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WHAT IS A BLENDED MORTGAGE?

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A blended mortgage can be helpful for those looking to take advantage of the equity in their home or who want to lock in a lower interest rate, without having to face the penalties.

WHAT IS A BLENDED MORTGAGE?

A blended mortgage is a way of refinancing your mortgage where you blend two mortgage loans and rates into one. When you take out a blended mortgage in Canada, you can avoid the prepayment fees that typically come with breaking your mortgage loan early.

By blending the interest of two mortgage rates — your current rate and today's lowest rate — you get a new rate that is somewhere in between both.

When you blend two mortgage rates, you're able to access a lower rate without breaking your mortgage.

DIFFERENT TYPES OF BLENDED MORTGAGES

There are two types of blended mortgages: the blend and extend mortgage, and the blend to term mortgage.

With a blend and extend mortgage, you blend the rates together and extend the term of your mortgage. Your new blended mortgage payment will be somewhere between your old and new rates.

For argument's sake, let's say you have three years remaining on a five-year term mortgage with a fixed rate of 3.90%.

Through a proper refinance, you could take on a new five-year fixed term at, say, 2.5% — but you'd have to pay a prepayment penalty. You can avoid the prepayment penalty by settling on a new/extended five-year term and a blended mortgage rate of, say, 3.25%.

With a blend to term mortgage, on the other hand, you don't extend your mortgage term. However long you have left in your current mortgage term is how long you'd have the blended rate for. So in the example above, you have three years remaining on a five-year mortgage term, your new mortgage term would still be three years, but your blended mortgage rate would likely be on the higher end of the range because you are opting for a shorter term and, therefore, the lender is able to collect less interest from you.

BLENDED MORTGAGE VS. HELOC

While a blended mortgage can give you access to a one-time lump sum equity payment, a home equity line of credit (HELOC) gives you access to the equity in your home on an as-needed basis.

With a HELOC, you can access up to 80% of your home's value via a revolving line of credit.

Unlike a blended mortgage, HELOCs require you to pay only the interest on the amount of money you've borrowed. So, if you don't access your line of credit, you're not making an extra payment. It's important to note that in most cases, your mortgage and HELOC combined can be up to 80% of your home's value, but a HELOC alone can only be 65% of your home's value.

HOW TO CALCULATE BLENDED MORTGAGE RATES

If you've never had a blended mortgage before you might be wondering, how do blended mortgage rates work and how are they calculated?

Your financial institution will have its own formula for calculating your blended mortgage rate.

A blend and extend mortgage will likely offer a slightly lower rate than a blend to term mortgage, since your lender will be able to collect interest from you for longer. That said, lenders who offer blended rate mortgages will vary in how they choose to approach this product.

If you're looking to compare blended mortgage rates and find the best blended mortgage rate for your personal situation, then head to a rate comparison site. There are also mortgage rate calculators online that can let you calculate blended mortgage rates with just some basic information.

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