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Many Canadians paying off mortgages faster, but are they further ahead?

By Dawn Walton

People paying off their mortgages faster are often growing credit card balances and lines of credit, financial adviser says

While I've been busy sinking money into mortgage payments, daycare costs, RESPs, RRSPs, utilities, groceries, vehicle maintenance and the occasional vacation, I've somehow failed to notice that many Canadians seem to be doing all this – and stepping up their mortgage repayments, too.

According to the Canadian Association of Accredited Mortgage Professionals [http://www.caamp.org], over the past 20 years mortgage repayment periods have shrunk to two-thirds of the actual contracted period. Furthermore, during the past year – a time when household debt has soared to a record high – 32 per cent of borrowers have managed to dramatically accelerate their mortgage payment schedules.

Yes, you read that right. At a time when Canadians have loaded up on consumer, house and car debt, it appears that many people are finding ways to pay off their mortgages faster.

Of the almost 6 million mortgage-holders in Canada, about 1.9 million made additional payment efforts during the past year. I was not one of them, unless the biweekly payment option counts. Instead, I am among the 60 per cent of mortgage holders who made only their minimum mortgage payment.

The association's annual survey, which was released last month, contains some interesting data about those aspiring to be mortgage-free sooner.

- $300 – the average monthly increase to regular mortgage payments in the past year
- $22,500 – the average lump sum payment among mortgage-holders in the past year
- $29,000 – the average lump sum payment among those now mortgage-free during the last year of their mortgage

Of course, paying off a mortgage faster is a good thing. But is all this bumping up regular payment amounts, making an annual balloon payment and increasing the frequency of payments, actually making a serious dent in people's overall debt load?

Not necessarily, says Rona Birenbaum, a financial planner with Caring for Clients in Toronto. When she sees clients with very aggressive amortization schedules, a closer look at their cash flow reveals a starkly troubling overall financial picture.

"How are you affording this?" she asks them, "You must be creating debt somewhere else, and they are."

Credit card balances and lines of credit are often rising on the other side of the ledger, she said. Keep in mind that credit card debt comes with higher – often very high – interest rates. All of that means that while people's mortgage debt is falling, their consumer debt is rising.

"Overall, they are not getting ahead," Ms. Birenbaum said.

Ultimately, the goal of mortgage freedom makes financial sense for everyone. But Ms. Birenbaum believes that the right approach to repaying mortgage debt depends on the individual or family. It requires discipline with cash flow, and a commitment not to spend a sudden injection of income, such as inheritances or bonuses, on items other than mortgage repayment.

"Interest rates may be low, but any interest is money out of your pocket and into the banks," she said.

And with mortgage rates well below historical averages, borrowers can certainly save money by taking advantage of the low rates to shorten their amortization period.

The survey also noted that the average interest rate was 3.55 per cent, and that mortgage rate discounting remains "widespread" in Canada – with the average actual rate for a five-year fixed rate mortgage at 1.85 percentage points lower than the posted rates.

The report, which is based on an online survey of 2,018 Canadians, found that one-third said low interest rates have helped them beef up repayments, and that the majority planned to pay off their mortgage in less than 25 years.

For Ms. Birenbaum, the report shows that borrowers are getting savvy when it comes to the flexibility offered in their mortgages, but it also reflects some anxiety about what rising interest rates can mean if they don't have the capacity to pay.

"Canadians are pretty freaked out by what happened in the U.S. and they don't want to go down that path," she said.

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