

Longer or shorter? Your amortization affects how much your mortgage really costs.

Choosing the length of your amortization period, which means the number of years you will need to pay the full balance of your mortgage, is an important decision that can affect how much interest you pay over the life of your mortgage.

Historically, the banking industry's standard amortization period has been 25 years, a standard that still applies today. It is the benchmark that is used by most lenders when discussing mortgage offers. However, shorter or longer time frames are available.

Why choose a shorter amortization period?

The main reason to opt for a shorter than standard amortization period is so that you become mortgage-free sooner. And since you are agreeing to pay off your mortgage in a shorter period of time, the interest you pay over the life of the mortgage is therefore greatly reduced.

You also have the advantage of building home equity sooner. Equity is the difference between any outstanding mortgage on your home and its market value. It represents the amount of money you can claim as your asset. If you choose, your equity can be used to secure lower interest cost financing for things such as home renovations, your children's education or second property investments, just to name a few.

A shorter amortization period saves you money on interest.

While there are many good reasons to opt for a shorter amortization period, there are a couple of other factors to consider. Because you are reducing the actual number of mortgage payments you make to pay off your mortgage, your regular payments will be higher.

So if your income is irregular, or if you're buying a home for the first time and will be carrying a large mortgage, a shorter amortization period that increases your regular payment amount and ties up your cash flow may not be the best option for you.

But, if you can comfortably afford the higher payments and are looking to save money on your mortgage, or maybe you just don't like the idea of carrying debt over a long period of time, perhaps you should consider a shorter amortization period. The following chart will help you see the differences between shorter and standard amortization periods.

Compare the difference*: Five-year fixed-rate closed mortgage

Details	15 Year	20 Year	25 Year
Mortgage principal	\$100,000.00	\$100,000.00	\$100,000.00
Monthly mortgage payment (Principal & Interest)	\$839.89	\$712.19	\$639.81
Monthly payment increase compared to 25 year amortization	\$200.08	\$72.38	\$0.00
Term interest costs (5 years at 6%)	\$26,296.67	\$27,527.46	\$28,225.07
Additional term interest savings over 25 year amortization	\$1,928.40	\$697.61	\$0.00
Balance at maturity	\$75,903.27	\$84,796.06	\$89,836.47

Why choose a longer amortization period?

Choosing a longer amortization period can get you into your dream home sooner than choosing a standard or shorter period.

When you apply for a mortgage, lenders calculate the maximum regular payment you can afford. They then use that amount to calculate the maximum amount they will lend to you for your mortgage.

As a shorter amortization period results in higher regular payments, a longer amortization period reduces the amount of your regular principal and interest payment by spreading your payments over a longer period of time. So you could qualify for a higher mortgage amount than you originally anticipated. Or you could qualify for your mortgage sooner than you had planned. Either way, you end up in your dream home sooner than you thought possible.

**Get your dream home sooner with a longer amortization.
Regular payments are less with a longer amortization.**

Again, this option is not for everyone. While a longer amortization period will appeal to many people because the regular mortgage payments can be comparable or even lower than paying rent, it does mean that more interest will be paid over the life of the mortgage. The chart below will help you to see differences between longer and standard amortization periods.

Compare the difference*: Five-year fixed-rate closed mortgage

Details	25 Year	30 Year
Mortgage principal	\$100,000	\$100,000
Monthly mortgage payment (Principal & Interest)	\$639.81	\$594.83
Monthly payment reduction compared to 25 year amortization	\$0	\$44.98
Term interest costs (5 years at 6%)	\$28,225.07	\$28,658.59
Additional term interest costs over 25 year amortization	\$0	\$433.52
Balance at maturity	\$89,836.47	\$92,968.79

You have the flexibility to shorten your amortization period.

Regardless of which amortization period you select when you originally apply for your mortgage, it does not mean you have to stay with that period throughout the life of your mortgage.

You can always choose to shorten the amortization period and save on interest costs by choosing an accelerated payment option, making extra payments when you can, such as a Double UpSM or an annual lump sum principal prepayment.

You should review your options at each renewal to shorten your amortization and pay off your mortgage faster.

It also makes good financial sense for clients to re-evaluate their amortization strategy every time their mortgage comes up for renewal.

Then, as you advance in your career and begin to earn a better salary over time, you can simply increase the amount of your regular payments by as much as 10% once each year. All these prepayment features will take years off your amortization period, and save you money on interest.

Compare interest costs

Details	15 Year	20 Year	25 Year	30 Year
Interest costs for full amortization**	\$51,178.12	\$70,924.89	\$91,940.69	\$114,132.28
Additional interest savings/costs for the amortization***	(\$40,762.57)	(\$21,015.80)	\$0.00	\$22,191.59

If you would like to discuss amortization options or have any questions about the flexible payment options that can shorten your amortization period, please speak with an RBC[®] mobile mortgage specialist or visit your nearest RBC branch.

For mortgage calculators visit www.rbcroyalbank.com/mortgagecalculators



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