, the principal balance in the fixed term (assuming no extra payments) would be $216,444 versus $208,027 in the variable rate mortgage," Ms. Dominelli says.

"That's what makes a variable mortgage attractive, when you work out the numbers and show people the potential. However, I say that with caution because I would never show that to a highratio borrower. The reality is that this is what has happened as of late: you have had the lowest interest rate on the variable and the fixed, but going forward I don't know if we can count on history repeating itself."

Ms. Parsons says people are really paying attention to interest costs, and so they should. "As an example, taking five years off the amortization of a $300,000 mortgage can save you $53,000," she says. "It's huge.

"There is nothing wrong with requesting an amortization schedule when you get your mortgage so you know where you're at in the first five years, 10, 15 and so on. Paying weekly, rather than monthly is a great way to battle that interest cost and also, get used to having a higher payment."