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GUIDE TO BORROW AGAINST YOUR HOME EQUITY

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PLAN YOUR
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WHAT'S IS HOME EQUITY

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.

Home equity is the difference between the value of your home and how much you owe on your mortgage..

For example, if your home is worth \$250,000 and you owe \$150,000 on your mortgage, you have \$100,000 in home equity.

Your home equity goes up in two ways::

- As you pay down your mortgage
- If the value of your home increases





A HOME EQUITY LOAN FOR EVERY SITUATION

Home equity loans can help you over all kinds of financial hurdles. Here are just some of the ways we can help::

- Access up to 80 percent of the equity built up in your home
- Fund home renovations.
- Extend cash reserves and build a backup fund for a rainy day.
- Repair your credit by paying off collections or judgements.
- Consolidate your debts into one easy monthly payment.
- Pay off personal or property taxes, or even mortgage arrears.
- Transform your home's equity into cash for any purpose.
- Purchase a vacation or investment property.
- Pay for education for your children.
- Invest in your business



DIFFERENTS WAYS TO USE YOUR HOME EQUITY

1 / REFINANCE

2 / HOME EQUITY LOAN

3 / HOME EQUITY LINE OF CREDIT A (HELOC)

4 / BLENDED MORTGAGE

5 / REVERSE MORTGAGE

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REFINANCE

There are different reasons why refinancing your home may be a sound investment. For example, if you want to make changes to your mortgage terms, refinancing the contract is a relatively hassle-free way to do it.

REFINANCING YOUR HOME

- What is refinancing?
- How does refinancing a mortgage work?

When you refinance your mortgage, you replace your current mortgage with a new loan. The new loan might have different terms – moving from a 30-year to a 15-year term or an adjustable-rate to a fixed rate, for example – but the most common change is a lower interest rate. Refinancing can allow you to lower your monthly payment, save money on interest over the life of your loan, pay your mortgage off sooner and draw from your home's equity if you need cash for any purpose.

You can borrow up to 80% of the appraised value of your home. Your lender may agree to refinance your home with the following options:

- a refinance it self
- a home loan or second mortgage secured with your home
- a line of credit (HELOC)



HOW DOES REFINANCING A MORTGAGE WORK?

Similar to when you first applied for your mortgage, a lender will review your finances to assess, your level of risk and determine your eligibility for the most favourable interest rate. It's an entirely new loan, and it could be with a different lender than the one you originally worked with to buy your home.

Your new loan might also reset the repayment clock. Say you've made five years of payments on your current 30-year mortgage. That means you have 25 years left on the loan. If you refinance to a new 30-year loan, you'll start over and have 30 years again to repay it. If you refinance to a new 20-year loan instead, you'll pay your loan off five years earlier.

Refinancing comes with closing costs, which can affect whether getting a new mortgage makes financial sense for you. These costs can be between 2 percent to 5 percent of the amount you refinance. Common closing costs include discount points, an origination fee and an appraisal fee. You'll need to calculate the break-even point to determine whether you'll stay in your home long enough to recoup the closing costs and benefit from the savings of the refinance.

Types of mortgage refinancing:

- Rate-and-term refinance
- Cash-out refinance
- Cash-in refinance
- Debt consolidation refinance

REASONS AND PROS & CONS OF REFINANCING

Refinancing requires some work, so is it really worth the extra paperwork and additional costs? There are some great reasons to invest the time and money in a refinance::

- You can get a lower interest rate
- You can get a different kind of loan
- You can use your equity to borrow more money
- You can shorten your loan

Pros

- You could lower your interest rate.
- You could lower your mortgage payment and create more space in your monthly budget.
- You could decrease the term of your loan and pay it off sooner.
- You could tap into your home's equity and take cash out at closing.
- You could consolidate debt — some homeowners use refinancing to put student loans or other debts into one simple payment.
- You could change from an adjustable-rate to a fixed-rate mortgage, or vice versa.
- You might be able to cancel private mortgage insurance premiums to avoid paying unnecessary fees.

Cons

- You'll have to pay closing costs.
- You might have a longer loan term, adding to your costs and delaying your payoff date.
- You could have less equity in your home if you take cash out.
- You might need to deal with borrower's remorse if rates drop substantially after you close.
- It's not an overnight activity: The refinancing process can take between 15 and 45 days or more.
- Your credit score will temporarily take a hit.
- Your credit score will temporarily take a hit.



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 might 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.

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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 it works for you, however, there are still other options to consider.

Refinancing can be one of the best financial decisions you make. If you're planning to continue living in your home for a long time, lowering your interest rate by more than half a percentage point can make a huge difference in your budget. Learn more about when's a good time to refinance your mortgage.



HOME EQUITY LOAN

Also commonly known in Canada as a second mortgage (or an add-on mortgage), a home equity loan is a loan taken out on a home that already has a primary mortgage.



HOME EQUITY LOAN OR SECOND MORTGAGE?

Actually, there is no difference between the two! A second mortgage is any loan that is taken out on a property that already has a mortgage. The simple answer is a home equity loan is a second mortgage.

A second mortgage is a second loan that you take on your home. You can borrow up to 80% of the appraised value of your home, minus the balance on your first mortgage.

The loan is secured against your home equity. While you pay off your second mortgage, you also need to continue to pay off your first mortgage.

If you can't make your payments and your loan goes into default, you may lose your home. If that's the case, your home will be sold to pay off both your first and second mortgages. Your first mortgage lender would be paid first.

A second mortgage does not replace the original mortgage. It means being responsible for making two separate payments!



REASONS AND PROS & CONS

It's typically recommended that home equity loans be reserved for expenses that may increase the overall value of the property, such as a kitchen renovation or adding on an additional bedroom, or purchasing a second home. But it's not uncommon for home equity loans to be used for other purposes, such as consolidating credit card debt or paying for a child's post-secondary education.

A good question to ask is "Should I get a home equity loan?" There are some pros and cons associated with having a second mortgage on your home. For example, interest rates on second mortgages are usually higher than on first mortgages because they are riskier for lenders or you may have to pay administrative fees such as:

- appraisal fees
- title search
- title insurance
- legal fees

Pros

- Access up to 80% of your home's equity in a lump sum payment.
- Lower interest rates than credit cards, unsecured personal loans or lines of credit,
- Fixed-rate home equity loans offer a predictable monthly payment and repayment schedule

Cons

- Not all major banks in Canada offer home equity loans.
- Higher interest rates than primary mortgages.
- Your home is the collateral, meaning you could be at risk of foreclosure if you have trouble repaying.
- Getting a home equity loan involves fees, like appraisal or legal fees.

HOME EQUITY LINE OF CREDIT (HELOC)

Nearly 3 in 10 Canadians drew on HELOCs. An estimated 27% of Canadian homeowners said they had a home equity line of credit, with 78% of these saying that they had used it, according to a new poll by Bloomberg and RATESDOTCA.



A HOME LINE OF CREDIT

It stands for home equity line of credit. It leverages the equity in your home as collateral for a revolving line of credit.

Also known as a HELOC, is secured by your property and gives you access to an attractive rate. It lets you tie your loans to your line of credit, at different rates and payment conditions. This is a simple strategy that lets you finance your property first and then, a car, your RRSP, credit card payments, etc.

HELOCs are a good option for borrowing because the credit is secured against the equity in your home, which means you can borrow large sums at competitive interest rates. While those rates will not be as eye-catching as your first mortgage, you will be paying less interest than unsecured borrowing methods like credit cards or personal loans.

Remember, when you take out a HELOC, you are borrowing against the equity on your home. This means a lien on your home, so discipline is necessary





HOW DOES A HOME EQUITY LINE OF CREDIT WORK?

is a revolving line of credit secured by your home. Draw from your line of credit as needed. You only pay back the amount that you actually choose to spend (with interest), not the total amount you are approved for.

Unlike a home loan or a second mortgage where you get the money upfront, a HELOC provides a line of credit that you can dip into as you need. While it represents an intriguing borrowing opportunity, like any financial decision there are risks attached. Most notably, the HELOC lender gets a lien on your home. In extreme cases, if you miss payments you risk losing your home..

How much can you borrow?

If you have a 20% down payment or once you've paid down 20% of the determined value of your home, you can borrow up to 65% of your home's determined value.

However, the total balance on your line of credit and your tied loans (car, RRSP, credit cards) can't exceed 80% of the determined value of your home.

THE MORE YOU PAY
DOWN YOUR LOAN, THE
MORE YOU HAVE
AVAILABLE ON YOUR
LINE OF CREDIT, UNTIL
YOU REACH THE LIMIT

IN THIS EXAMPLE, THE DETERMINED
VALUE OF THE PROPERTY IS \$500,000
AND THE VERSATILE LINE OF CREDIT
IS \$400,000.

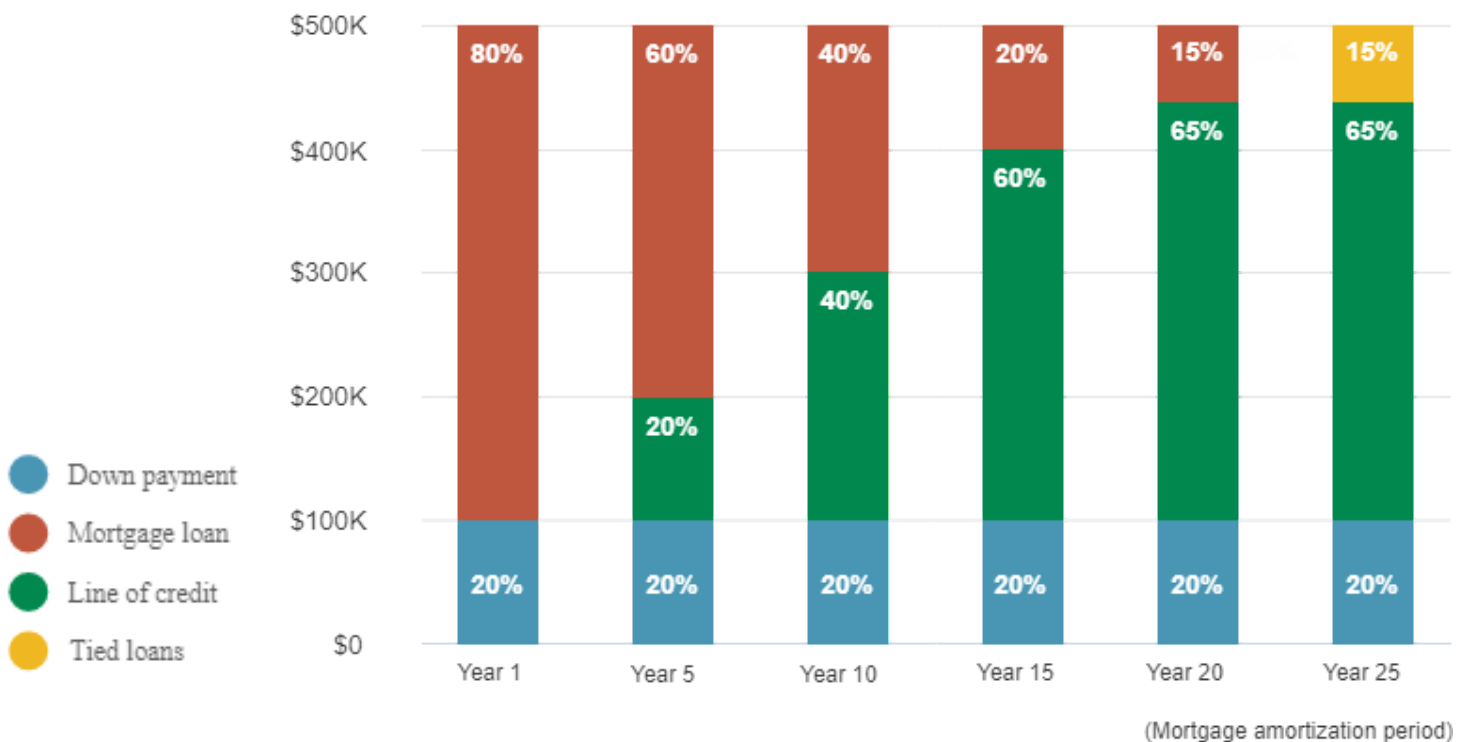


Chart description – How does a home equity line of credit work?

- Year 1: You make a down payment of 20% of the determined value. You don't have anything available on your line of credit.
- Year 5: You have paid down 20% of the determined value (\$100,000) since Year 1. This amount is available on the line of credit.
- Year 10: You have paid down 40% of the determined value (\$200,000) since Year 1. This amount is available on the line of credit.
- Year 15: You have paid down 60% of the determined value (\$300,000) since Year 1. This amount is available on the line of credit.
- Year 20: You reach the 65% allowable limit of the determined value (\$325,000) on your home equity line of credit.
- Year 25: You have 15% remaining on the determined value (\$75,000) on your home equity line of credit for linked loans. You have paid off your mortgage



REASONS AND PROS & CONS

Borrowing using a HELOC is one of the most flexible ways to unlock large or smaller sums of money and use the funds as you wish. There are endless ways you can use your HELOC credit, including the following popular uses:

- Home improvements
- Debt consolidation
- Pay higher education fees
- Down payment on a property
- Medical expensive
- Pay off student loans
- Start a new business
- Wedding

What is a good HELOC rate?

A great HELOC rate is the prime rate +0.5% to 1%. In Canada's current low-interest climate that means that well-qualified borrows could potentially get the best rate offereng in the market.

HELOCs have more competitive interest rates than types of unsecured debt, but not quite as good as your first mortgage. HELOC remain one of the cheapest ways to access credit. For example, with a credit card, you could be facing interest rates of 20%.



Pros

- You do not pay closing costs: With a good credit score, you may not owe closing fees when setting up a HELOC.
- No fees to withdraw cash: You can tap into your credit at any time without paying a fee. Alternatives like credit cards and chequing accounts do carry withdrawal fees.
- Low-interest rates: HELOCs have some of the best low interest rates of any borrowing method. Not quite as good as your first mortgage, but much lower than unsecured debt.
- Converting to a fixed-rate product: Most HELOC lenders allow customers to lock into a fixed-rate from a variable-rate mortgage.
- Flexible payoff: You can pay off a HELOC when you want, but check the small print of your loan agreement to ensure there are no fees for closing the debt early.
- Flexible spending: One of the best aspects of a HELOC is it provides a line of credit you can access when you want. You do not need to justify how you will spend the loan and can spend as you wish

Cons

- Easy to be tempted by low payments: Having a minimum monthly payment that is just the interest rate is an attractive perk of HELOCs. However, it can be tempting to only pay off the minimum and the credit payments never go away.
- Interest rates may rise: While lenders allow customers to switch to fixed rates, HELOCs start as variable-rate loans. This means interest rates could rise in the future and you end up paying more.
- Using your home as a piggy bank: That dream vacation to Paris may seem tempting, and a HELOC is a good way to pay for it. However, there are inherent risks in securing a major loan against your home.
- Hidden fees: Lenders give you a credit to make money. Yes, the interest rate is the primary way of making money off of customers, but annual and other fees can also be attached to HELOCs.
- Losing home value: If your home value decreases over time, the remaining equity will erode, making it harder to sell the property or refinance it in the future

REVERSE MORTGAGE

- Access up to 55% of your home value in tax-free cash!
- Keep the home you love
- No monthly mortgage payments

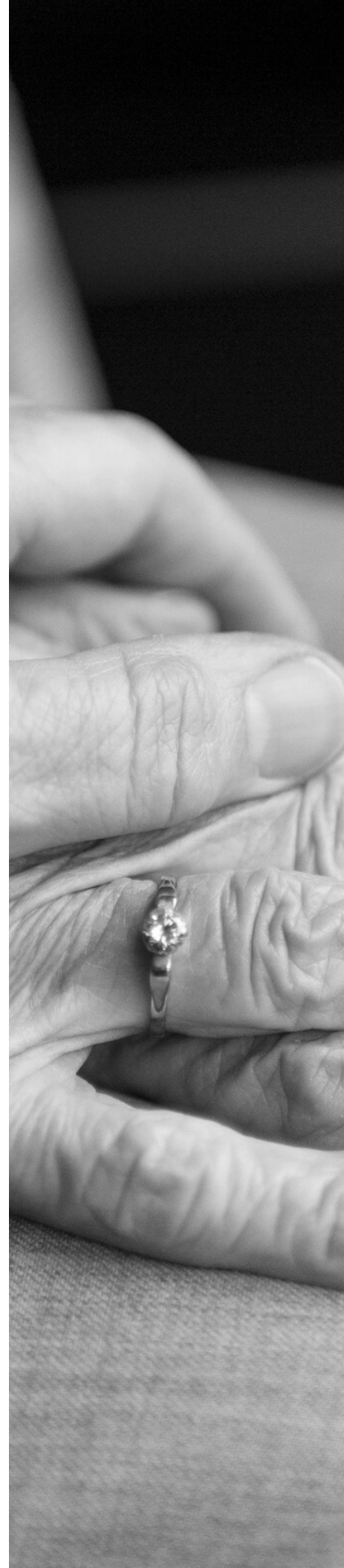
- **What is reverse mortgage?**
- **How Do Reverse Mortgages Work in Canada?**

A reverse mortgage is a loan secured against the appraised value of your home. It is designed exclusively for Canadian homeowners aged 55 years and older. It enables you to convert up to 55% of your home's value into tax-free cash, while staying in your home. You don't have to make any regular mortgage payments or pay back the loan until you move or sell.

A reverse mortgage is a secure solution for Canadian homeowners age 55+ to access their home equity and turn it into tax-free cash, without having to pay any regular monthly mortgage payments. This allows you to access tax-free cash without having to move, sell or downsize.

With a Reverse Mortgage you always retain the ownership of your home and maintain title. You will never be forced to move or sell your home, even if your income or home value changes.

We guarantee the amount that you or your estate eventually has to repay will never exceed the fair market value of your home at the time it is sold. Your home should never be a burden to you or your family. If your home goes up in value, the appreciation is all yours. You just need to maintain your property and pay the taxes and insurance.





SOMETIMES YOU NEED A LITTLE EXTRA CASH

A limited income during retirement combined with rising costs of living means many Canadians may have trouble maintaining their lifestyle – but there are always financial options available to help.

The money can be used however you choose.

- Supplement your lifestyle
- Increase monthly cashflow
- Consolidate debt
- Buy another property
- Cover medical expenses
- Renovate your home
- Take that much-needed vacation



You only repay when you move or sell your home. This is the best of all, a reverse mortgage loan doesn't need to be repaid as long as you live in the home. If the property is sold, all remaining equity after repayment of the loan is left to the homeowners or their estate



HOW TO REPAY THE MONEY YOU BORROW

You don't need to make any regular payments on a reverse mortgage. You have the option to repay the principal and interest in full at any time. However, you may have to pay a fee to pay off your reverse mortgage early.

You have to repay the amount left owing when:

- you sell your home
- you move out of your home
- the last borrower dies
- you default on the loan

When you die, your estate has to repay the entire amount owing. If multiple individuals own the home, the loan has to be repaid when the last one dies or sells your home.

The amount of time that you or your estate has to repay a reverse mortgage may vary. For example, if you die then your estate may have 180 days to pay back the mortgage. However, if you move into long-term care, then you might have one year to pay it back. Make sure you ask your lender for information about the timing for paying back a reverse mortgage.



PROS & CONS

Pros

- you don't have to make any regular loan payments
- you may turn some of the value of your home into cash, without having to sell it
- you don't pay tax on the money you borrow
- this money doesn't affect the Old-Age Security (OAS) or Guaranteed Income Supplement (GIS) benefits you may be getting
- you still own your home
- you may have options as to when and how you receive the money

Cons

- interest rates are higher than most other types of mortgages
- the equity you hold in your home may go down as you accumulate interest on your loan
- your estate has to repay the loan and interest within a set period of time when you die
- the time needed to settle an estate may be longer than the time allowed to repay a reverse mortgage
- there may be less money in your estate to leave to your children or other beneficiaries
- costs associated with a reverse mortgage may be higher than a regular mortgage or other credit products



DIFFERENCE OF ALL EQUITY LOANS

HELOC vs Refinancing

It is important to not get a HELOC confused with refinancing your mortgage. A HELOC frees up equity as credit, providing you with extra spending money. On the other hand, refinancing is renegotiating and changing the terms of your existing mortgage. When you refinance a mortgage, you essentially end your current mortgage contract and take on another.

This means you can get a more favourable interest rate and borrowing conditions. However, a refinance will not give you access to ready cash to spend on what you like. A HELOC provides a stream of credit whenever you want it.

HELOC vs Home Equity Loans

HELOCs, home equity loans and second mortgages are easy terms to mix up. All provide credit in exchange for a lien on your home. Fundamentally the difference is that a HELOC is a line of credit, the terms second mortgage and home equity loan both refer to a lump-sum loan secured against your home.

Why pick a HELOC?

- You want financial flexibility
- You may only spend some of what you can borrow
- Only pay back what you use

Why pick a second mortgage?

- You want a lump-sum payment
- You know how much you want to borrow
- You are comfortable with long-term monthly payments

HELOC vs Reverse Mortgage

In some ways, a reverse mortgage allows you to take more control of your financial borrowing. In fact, it is you who becomes the lender as you sell your property to the lender. If you are the title owner of a home, you can sell it to a lender who will make regular payments to you while you continue to live there!

However, your equity in the home decreases over time as the lender buys more of it. Importantly, you continue to be the titleholder. When the reverse mortgage matures, you can sell your home to pay it off, or the lender will own the property and sell it if you pass away or default. You do not pay back the loan until you sell or die.

If you do pass away, the lender will sell your property and pay out any additional equity beyond the appraised value to your estate. While a reverse mortgage gives you a stream of funds like a HELOC, the structure is drastically different. Moreover, reverse mortgages are only available to homeowners who are 55 or older.





In the past, prospective home buyers turned exclusively to their banks for their mortgage needs. Today, you have more options at your disposal with the growing presence of mortgage brokers. Here's what you need to know about mortgage brokers and banks.

Mortgage brokers vs. banks: What's the difference?

Essentially, banks can only offer their own products, while mortgage brokers can present multiple mortgage options. Independent mortgage brokers are licensed mortgage specialists who have access to multiple lenders and mortgage rates. They essentially negotiate the lowest rate for you, and because they acquire high quantities of mortgage products, mortgage brokers can pass volume discounts directly to you. Banks, on the other hand, can only offer their own mortgage products.

Feature	Broker Services	Bank Services
Product Choice & Access	Access to Over 50 lenders Rate promotions	Limited access to other mortgages products
Independence	Works for you (the client)	Works for the bank
Rates	Offer the best rates & can guarantee an interest rate for 90-120 days	- Offer the rate for that specific bank - Will not be able to offer you a better deal from other institution's products
Ongoing Service	Keep in touch for years for annual reviews, refinancing, renovation, financing or debt consolidation	Get annual statement in the mail and notice for your mortgage
Costs	No Costs (MB will be paid by the Financial Institutions)	No cost, but only on qualified applications

MEET US

Adan Aranda Mortgage Planner with Referral Mortgages is one of the largest brokerages growing fastest in Ontario and Canada. I help people through **PlanYourMortgage.ca** to find financing to purchase their home, a second property, refinance, home equity loan, debt consolidation, invest in a vacation rental, or a short-term rental business.

I'm also a Real Estate Lawyer in Mexico, I'm the CEO of **ABROassociates.com** in Cancun and Tulum.

Referral Mortgages, Is my Brokerage serving in Ottawa and the rest of Canada. They were designated the Excellence Awardee for "New Brokerage of the Year" by the Canadian Mortgage Awards 2022 Canadian Mortgage Awards recognized Referral Mortgages as an excellence awardee for New Brokerage of the Year! This award recognizes the best brokerage office or branch that has been in operation for between 1 – 3 years.



ADAN ARANDA

Mortgage Specialist



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REFERRAL MORTGAGES

Brokerage No. 13316



**WE WIL HELP YOU TO
FIND A MORTGAGE THAT
IS RIGHT FOR YOU!**

MANY THANKS!

DO YOU HAVE ANY QUESTION?
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