The Rolls Royce of Mortgages – Re Advanceable -Robert Klein

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How I Figured Out the Re-Advanceable Mortgage

By Robert Klein

When I started to invest in Winnipeg in 2008 for rental properties, I began with 20% down. Over time my progression occurred with the following:

1. 20% down
2. 10% down
3. 5% down
4. 2% down
5. 2% down with 10% improvements
6. 2% down with 35% improvements

At the end, I could buy a $100k rental for $2000 down and get the bank to finance improvements for $35k.

This was all great until April 19, 2010 when CHMC changed the rules and all their rental programs disappeared. This forced me to directly deal with the banks and learn about conventional financing (20% down payment).

I ended up sitting down with someone from First Line (Owned by CIBC) and they talked about a program in where I would pay the principal and interest like any other mortgage, the only difference is when I paid down the principal; they would issue a line of credit for whatever amount I paid down.

From First Line point of view, I could use those funds from the line of credit and pay off debts or use the Smithe Maneuver and invest.

As a Real Estate investor, I saw things much differently. I then asked, “Are you telling me that I can pay interest and principal like any other mortgage and immediately I could take back the principal in a form of a line of credit, which would leave me with an INTEREST ONLY PAYMENT AT PRIME MINUS?”. She answered Yes.

Up to this point, the only interest only product available was a line of credit. Line of credits are issued at prime + . 5 or prime + 1. By restructuring the payments, I was able to create an interest only payment at prime – .8% <2010 Rates ☺>.

Immediately my entire mortgage business went into structuring re-advanceables.

Inside This Article

Case Study:

Conditions:

1. Property Value – $600,000
2. Current Mortgage – $400,000
3. Maximum mortgage allowed at 80% of property value: $480,000.
4. Amortization – 30 Years

End Result for a 400k Mortgage:

Variable Mortgage – $1629/month

Re-Advanceable Mortgage – $966/month

What's the Minimum Payment and How Does It Work?

For a normal $400,000 mortgage at 2.9%, 30 year amortization, I would be looking at a payment for $1629/month.

When I break down the mortgage into two parts, interest and principal, I get the following:

Mortgage Payment - $1629
Interest Payment –$966 / Principal Payment - $662

How does the Re-Advanceable work?

1. **On October 1st**, I would pay the normal mortgage payment of $1629.
2. A line of credit is then issued for $662.
3. On October 2nd, I would take out the $662 from the line of credit.
4. Since it's a line of credit I have to pay interest. $662 x (3.5%/year) / 12 months = $1.92/month
5. My total payment for the first month:

$1629 - $662 + $1.92 = $967.92

What would my payments in November look like?

1. **On November1st**, I would again pay the normal mortgage of $1629.
2. My line of credit is increased by another $662.
3. On November 2nd, I would take out the $662 from the line of credit.
4. Since it's a line of credit we have to pay interest. We have now borrowed twice from the line of credit. We owe a total of $662 + $662 = $1324. $1324 x (3.5%/year) / 12 months = $3.84

"My line of credit would give me a safety net of $15,888/$966 = 16 months of mortgage payments."

Don't forget closing costs!

Our total payment for the second month:
$1629 - $662 + $3.84 = $969.84

And so on.

I Don't Want to Pay the Minimum. What's the Benefit?

Massive liquidity.

Let's assume I paid down the mortgage normally @ $1629/month for 2 years. I lost my job. In a traditional variable mortgage, I would still have to pay the $1629/month no matter what.

With a re-advanceable, my line of credit would have been building up for the last 24 months. Approximately, my line of credit room would of grown to $662 x 24 months = $15,888. Since I have a re-advaneable, I can structure my minimum payment to $966 ish versus $1629. I can then use my line of credit to pay the minimum mortgage payment. My line of credit would give me a safety net of $15,888/$966 = 16 months of mortgage payments.

Any Benefits for an Investor?

Maximizes cash flow. Creates a fund for vacancies, repairs, extra costs and anything you can think of. It's an absolute no brainer for an investor.

At the moment, Scotia will put this program on 5 rental properties.

How can I Access up to 80% of the value of my Property without Paying Extra Interest?

Re-advanceables mortgages can be set up to 99 separate accounts. This means under 1 mortgage, I can separate it into 99 separate mortgages or line of credits. So what does this mean?

If I wanted access to the full 80% of the property value in a traditional mortgage, I would be required to take out a mortgage for $480,000. The challenge with this is the extra 80k in funds would automatically be deposited into my account and I would have to start paying interest right away.

With a re-advanceable, I can structure 2 accounts.

1. 400k mortgage
2. 80k Line of Credit

I only pay interest on a line of credit when I use it.

I used 40k from my Line of Credit, Now I'm Paying a Higher Interest Rate.

Let's say I used the 40k as a down payment for another property or to renovate my current property.

With a re-advancaeble, I can switch any portion of my line of credit (3.5%) into a mortgage (2.9%). So the accounts would now look like this:

1. 400k mortgage
2. 40k mortgage
3. 40k line of credit

Again with some re-advanceables, you can segregate up to 99 accounts allowing lots of flexibility.

A million dollar re advanceable mortgage for $2419/month. (int only @2.9%)

Tax Deductibility and the Re-Advanceable Mortgage

CRA requires me to segregate my accounts if I'm planning to deduct interest.

If I used my principal residence equity as a source for a down payment and I roll it all into 1 big mortgage, there is a good chance CRA will deny the interest deduction.

If my accounts are segregated like the following:

1. 400k mortgage (Principal Resdience)
2. 40k mortgage (Rental Property Down Payment)
3. 40k line of credit (Money Available)

A paper trail is now created. I can now deduct the interest from the $40k mortgage.

What's the Bottom Line?

If your down payment or equity in your property is more than 20%, get a Re-advanceable Mortgage.

How Can I Set This Up For My Properties?

1. Send an email to Robert@financialstuff.ca to set up a 10 minute phone conversation.
2. We have the phone conversation and if situation can be improved upon, we then set up a time to meet.
3. When we meet, we will go through all of your existing mortgages in detail and figure out the correct course of action.
4. We then implement that course of action.

Can I do this when my Mortgage Renews?

Yes. Fill out the following and email/scan to Robert@financialstuff.ca or fax back to 604 648 9701. Four months before your renewal date we will get in contact with you.

Name: __________________________
Email: __________________________
Phone: __________________________

Property Address Renewal Date

1.______________________________ ______________
2.______________________________ ______________
3.______________________________ ______________
4.______________________________ ______________
5.______________________________ ______________

☐I want re-advanceable.

Comments/Questions
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