Financial Consumer Agency of Canada
Agence de la consommation en matière financière du Canada

Choosing an Amortization Period: What is the Impact on Your Mortgage?

Amortization period compared to the term of a mortgage

The *amortization period* on a mortgage is the total length of time it will take you to pay off your mortgage. If your down payment is less than 20 percent of the purchase price of your home, the longest amortization period allowed is 25 years.

In comparison, the *term* of a mortgage (which ranges from six months to 10 years) represents the length of time for which your mortgage agreement with a lender is valid.

Benefits and costs of a longer amortization period

Some people choose a longer amortization period because it lowers their mortgage payments: the longer the amortization, the lower the mortgage payments. This can mean, for some, the difference between buying and not buying a home.

However, the longer it takes you to pay back the mortgage principal to the lender, the more interest you will pay – which can affect your ability to save for other important things, such as retirement.

Examples of interest costs

The table on the next page shows how much interest you would have to pay on a $200,000 mortgage, depending on the monthly payment and amortization period chosen:

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	Amortization period	Monthly payment	Total interest payments[1]	Total payments[1]
Shorter	10 years	$2,213.02	**$65,562**	$265,562
↓	15 years	$1,679.77	**$102,358**	$302,358
↓	20 years	$1,424.38	**$141,850**	$341,850
Longer	25 years	$1,279.61	**$183,885**	$383,885

[1] over the amortization period, assuming monthly payments on a $200,000 mortgage with an interest rate of 6%.

Another way to look at it is to compare how much of the amount borrowed (the principal) would be paid off in the first few years, depending on the amortization period. Using the above mortgage as an example, the table below shows how much of the principal would be paid off in the first five years:

	Amortization period	Principal paid back to the lender after 5 years[1]	
		Amount	Percentage[2]
Shorter	10 years	**$85,327**	**43%**
↓	15 years	**$48,192**	**24%**
↓	20 years	**$30,408**	**15%**
Longer	25 years	**$20,327**	**10%**

[1] This example is based on a $200,000 mortgage with an interest rate of 6%, and assumes monthly payments.

[2] This figure represents the percentage of the original amount borrowed paid back to the lender. It is calculated by dividing the dollar amount of principal paid back to the lender after 5 years by the original amount borrowed (in this example $200,000) and multiplying the result by 100.

Reducing total interest costs

Here are ways to reduce your total interest costs over the long run, no matter what amortization period you choose:

- **Increase the frequency of your payments.** Consider making accelerated biweekly payments rather than monthly payments. For example, with monthly payments, if your payment was $500 each month, by the end of the year you would have made $6,000 in mortgage payments. With accelerated biweekly payments, you would pay $250 every two weeks for a total of $6,500 a year ($250 x 52 weeks ÷ 2). The interest savings come from making more frequent payments and also paying $500 more each year.

- **Know and use the prepayment privileges on your mortgage.** Most mortgage lenders will let you prepay a certain amount every year, without penalty. Some lenders also allow you to make larger mortgage payments from time to time when you can afford it.

  Making prepayments as often as possible helps you lower the principal balance outstanding on your mortgage and therefore saves you money in interest charges.

- **At renewal time, shop around** to make sure you still have the right mortgage for your needs. Consider the interest rate, term, prepayment privileges and other options that best suit your particular situation.

  It is also a good time to increase your mortgage payment to the highest amount that you can afford, and increase your payment frequency to save in interest charges. If you change lenders, make sure you verify whether there are costs associated with doing so.

Other FCAC information of interest

Tip Sheets

- Buying and Maintaining a Home: Planning Your Housing Budget
- Shopping Around for a Mortgage
- Understanding Variable Interest Rate Mortgages
- Know Your Responsibilities as a Joint Borrower
- Making a Budget and Sticking to It
- Before you Sign any Contract: 10 Things you Need to Know

Interactive Tools

- Mortgage Qualifier Tool
- Mortgage Calculator Tool

Notes

About Financial Consumer Agency of Canada (FCAC)

With educational materials and interactive tools, the Financial Consumer Agency of Canada (FCAC) provides objective information about financial products and services to help Canadians increase their financial knowledge and confidence in managing their personal finances. FCAC informs consumers about their rights and responsibilities when dealing with banks and federally regulated trust, loan and insurance companies. FCAC also makes sure that federally regulated financial institutions, payment card network operators and external complaints bodies comply with legislation and industry commitments intended to protect consumers.

Contact Us:

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