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An Intelligent way to stay informed about the mortgage industry

Topping up your RRSP with the cheapest money in history

Right now, your house is the best piggy bank you'll ever own. If you've got some money in that piggy bank, you may want to take some out for your RRSP. The RSP season is upon us, and Canadians are going through their annual head-scratching – how to maximize contribution room and even catch up on mounds of unused room. House valuations have climbed and mortgage rates are still at historic lows. “Carpe diem”, as they say: seize the day.

This year, you can top up your RSP with some of the cheapest money in history: a mortgage. Even if your mortgage isn't scheduled for renewal any time soon, it may be worth your while to make a visit to an independent mortgage professional, who can offer you a comprehensive analysis of your options. With today's rock-bottom rates, it may still pay to refinance your existing mortgage.

Canadians are a cautious lot when it comes to finances, and we typically don't like to borrow money. But it deserves special consideration for RRSP purposes. Remember, you'll be looking at a tax refund almost immediately. If possible, you can turn around and put that money back against the loan as soon as it arrives.

So borrowing for your RSP can make good financial sense. But if you are a homeowner, the special RSP loan programs offered by many banks may not be your best option. The cheapest money you can get is the money under your own roof. Why?

A house is considered a very reliable security, and lenders assume little risk in lending money secured against it.

Here are two possible strategies to consider:

1. Looking for funds to take advantage of large amounts of unused contribution room? Talk to a mortgage professional about refinancing your existing mortgage or taking out a second mortgage to reach your retirement savings goals. Make your new mortgage money really work for you; while you're at it, get all your debt under one shingled roof. Roll any high-interest credit card debt or other loans into your refinanced mortgage, and watch your interest savings multiply!

2. Want to boost your RSP and leverage your non-registered assets to do it? While the interest on an RSP loan is not tax-deductible, you could discuss the following strategy with your mortgage professional: First, sell your non-registered investments and contribute the proceeds to your RSP. Then, arrange a mortgage to re-purchase your non-registered investments. Because the money is being used to purchase investments, the interest is now tax deductible.

Both strategies depend on your own personal situation, so be sure to consult both your mortgage professional and financial planner before proceeding. But make a point of making the call today; the RSP contribution window is closing soon.



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