




UNDERSTANDING MORTGAGE RENEWAL OPTIONS



Mortgages, specifically mortgage rates, continue to be a hot topic these days. Even with the current pause by the Bank of Canada on interest rates, and the rate decreases expected later this year, many homeowners are unsure of what to do when their mortgages come up for renewal over the next few months.

Almost half of Canadians have mortgages renewing in the next two years, partly due to "the real estate frenzy that transpired over the course of the COVID-19 pandemic." [1]

Canadians took advantage of the ability to purchase real estate with interest rates at historic low pre-pandemic levels. At one point in 2021, you could even get a 5-year fixed-rate mortgage for 1.44%. [2]

While it's going to be a long time before we see rates that low again, there are still great options for mortgage holders.

So, if you have a mortgage coming up for renewal, if you're having difficulty making payments, or if you are looking to access the value of your home for investment purposes, what options are out there?

[1] <https://www.cp24.com/news/everyone-is-going-to-have-to-pay-more-what-you-need-to-know-about-mortgage-renewals-with-interest-rates-at-a-22-year-high>

[2] <https://www.mpamag.com/ca/mortgage-industry/guides/a-guide-to-historical-mortgage-rates-in-canada/451544#:~:text=And%20the%20lowest%20fixed%20mortgage, April%202009%20and%20May%202010.>

RENEWALS

There's good news for mortgage renewers - relief from high rates is on the way.

Start by talking to your mortgage broker and financial advisor to determine a term that best suits you. Look at the 2-, 3-, and 5-year rates to see what offers you the best option. Even if rates do go down, it will happen slowly so you can take advantage of those rates at your next renewal. This may not be the time to lock into a long-term solution.

MORTGAGE EXTENSION & PREPAYMENTS

During the COVID lockdown, many banks offered clients the option to defer mortgage payments for up to 6 months, giving them a mortgage extension. While it provided short-term relief, the deferred payments were just added on to the end of the mortgage. Ultimately, you pay more interest and carry the mortgage for longer period.

If you want to explore a mortgage extension, be aware that only some people can be eligible for a deferment. Your credit rating, payment history, and financial standing all come into play.

Conversely, prepaying a portion of your mortgage can help in the long term. Even small increases of \$40 - \$50 can take months, if not years, off your mortgage. Some mortgages allow for a one-time lump sum payment of up to 15%. If you receive a large tax refund, applying it against your mortgage can be very beneficial.

If you're ready to renew your mortgage, this is a great time to look at a prepayment to lower the overall amount to be financed.



REFINANCING

While the most straightforward way of dealing with higher interest rates would be to refinance, it can be challenging. If you're already struggling, you may not be able to qualify with a major bank, and interest rates offered by secondary lenders are often higher. You may not pass the current stress test, and the hassle of re-applying may be more than you want to deal with.

If you are exploring a mortgage with a secondary lender, review the terms of your mortgage carefully and consult with a lawyer who has worked with private mortgages before signing.

HOME EQUITY LINE OF CREDIT (HELOC)

One way to take advantage of the equity built up in your home is to open a home equity line of credit or a readvanceable mortgage. A readvanceable mortgage is a type of mortgage that allows the borrower to add a line of credit to the loan, permitting the borrower to re-borrow any part of the principal paid down. It is essentially a primary mortgage bundled with a home equity line of credit (HELOC).

An advantage of a HELOC is that you are only required to pay back the interest on the loan, so you can lower your monthly payments or have a low-cost way to access additional funds if needed.



PLAN AHEAD

Whatever route you decide to take, exploring your options well before your renewal date is important. There may be more advantageous options than staying with your current lender. Comparing rates, speaking with mortgage brokers, or applying for alternate options through your bank takes time.

You must weigh your options carefully to be confident that you've made the best choice. Your financial advisor can help you determine the best course of action based on your specific needs.

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