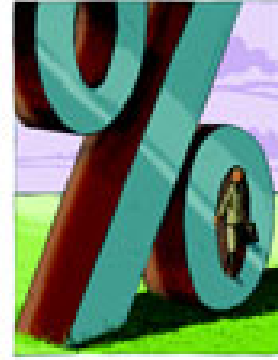


Interest Adjustment Date

By Brian Madigan

The interest adjustment date is somewhat of a difficult concept. It can cause substantial problems for a purchaser on closing whose budget is very finely tuned.



Financial institutions sometimes have simple basic rules that apply to their mortgage portfolios, like for example, all payments on all mortgages are due on the first day of the month.

Accordingly, the Bank when it sets up its mortgage with its customers will state that all the payments are due on the 1st. Also, mortgages are payable “in arrears” so you have the money for a month before you pay any interest on it.

Let’s assume that Bob is buying a property and financing it with the Bank. He gets paid on the 15th and the 30th so the mortgage payment date of the 1st works out just fine.

Bob agrees to a three year term for his mortgage and the house is closing on the 15th of July.

Now, let’s assume for the moment that Bob’s deal closes on the 1st of August. That will work out well. The Bank will loan the money on the 1st of August, he will use the funds to close his deal, and his first mortgage payment will be due on the 1st of September (one month after he has had the money).

But, the reality of the situation is that Bob’s deal is closing on the 15th and that’s when he needs the money. So, this is where the interest adjustment date comes in handy. The mortgage will start on the 1st of August and run for three years from that date (1 August 2006 to 31 July 2009).

However, Bob needs his money 16 days earlier on the 15th of July. So, the Bank advances the mortgage on that date, and calculates the interest for the 16 days on the money. This amount will be deducted from the mortgage proceeds, so Bob will have to make it up from somewhere. His two hundred

and fifty thousand dollar mortgage is coming in short. Bob will either have to make arrangements to pay this amount to his Bank ahead of time, or make up the difference on closing. The money is the same but it can cause a slight problem if Bob's finances are stretched to the limit.

There is one little offsetting saving grace. Rent is paid "in advance" while mortgages are paid "in arrears", so if Bob is a renter, he probably paid his last month's rent when he moved in. The result is that he has no rent to pay for the month of July, but he does have to pay 16 days interest on his mortgage.

Brian Madigan LL.B., Realtor is an author and commentator on real estate matters, Coldwell Banker Innovators Realty Inc. 905-796-8888, BRMadigan@Rogers.com or visit www.OntarioRealEstateSource.com