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An Intelligent way to stay informed about the mortgage industry

Using Your Mortgage to Lower Your Debt

"Where the heck does it all go?" You're looking at your T4 slip from last year… or maybe your most recent pay stub. Sure, many people wish that those numbers after the dollar sign were a little higher, but it's the vanishing act that alarms you most. Tax time is especially sobering; you can see how much money you made… but your credit card is still maxed out and you don't have much to show for a year's income.

If you're looking for the holes in your wallet, start by making a list of your debts. Are your credit cards teetering at the top of their limits? Do you make regular use of your overdraft protection at the bank? Do you have escalating tax liabilities? What about any department store cards? And – quick – what was the interest rate on those balances last month? Have you added it up? Many Canadians are startled to see how much they are actually paying to service their debt.

Industry Canada, which monitors consumer data, reports interest rates for department store credit cards as high as 28%. Even competitive rate credit cards will often run at 18% or more. And this is at a time when the lowest mortgage rates are dropping to approx 5%. (currently 5 yr – 4.50%)

Why do the banks and department stores charge such high rates? These are unsecured debts, meaning that – if you default on the debt – the lender has no easy recourse to recover the money. Not surprisingly, they charge a higher rate – sometimes a MUCH higher rate – to compensate for the higher risk that an unsecured debt represents. A house is considered a reliable security, so mortgages often offer the best rates available anywhere.

Consider this, then. If you have equity in your home, you can take advantage of attractive mortgage rates to save a bundle on interest charges. Compare current mortgage rates with the rates charged on your other debts. Get some professional advice on whether it might pay to do some refinancing and roll your other debt, such as credit card debt and tax liabilities, into your mortgage. You can consolidate your debt into fewer payments, save some money on interest, and improve your cash flow.

You have a few options: A secured line of credit could provide you with funds up to 75% of the value of your home, minus any mortgage debt on the home. You can look forward to a substantial reduction in the interest rate, and all you need to pay each month is the interest. You can do the math on this comparison yourself, or talk to a mortgage professional. If you are carrying credit card debt, you'll be shocked at what you can save with a secured line of credit.

You could also consider increasing your existing mortgage. If your mortgage is coming up for renewal, this is the perfect time to reorganize and consolidate your debts at today's excellent rates. Even if you are in the last year or two of your mortgage, it may make sense to re-negotiate your mortgage now and roll in your other debt at a low rate. Or, you may be able to benefit from this kind of debt consolidation through a second mortgage.

Your best option - have a professional outline all options available for using a mortgage to consolidate your debt, decrease your effective interest rate paid and increase your cash flow.