Take Control of
Your Home Equity

The equity you've built up in your home can be a powerful financial planning tool. Through mortgage refinancing, you can access that equity to pay for home improvements, consolidate debt, or invest in your future.

The term 'refinance' means to pay in full and discharge a pre-existing mortgage with the proceeds of a new mortgage. When a borrower secures a new mortgage that is larger than the pre-existing mortgage, it is called an 'equity take-out'.

In some instances, rising levels of consumer debt – often financed by high-interest credit cards – and relatively low mortgage rates prompt homeowners to look more closely at how their homes can help them increase liquidity and improve their overall financial situation. In other cases, homeowners leverage mortgage refinancing for renovations that, in turn, boost the values of their homes.

If you are considering mortgage refinancing, you will need to first thoroughly review your existing financial situation and mortgage commitments with your financial advisors. Potential short-term gains, such as lower monthly payments, should align with your long-term planning goals. As with so many financial planning exercises, one size does not fit all.

To help you navigate through the mortgage refinancing maze, we've created this Mortgage Refinance Guide. And don't forget, your Mortgage Intelligence independent consultant is here to help!

The Mortgage Centre
We work for **you**, not the lenders.

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Why Refinance?

There are many reasons to use your home equity to secure additional credit at competitive interest rates.

- Debt consolidation – since mortgage rates are generally lower than other forms of borrowing, you can use the equity in your home to pay in full high interest/high payment debts such as credit cards.
- Home renovations - the equity in your home can be used to finance home improvements, which can potentially increase your home's value.
- Second property - by leveraging your home equity, you could purchase an investment property or vacation property.
- Investments - the equity in your home can be reinvested in other investments, such as mutual funds or stocks. In fact depending on your investments and your circumstances, a portion of the interest you pay on your mortgage may be tax deductible.
- Education - you can refinance your home to fund education costs for your children, or for yourself, as an alternative to liquidating other investments or RRSPs.
- Retirement planning – your home equity can also be used to make RRSP contributions. In many cases, the compounding benefits of long-term investments and tax deferrals could outweigh the penalty costs of a discharging an existing mortgage.

Calculating the Benefits

Depending on your situation, you might consider one of the following approaches when refinancing your home:

- breaking your existing mortgage and applying for a new one,
- increasing your existing mortgage with your existing lender,
- taking a second mortgage,
- applying for a home equity secured line of credit.

Speak with Brad Wadden to assess the potential benefits and compare your current debt payment schedule against one that takes advantage of a refinanced mortgage.

Refinancing Scenario

Let's take a look at a scenario demonstrating how refinancing could help to consolidate debt.

Current situation	Balance	Payment
Mortgage (at 5.75% interest)	$ 160,000	$ 1,000
Unsecured line of credit (at 8% interest)	$ 18,000	$ 540
Credit Cards (at 18% interest)	$ 15,000	$ 450
Penalty to break mortgage	$ 3,000	$ 0
Total	**$ 196,000**	**$ 1,990**

New mortgage	Balance	Payment
Mortgage (at 4.39% interest)*	$ 196,000	$ 1,073
Unsecured line of credit (at 8% interest)	Paid off	-
Credit Cards (at 18% interest)	Paid off	-
Penalty to break mortgage	Paid off	-
Total	**$ 196,000**	**$ 1,073**

*25 year amortization, monthly payments, rate subject to change

Potential Refinancing Costs

While each scenario is different, there are standard costs generally associated with refinancing a new mortgage.

Some examples of standard costs include:

- **Prepayment penalty** - most lenders will charge a prepayment penalty if you repay your mortgage before the maturity date.
- **Appraisal fees** – in virtually every refinancing situation, a lender will require a valuation of your property by an independent certified real estate appraisal professional.
- **Legal fees** – in most refinancing situations, a new mortgage will have to be registered on your home. In some cases, a discharge of an existing mortgage may also be required.
- **Title insurance** - depending on your situation, title insurance coverage may be required to protect the lender or owner against loss in the event of a property ownership dispute.
- **Mortgage insurance** - mortgage insurance may be required by your lender when you refinance. Fortunately, you have the option of adding these premiums to your mortgage balance. Provincial sales taxes may also be charged on your mortgage insurance premium.

Timing is an important factor to consider when refinancing your home. Prepayment penalties generally decline the closer you are to the maturity date of your mortgage and may disappear altogether on maturity. Conversely, new mortgages or mortgages which have just renewed can carry significantly higher penalties.

Your Mortgage Profile

Before making any decisions about your mortgage, it is a good idea to complete a review of your current financial situation. Below are some key items to document as you get started.

YOUR HOME'S MARKET VALUE:	$
What do you estimate is the current market value of your home?	
YOUR CURRENT MORTGAGE:	$
What was the principal balance of your mortgage at start of term?	
What will the principal balance of your mortgage balance be at end of your term?	
What is the original start date of your mortgage term?	
When does your mortgage mature/renew?	
What is the amortization period of your mortgage?	
Who is your current lender?	
What interest rate are you paying now?	
What is your payment frequency (monthly, weekly, bi-weekly)?	
How much are your regular payments?	
PREPAYMENT PENALTIES FOR YOUR EXISTING MORTGAGE:	$
You will likely be required to pay a prepayment penalty if your mortgage is discharged mid-term. Lender prepayment policies should be detailed in your mortgage documentation.	
TOTAL MONTHLY PAYMENTS ON EXISTING OBLIGATIONS	$
Includes automobile loans, student loans, credit cards, alimony, etc.	
GROSS ANNUAL INCOME:	$
Your family's total income from all regular sources.	

Once you have defined your mortgage profile, work with a mortgage professional to review all of your options. A Mortgage Intelligence independent consultant can help you assess your options and take you through this complex process one step at a time. Our consultants have extensive experience with mortgage refinancing, and can help you maximize your home equity as you work towards a healthy financial future.

For more information, or to access our refinance calculator, please visit www.bradwadden.com

Talk to me today

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