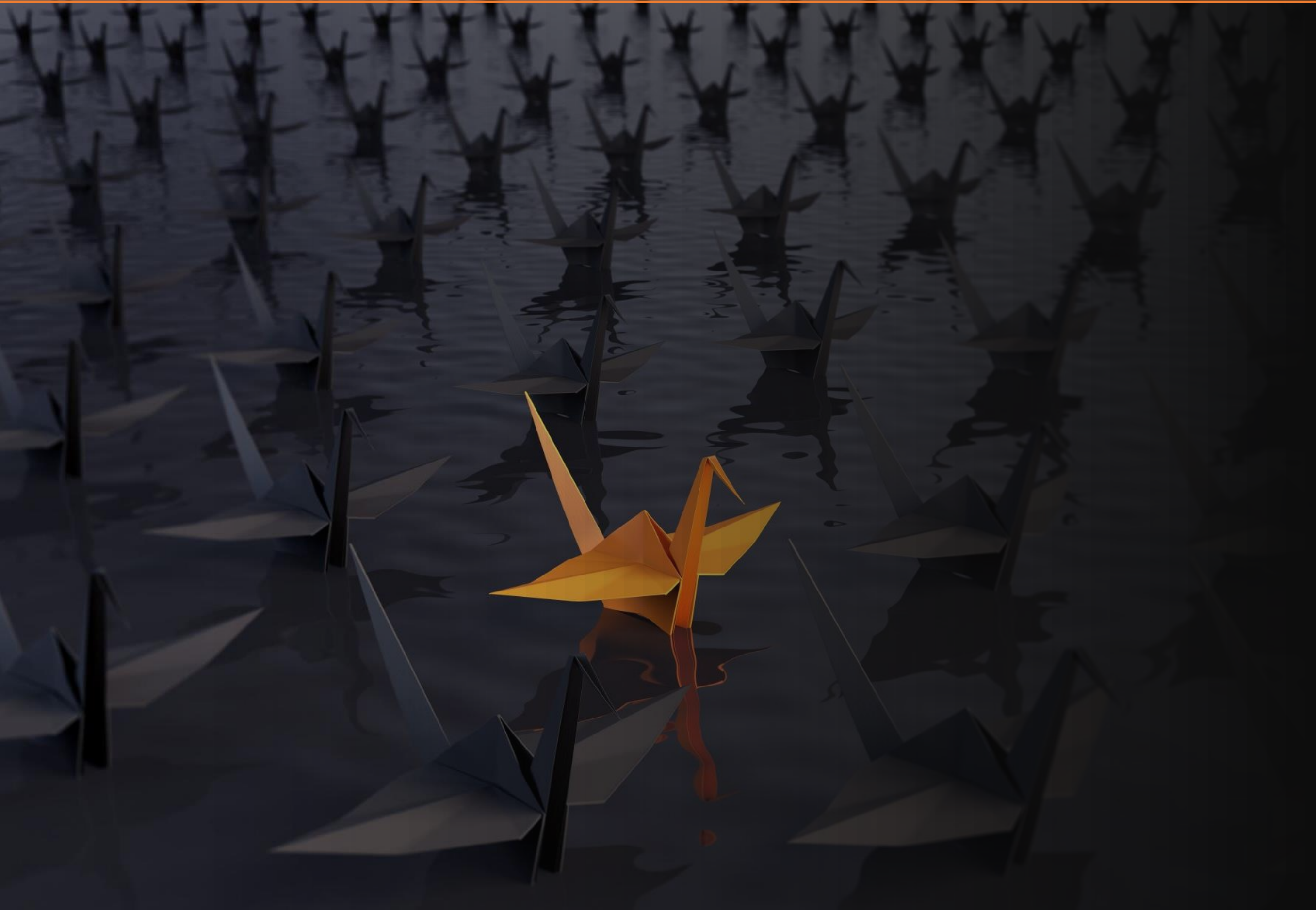
Borrowing Against your Home Equity



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ABOUT US

We are the most important and reliable Mortgage Brokerage in Canada, with very solid relationships with +60 Banks & Lenders. We will find the best financial solution for you.

Canadian, Permanent Residence, New to Canada or Expats, we are here for you who are looking to purchase your first home, a second home, rental or investment property or your vacation home.

Marialba Cipriani

- Mortgage Agent Specialist in Banks & Lenders A, B or C in Canada
- More than 10 years of experience

English & Español

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Adan Aranda

- Mortgage Agent Specialist in Banks & Lenders A, B or C in Canada
- Real State and Compliance Lawyer in Mexico. More than 20 years of experience

Borrowing Against your Home Equity

Refinance

Your home is not just a place to live, and it is also not just an investment. Your home can moreover be a handy source of ready cash to cover emergencies, repairs, investments, purchase a second home, student loan or recreational purposes.

While you're paying down your mortgage, you may find yourself in a situation where you are considering accessing equity or looking for a lower mortgage rate; to do either, you will need to refinance your mortgage.

There are three different ways you can refinance:

1. Refinance trough a home equity loan
2. Take out a home equity line of credit a (HELOC) behind your existing mortgage
3. Get a blended mortgage

1. Refinancing Trough a Home Equity Loan

A home equity loan is a secured term loan that allows homeowners to borrow money against the equity in their home. The home equity loan will be secured by a mortgage registered on title to the home, meaning the lender can claim and sell the home if you default under the loan. How much you can borrow will depend on the amount of equity you have accumulated.

With a home equity loan, you can typically borrow a larger amount of money at a lower interest rate than you can with an unsecured loan.

A home equity term loan comes in the form of a one-time lump sum amount. This amount can be up to 80% of the appraised value of your home, minus the balance of any prior mortgage. It has to be repaid over a specified term unless it is renewed at the end of that term.

Refinancing Breaking your Mortgage

You could break your mortgage if you wanted to access a lump sum of equity and/or obtain a lower rate in a new mortgage. By breaking your mortgage, you're paying off your current mortgage and setting up a new mortgage entirely.

Doing this will result in a prepayment penalty and, depending on your mortgage rate and how much time is left in your mortgage term, it can add up quickly.

If you had a fixed rate mortgage, your penalty would be the greater of three months' interest or the interest rate differential (IRD). If you had a variable rate mortgage, your penalty would be three months' interest. If the potential savings outweigh the penalty, or if the value to you in withdrawing that money is great, it might be worth paying the fee. A Pre-Qualification will give an idea of how does it work for you, however, there are still other options to consider.

2. Home Equity Loans & HELOC

If current market rates are better or the same as what you have, and you wanted to access the equity in your home on an as-needed basis, you could take out a home equity line of credit (HELOC) instead.

With a HELOC, you wouldn't get a lump sum of cash, but could instead access up to 80% of the value of your home through a revolving line of credit. The one key difference with taking out a HELOC, versus breaking your mortgage or getting a blended mortgage, is that it is a separate mortgage product.

Each month, you need to make an interest-only payment – on top of your regular monthly mortgage payment. Fortunately, you only need to pay interest on the amount you've borrowed – not on the total available credit. And perhaps the biggest bonus of taking out a HELOC is you don't have to pay a hefty prepayment penalty in order to access your equity.

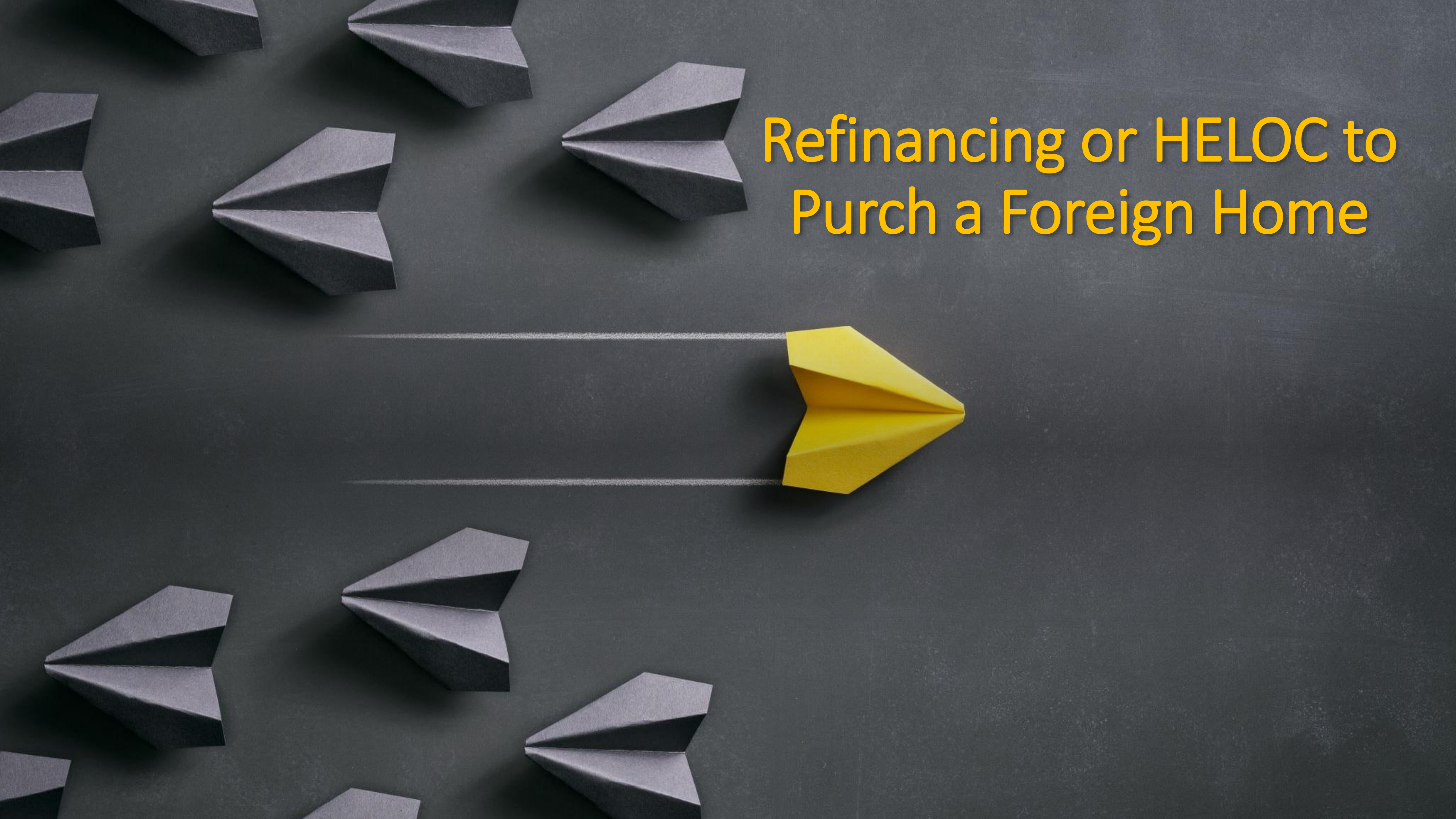
3. Getting a Blended Mortgage

Finally, there is one other way you can refinance to access your equity and/or get a lower mortgage rate, without having to pay the prepayment penalty: it’s called a blended mortgage, and it’s an under-utilized tool in mortgage financing.

A blended mortgage is when you combine the mortgage rate from an existing mortgage with the mortgage rate from a new mortgage and blend them into a new rate that is somewhere in-between the two. Because you’re essentially “keeping” your existing mortgage rate in this new blended rate, rather than breaking your mortgage term altogether, you can avoid the prepayment penalty that comes with a typical refinance. So with a blended mortgage, you wouldn’t get the absolute best mortgage rate on the market, but you also don’t need to pay any penalty upfront.

You can get a blended mortgage when you want to access equity, obtain a lower mortgage rate or both. The one thing to keep in mind is that there are two different types of blended mortgages: the “blend and extend” and the “blend to term”.

Refinancing or HELOC to Purch a Foreign Home



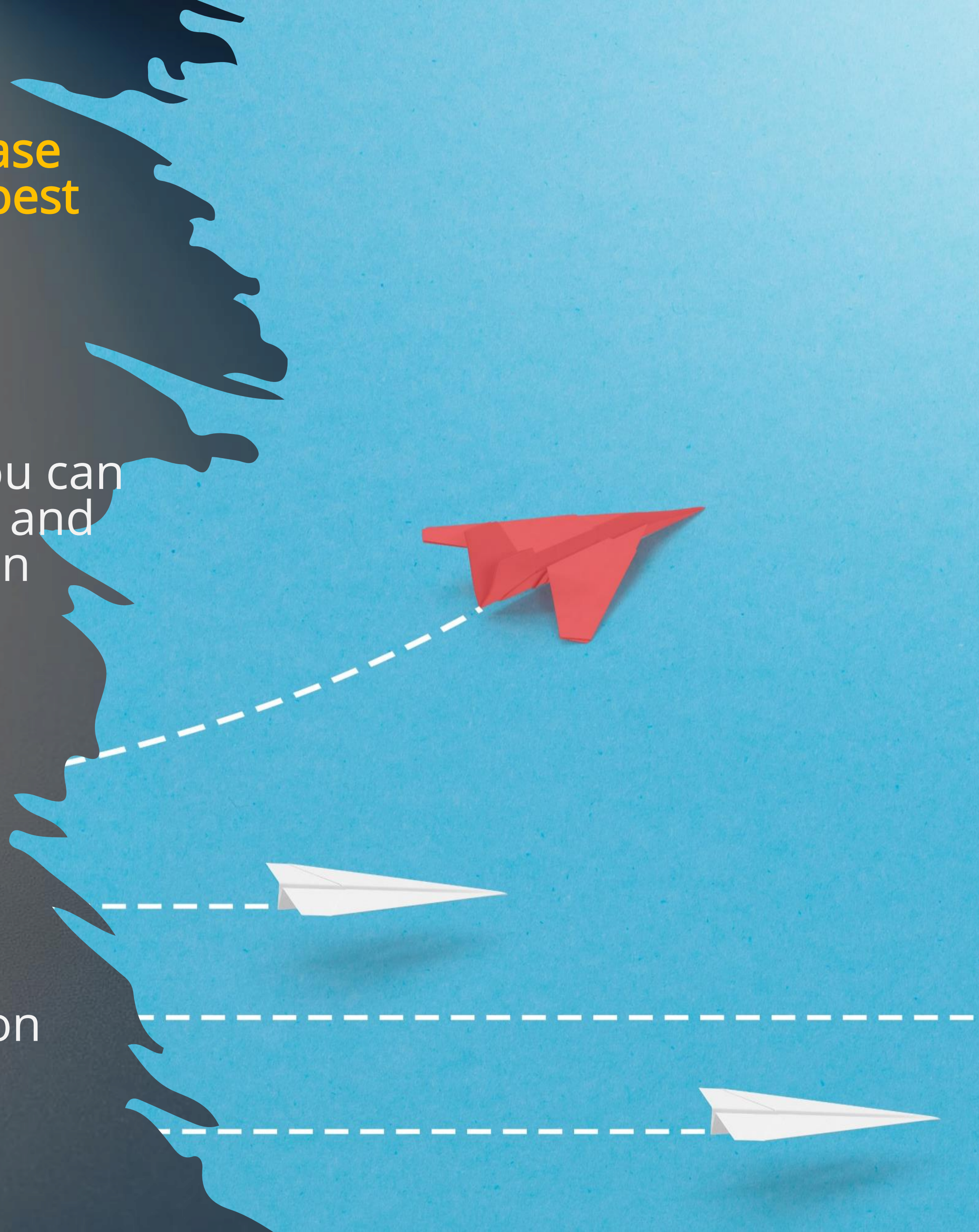
For many, Refinancing or HELOC your principle Canadian residence and using the equity to purchase your foreign home is by far the simplest and cheapest finance solution.

- Up to 80% of the value of your home can be refinanced, for example: if you have a home worth $800,000 and only hold a mortgage of $400,000 you can refinance $640,000, payoff the $400,000 mortgage and use the other $240,000 to buy your foreign vacation home.

- The interest rate will be lower because you re-mortgage your permanent residence and have no mortgage owing on the vacation home.

- Makes it simpler and faster to buy in the foreign location.

- There are no restrictions on the use of the vacation home, so you can use it for a rental and Airbnb to increase your ROI and pay off your mortgage.



Some have this question: Could we write off the mortgage interest expense on our taxes?

Imagine the purchase price of a potential second home in Mexico is $240,000 and we are going to refinance our Toronto home and use the equity to pay cash for the second home.

The answer to this question is “yes”.

- The Mortgage Refinance or HELOC on our Toronto home would have to be specifically used to purchase the property in Mexico as an investment.

- We would also have to report our foreign income on our personal taxes as required by Canadian law.

- We can claim reasonable expenses to earn rental income (mortgage interest, insurance, utilities, repairs, etc), but we cannot claim travel to and from Mexico.

- Mexican government will require us to pay tax on (deemed) rental income and Canada Revenue will then claim a foreign tax credit so that we are not double taxed.

If you would like to talk about your financing options, whether to buy a 2nd property, cash out, line of credit, debt consolidation, student loan or other loan need, please feel free to contact us.

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