Learning English with CBC Radio – Living in Alberta

Buying your first home: Mortgage shopping

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CBC

Alberta Government

Integration Enhancement

Topic:	First time home buyers
Lesson:	Mortgage interest rates
CLB Level:	6
CLB Skills:	Reading, Writing,
Essential Skill(s):	Reading, Writing, Document Use, Numeracy, Computer Use, Thinking Skills (Finding Information)

CLB Outcomes	
Reading:	Learners will demonstrate reading comprehension of moderately complex formatted texts. Learners will demonstrate the ability to guess the meaning of unknown terms, phrases or idioms from the context. Learners will demonstrate the ability to identify specific factual details and some implied meanings.
Writing:	Learners will demonstrate the ability to reduce a page of information to a summary. Learners will demonstrate the ability to enter information in a table.
Language Skills	
Grammar Focus:	Sentence structure – simple and compound sentences
Vocabulary:	*option, entire, assume, vary, principal, require, portion, transfer, predict, term, financed, original loan, impact, decrease, adjustable*
Culture Information on mortgage interest rates is available for free on the internet in Canada. It is important for first time homebuyers to do their own research on the types of mortgage interest rates that are available and that work best for them.	

Websites:

www.learnersdictionary.com

www.prowritingaid.com/collocation.aspx

www.dictionary.com

http://www.programs.alberta.ca/Living/9549.aspx?Ns=9550&N=770

http://www.fcac-acfc.gc.ca/Eng/resources/publications/mortgages/Pages/BuyingYo-Acheterv-16.aspx

Introduction

Before you read, complete the first two columns of the KWL chart below:

K	W	L
What I **know** about mortgage interest rates.	What I **want** to know about mortgage interest rates.	What I **learned** about mortgage interest rates.

Pre-reading
The excerpt below has been adapted from:
http://www.fcac-acfc.gc.ca/Eng/resources/publications/Documents/TSShopMort-eng.pdf

A mortgage is a loan that is designed to help you purchase a home or other property. You can get a mortgage from lenders such as:

- banks
- loan companies
- insurance companies
- credit unions
- trust companies
- caisses populaires

You can also use a mortgage broker to help you find a mortgage.

How does a mortgage work?
Homebuyers make a down payment on the purchase price and then borrow the remainder from a lender. Five percent is the minimum down payment home buyers have to make. The lender provides a mortgage loan equal to the difference between your down payment and the purchase price of the home. You will then have to start making regular payments to the lender to pay back the amount you borrowed, called the ***principal***, plus interest, according to the terms and conditions you negotiate. The longer you take to pay the mortgage back, the more interest you will pay. The higher the interest rate, the higher your regular payments. If you default on the loan – that is, if you cannot or do not make regular payments – the lender can take ownership of the property.

Food for thought

1. Do you own a house? If not, do you think you would like to buy a house one day?
2. Give a reason why most people would need to borrow money from a lender in order to buy a house?
3. How do lenders make their money when they lend people mortgages?
4. How much does it cost to buy a house or apartment in the neighbourhood you live in?

Main Reading

Title: Interest rates: fixed, variable or hybrid

Glossary[1]

1. *Fixed interest rate* means an amount of money paid by a borrower for the use of borrowed money. The amount that is paid back does not change.
2. *Variable interest rate* means an amount of money paid by a borrower for the use of borrowed money. The amount that is paid back can change.
3. *Hybrid interest rate* means an amount of money paid by a borrower for the use of borrowed money. The amount that is paid back is a combination of fixed and variable.
4. *Mortgage lenders* are people or organizations that give people money to buy houses.
5. *Amortization* means payment of money that is owed for something (such as a mortgage) by making regular payments over a long period of time.

As you read the selection, use *context clues* to help you figure out the meaning of the following words that you will come across: *financed, original loan, impact, decrease, adjustable*

<u>Reading Strategy Tip: Reading a graph</u>

A graph shows numerical information visually. You can find information in a graph more quickly than you can in a paragraph of text. Graphs also make it easier to compare information. There are different types of graphs. In this selection you will read a line graph. A line graph shows how information changes over time. To understand a graph, you need to read its title and its labels. They tell the type of information that is shown on the graph. Read any text that comes before or after the graph as it may contain information that will help you interpret the graph.

The reading selection on the next page is part of a document taken from http://www.fcac-acfc.gc.ca/Eng/resources/publications/mortgages/Pages/BuyingYo-Acheterv-16.aspx

[1] Definitions taken from www.learnersdictionary.com

Interest rates: fixed, variable or hybrid

When you apply for a mortgage, lenders may offer you options with either fixed or variable interest rates. Some lenders also offer a "hybrid" option that combines fixed and variable portions in the same mortgage.

Note: The interest rate option (fixed, variable or hybrid) is decided separately from the mortgage type (open or closed) described in the previous section.

Fixed interest rate mortgages

- You will know in advance the amount of interest you will have to pay (assuming you don't make any prepayments), and therefore how much of the original loan amount will be paid off during the term.
- The interest rate is set or "fixed" when you apply for a mortgage. This interest rate remains the same for the entire term.
- The amount of your regular mortgage payments is also fixed.

Variable interest rate mortgages

- The interest rate can increase or decrease during the term. The interest rate varies with changes in market interest rates.
- How changes in the interest rate affect your payments will depend on whether your payments are fixed or adjustable:

Fixed payments

You pay one set amount with each payment. If the interest rate goes down, more of the payment applies to the principal and you will pay off your mortgage faster.

If the interest rate goes up, more of the payment applies to interest, and less to the principal. Your lender may require you to increase your payments so that your mortgage will be paid off within the amortization period you had originally agreed to in your mortgage agreement.

With fixed payments, you don't know in advance how much of the principal will be paid off at the end of the term.

Adjustable payments

Your payment amount changes if the interest rate changes. A set amount of each payment is applied to the principal, and the interest portion fluctuates depending on changes to the interest rate. If the interest rate goes down, your payments will decrease.

If the interest rate rises, your payments also increase. This can make it more difficult to plan your mortgage payments over the term of the agreement, so you need to be sure you can adjust your budget to make higher payments. With adjustable payments, the amortization period stays the same. You can tell in advance how much of the mortgage will be paid off at the end of the term, because you pay whatever amount is needed to add up to the agreed amount.

Hybrid mortgages

• Some lenders offer "**hybrid**" or combination mortgages—part of the mortgage is financed at a
fixed rate and part is financed at a variable rate.

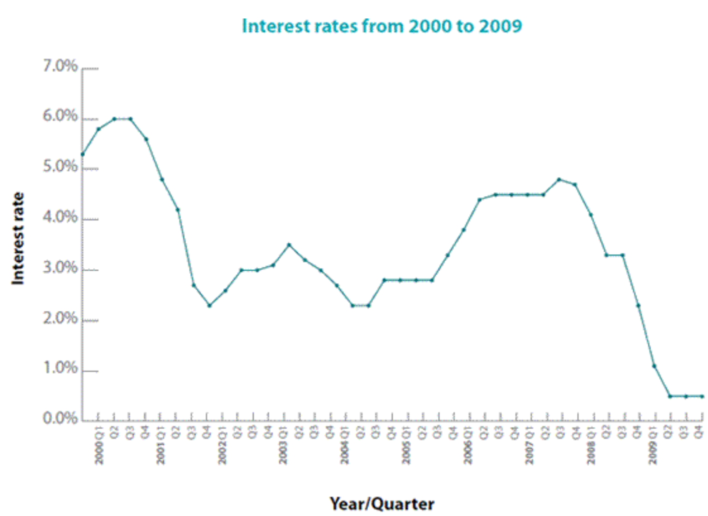
• The fixed portion gives you partial protection in case interest rates go up, and the variable portion provides partial benefits if rates fall.

• The portions may have different terms. For example, a hybrid mortgage may include a two-year term for the variable portion and a three-year term for the fixed portion.

• Hybrid mortgages that include portions with different terms may be difficult to transfer to another lender.

The interest rates on variable rate mortgages are often lower than on fixed interest rate mortgages with the same term length when you sign your mortgage agreement. This may make variable interest rate mortgages attractive in the short term.

However, whether you are better off with a variable interest rate mortgage compared to a fixed interest rate mortgage depends on whether the market interest rates go up or down during your term. This movement is difficult to predict. For example, between 2000 and 2012, the Bank of Canada Bank Rate, which impacts mortgage rates, varied from 0.5% to 6.0%. For more information on current interest rates, visit the Bank of Canada's website at www.bankofcanada.ca or your lender's website.



Source: Bank of Canada, Bank Rate

Reading Comprehension

1. What are the three interest rate options that mortgage lenders give to borrowers?

2. In the context of this reading what does the word “fluctuate” mean?

   a. to stay at the same value constantly *b. to decrease in value regularly* *c. to change value frequently*

3. A synonym of the word “partial” in this context is…

   a. one-sided *b. incomplete* *c. fond*

4. What are the two types of payments a person with a variable interest rate mortgage can make?

5. How is a hybrid mortgage different from a fixed interest rate mortgage and a variable interest rate mortgage?

6. Read the graph in order to answer the questions below:

   a) What is the subject / title of the graph?

   b) What information does this graph show?

   c) What do the labels “Q1”, “Q2”, “Q3”, and “Q4” refer to?

   d) What is the highest interest rate shown on this graph?

   a. 2.5% *b. 6%* *c. 3%*

   e) What is the lowest interest rate shown on the graph?

   a. over 3% *b. about 2.5%* *c. less than 1%*

Vocabulary Development

A. Context Clues

Use context clues from the reading to guess the meaning of the following words: f*inanced, original loan, impact, decrease, adjustable*

B. Definition Matching

The words in italics below are taken from the reading. These words are also found on the *list of the first 2000 most commonly used words of English* and on the *Academic Word List*. Match the words to the correct definition and find the part of speech. The first one has been done for you as an example.

option, entire, assume, vary, principal, require, portion, transfer, predict, term

	Word	**Part of speech**	**Definition**
1.	Predict	Verb	to say that (something) will or might happen in the future
2.			to make it necessary for someone to do something
3.			an amount of money that is put in a bank or lent to someone and that can earn interest
4.			something that can be chosen **:** a choice or possibility
5.			to think that something is true or probably true without knowing that it is true
6.			to move (someone or something) from one place to another
7.			the length of time during which something (such as a contract) continues
8.			complete or full **:** not lacking or leaving out any part
9.			to make (something) different **:** to make changes to (something) so that it is not always the same
10.			a part of a larger amount, area, etc.

C. Collocations

Words that are used in a certain way together are called collocations. A collocation is a particular combination of words. Take the word “fire”. Collocations of the word “fire” are *truck* and *fighter* – “fire truck” and “fire fighter” for example. Use online reference sites such as www.prowritingaid.com/collocation.aspx or www.thesaurus.com or www.dictionary.com to find the collocations of “rate” and “mortgage”. Complete the table below. The first one has been done for you as an example.

Rate	**Mortgage**
Heart rate	Second mortgage

Reading Strategy

Read the graph in the main selection. What do you think happened to the interest rates after 2009? Do some online research.

Grammar Focus / Pragmatic Competence

Compound sentences
A compound sentence is two simple sentences joined together by a comma and a coordinating conjunction. The structure of a compound sentence is

Simple sentence *, coordinating conjunction* simple sentence

Example

- A set amount of each payment is applied to the principal, and the interest portion fluctuates depending on changes to the interest rate.

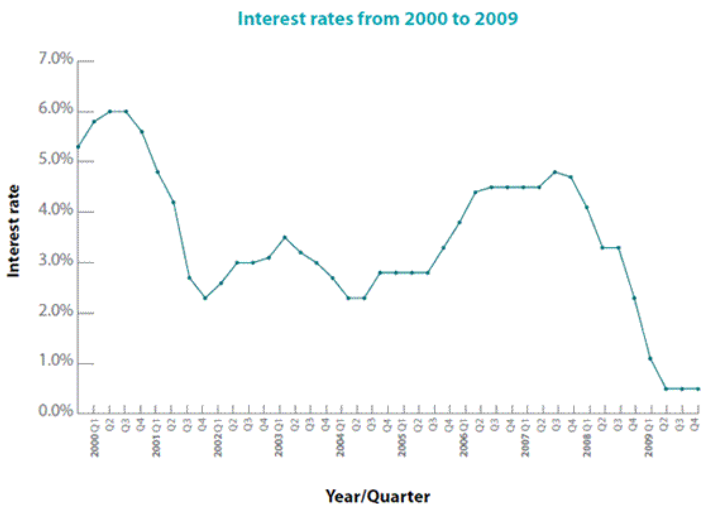
There are seven coordinating conjunctions in English: for, and, nor, but, or, yet, and so.

Activity 1
Instructions: Combine the simple sentences in each pair to make them compound sentences using the conjunction in parenthesis ().

1. The interest rate in the year 2000 was 6%. The interest rate in 2002 was 2% (but)
   ____
   ____
2. In 2004, the interest rate was 2.5%. Mary Jordan was offered an interest rate of 6% (yet)
   ____
3. Borrowers can get fixed interest rate mortgage. Borrowers can get a variable interest rate (or).
   ____
4. The interest rate can increase during the mortgage term. The interest rate can increase during the term (or).
   ____
   ____
5. The fixed portion of a hybrid mortgage gives you some protection in case interest rates go up. The variable portion provides some benefits if rates fall (and).
   ____
   ____

Activity 2

A graph such as the one below gives information visually. It is important to be able to read and write the information that is presented visually. Write a short paragraph that describes the information presented in the graph. In this case, all the information presented describes the interest rates in the past. This means that your sentences must be written in the past tense. Your paragraph should include at least two compound sentences. You may use the following words in your paragraph: *increase, rose, decrease, decline, fell, sharp / sharply, steep, steady / stable*



Examples

- The interest rate at the beginning of 2003 was 3%.
- Between the fourth quarter of 2004 and the third quarter of 2005, the interest rate did not change. It was stable just below 3%.

Reading – Writing Link

What I have learned about mortgage interest rates

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Link to Essential Skills

Essential skills are the skills needed for work, learning, and life (www.hrsdc.gc.ca). They are enabling skills that help you perform daily tasks as well as tasks required on the job. In this activity you will practice document use, numeracy, and reading text to respond to the questions.

Read the example that is part of a document taken from http://www.fcac-acfc.gc.ca/Eng/resources/publications/mortgages/Pages/BuyingYo-Acheterv-16.aspx

EXAMPLE: FIXED RATE COMPARED TO VARIABLE RATE MORTGAGE

Samantha is buying a new home and requires a $200,000 mortgage. She is trying to decide between a fixed rate and a variable rate mortgage.

- Samantha has chosen a 25-year amortization period, with the goal of being mortgage-free as soon as possible.
- She decides to get a five-year term.
- The lowest fixed interest rate she is offered is 4.0%, with a payment of $1,052 every month.
- The current variable rate she can get is 3.5%, with a payment initially set at $999 every month.

The lender uses adjustable payments for its variable rate option and explains to Samantha that her payments could go up and down with the interest rates. If Samantha decides to go with a variable interest rate with adjustable payments, **she will need to budget for the possibility that her mortgage payments may increase.**

To help her decide if getting a variable interest rate is right for her, she looked at the following scenarios.

Comparing fixed or variable interest rate mortgages as interest rates rise						
	Scenario 1: • fixed interest rate mortgage • interest rate not affected by changes in market interest rates		**Scenario 2:** • variable interest rate mortgage • interest rate increases by 2% during 5-year term		**Scenario 3:** • variable interest rate mortgage • interest rate increases by 4% during 5-year term	
	Interest rate	Monthly payment	Interest rate	Monthly payment	Interest rate	Monthly payment
Year 1:	4.0%	$1,052	3.5%	$999	3.5%	$999
Year 2:	4.0%	$1,052	4.0%	$1,050	4.5%	$1,103
Year 3:	4.0%	$1,052	4.5%	$1,101	5.5%	$1,209
Year 4:	4.0%	$1,052	5.0%	$1,152	6.5%	$1,316
Year 5:	4.0%	$1,052	5.5%	$1,202	7.5%	$1,423
Over 5-year term						
Total payment	$63,122		$66,044		$72,607	
Interest paid (as part of total payment)	$37,230		$41,620		$50,830	
Outstanding balance after 5 years						
	$174,108		$175,576		$178,223	

Read each scenario carefully and answer the questions below:

During the 5 year term…

1. In which scenario / scenarios would Samantha's payments increase?
   a. scenario 1 b. scenario 2 c. scenario 3

2. In which scenario / scenarios would Samantha's payments remain the same?
   a. scenario 1 b. scenario 2 c. scenarios 3

3. In which scenario would Samantha's payments increase by $203?
   a. scenario 1 b. scenario 2 c. scenario 3

4. In which scenario would Samantha's payments increase the most?
   a. scenario 1 b. scenario 2 c. scenario 3

Answer Keys

Reading Comprehension

1. Fixed, variable, and hybrid.
2. Fluctuate means to change frequently (b)
3. A synonym of partial is incomplete (b)
4. Fixed payments an adjustable payments
5. A hybrid mortgage is a combination of a fixed interest rate and a variable interest rate. Part of the mortgage has an interest rate that does not change and another part has an interest rate that fluctuates according to the market.
6. A) The subject of the graph is "Interest rates from 2000 to 2009"
   b) This graph shows the changes in the market interest rates between the years 2000 and 2009.
   c) The labels refer to "Quarters". The year is divided into quarters. So Q1 means the first quarter.
   d) The highest interest rate shown is 6% (b)
   e) The lowest interest rate shown is less than 1% (c)

Vocabulary Development

A. Context Clues

Financed	to provide money for (something or someone)
original loan	The money that was given at the beginning before interest
impact	to have a strong and often bad effect on (something or someone)
decrease	to become smaller in size, amount, number, etc.
adjustable	changeable

B. Definition Matching

	Word	**Part of speech**	**Definition**
1.	Predict	Verb	to say that (something) will or might happen in the future
2.	Require	Verb	to make it necessary for someone to do something
3.	Principal	Noun	an amount of money that is put in a bank or lent to someone and that can earn interest
4.	Option	Noun	something that can be chosen **:** a choice or possibility
5.	Assume	Verb	to think that something is true or probably true without knowing that it is true
6.	Transfer	Verb	to move (someone or something) from one place to another
7.	Term	Noun	the length of time during which something (such as a

			contract) continues
8.	Entire	Adjective	complete or full **:** not lacking or leaving out any part
9.	Vary	Verb	to make (something) different **:** to make changes to (something) so that it is not always the same
10.	Portion	Noun	a part of a larger amount, area, etc.

C. Collocations * Answers will vary**

Rate	**Mortgage**
Heart rate	Second mortgage
Crime rate	Mortgage repayment
Rate increase	Pay off a mortgage
Lower rate	Fall behind with a mortgage
Good rate	Mortgage lender

Reading Strategy

Answers will vary

Grammar Focus / Pragmatic Competence

Activity 1

1. The interest rate in the year 2000 was 6%, but in 2002 it was 2%
2. In 2004, the interest rate was 2.5%, yet Mary Jordan was offered an interest rate of 6% (
3. Borrowers can get fixed interest rate mortgage, or a variable interest rate (or).
4. The interest rate can increase during the mortgage term, or the interest rate can increase during the term
5. The fixed portion of a hybrid mortgage gives you some protection in case interest rates go up, and the variable portion provides some benefits if rates fall.

Activity 2

Answers will vary. Here is an example

The graph shows the fluctuation in the mortgage interest rates between the year 2000 and 2009. At the beginning of the year 2000, the interest rate was just below 5.5%, but by the end of the year it had dropped to about 4.8%. The drop was followed by a sharp decline in the first half of the year 2001. The interest rate in the fourth quarter of 2001 was 2%. Between 2002 and 2003 the interest rate rose steadily to just below 4%; however, the rate fell again during 2004. The rate picked up in the fourth quarter of 2004, and it remained stable until the third quarter of 2005. After that, there was a sharp increase in the interest rate from about 3.8% to about 4.5% in the first half of 2005. The rates remained steady for about a year. This steady period was followed by a slight increase in the middle of 2007, but this increased rate lasted a short while. There was a sharp decline from 2007 to 2008, and there was an even steeper decline during 2009. In 2009, the interest rates were less than 1%. Over a period of 9 years, the mortgage interest rates fluctuated quite a bit.

Reading –Writing Link

*Paragraphs will vary**

Link to Essential Skills

Over the life of the 5-year term:

- **Scenario 1:** Samantha's payments would remain the same at $1,052
- **Scenario 2:** her payments would increase by $203 (from $999 to $1,202)
- **Scenario 3:** her payments would increase by $424 (from $999 to $1,423).

1. Scenarios 2 and 3
2. Scenario 1
3. Scenario 2
4. Scenario 3