Trigger Rates & Trigger Points

As TD, Coast Capital and HSBC do not change the payment after funding of Variable rate mortgages, any changes in the prime rate will affect how much interest you pay, resulting in a higher proportion of your payment going to interest. **This pushes out the amortization on the loan.**

Trigger Rate:

The **Trigger Rate** is your effective rate that makes all of your payment on the loan go to interest only, at which point any further increases in prime would result in additional interest being capitalized into the mortgage, therefore increasing the outstanding balance on your mortgage.

The Trigger Rate does not mean that you will have to increase your payments.

You are able to offset the entire payment going to interest by doing lump sum payments or increasing your mortgage payment on your own. This would result in the reduction of principle, therefore reducing the amortization and/or capitalization of interest being added onto the loan.

Paying off your mortgage faster is recommended because if you leave the payment low and prime keeps moving up, lender may need to catch up on the missed payments.

If the trigger is not reached and you leave it to the renewal date without any additional principal reduction, then the new payment at renewal will be set based on the renewal rate and remaining contractual amortization.

The above sentence is a difficult one but what it means is that your payment, if it has not changed during the initial term, will shoot up upon renewal because the renewal will be based on 20 or 25 years amortization, a new interest rate, and the current outstanding balance, as opposed to the extended amortization that occurred with the current fixed-payment variable.

**NOTE ** Any change you make to the mortgage after funding will produce an amending agreement that will have a new trigger Rate.

Trigger Point:

There is also a **Trigger Point.** This is when Banks would force you to increase your payment or do a lump sum payment if too much interest is capitalized into the mortgage and **the loan to value on the loan is too high.**

The trigger point is when the balance of the mortgage exceeds 80% of the value of the property on conventional mortgages and 105% on insured mortgages.

The <u>Trigger Point,</u> not your Trigger Rate, is where the lender will force you to pay a lump sum to decrease your balance, or increase your payments.

Extra tip: if you want to keep your payment low but are also worried about your future payment increasing dramatically at renewal and/or additional interest accruing and possibly being capitalized into the mortgage balance, **it is best to make lump sum payments!**

Capitalization happens when prime increases so much that your interest rate is higher than the trigger rate, resulting in additional excess interest over and above your payment being added to the mortgage balance.

The lump sum payment option will reduce the principal balance, allow the payment to stay the same and result in reducing the actual amortization of the loan, therefore offsetting the extension of amortization resulting from prime rate increases.
**Most Lenders allows clients to make unlimited prepayments up to 15% of original mortgage amount every calendar year with the minimum payment being $100.*