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WHAT IS

Refinancing?

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Serving Clients Across Majestic Alberta
www.hellomortgage.ca

Why refinance?

People refinance their homes to take advantage of lower interest rates or to decrease their monthly mortgage payment. Refinancing is sometimes done for the purposes of getting money for big-ticket purchases or for debt repayment. So why would anyone want to refinance their home mortgage? In short, because the move may make financial sense.

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Overview

AND GOALS OF REFINANCING

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1 Interest Rate Reduction

Homeowners will often refinance their home loans in order to lower their monthly payments.

2 Prevent Rate Increase

Another good goal of refinancing a loan is an attempt to stop the payments from rising. For instance, the borrower may choose to switch from an adjustable rate to a fixed rate mortgage.

3 Cash Out

Borrowers may also have a need to improve their home or finance a personal need. In this case, a cash out option may be the way to go.

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4 Shorten the Term

Shortening the term of the loan can help a homeowner pay off their mortgage faster. This is another common goal of homeowners looking to refinance their loans.

5 Consolidate Debt

Home owners will often resort to a refinance mortgage in order to save by consolidating high interest credit card debt.

6 Renovate

Use the equity that you have already built up in your home to complete upgrades and renovations

7 Investments

Refinance and take out cash to use as a down payment toward purchasing an investment property

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to finance OR NOT TO REFINANCE?

THAT IS THE QUESTION.

The most general rule of thumb is that if your new loan results in at least a 1 percent (and ideally a 2 percent) decrease in your interest rate, then refinancing may be worth considering. Here are some reasons why a homeowner would consider refinancing their mortgage:

1 Savings

If you're paying a mortgage with a relatively high interest rate, and you can get a new mortgage with an interest rate that's at least 1 percent lower, you are likely that you would save money. To do the math, use a "mortgage calculator." Using one you can easily find on the Internet may be best. Plug in the amount of your loan, the term, and the interest rate to make a comparison and calculate your potential savings.

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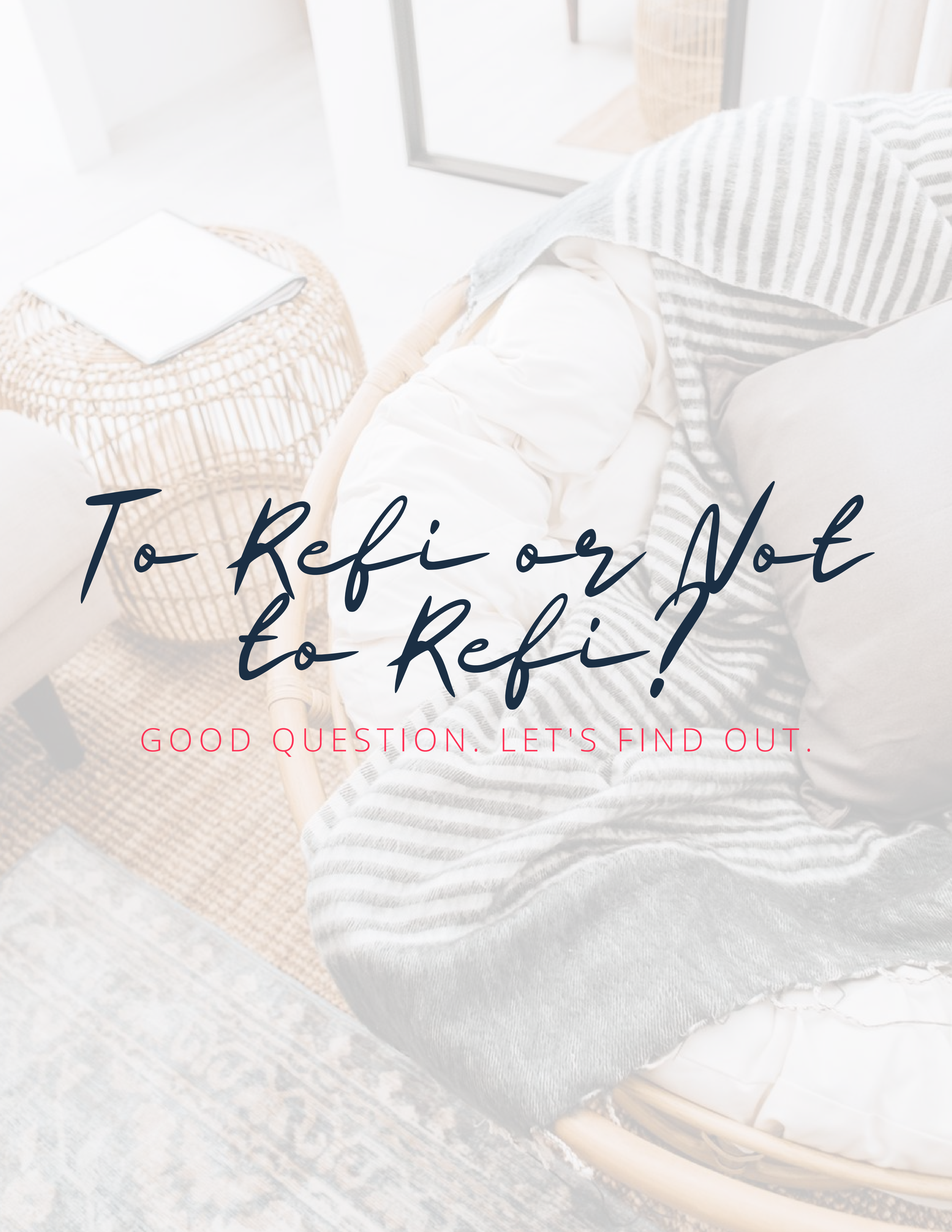

To Refi or Not to Refi!

GOOD QUESTION. LET'S FIND OUT.

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is that ALL?

UNFORTUNATELY, NO.

Unfortunately, the answers are not quite that easy. Refinancing costs money and you will have to factor that fact in before making a decision to refinance. A loan offered at a lower interest rate may look very good at first glance, but you should:

a Fees

Inquire what kind and the amount of fees you will be charged on the new loan. All mortgage loans come with standard fees, but you need to be on the lookout for any unusual fees. I will be happy to help you determine if your proposed refinancing loan fees are standard or not.

b Existing loans

You'll need to consider if you have an existing second or third mortgage with any restrictions. Again, I can assist you with the research into your existing mortgage matters to make sure the coast is clear for your refinancing loan.

c Penalties

Next, you will need to determine if the new loan has any prepayment penalties. A prepayment penalty is a massive red flag that indicates that the new loan that you are considering may not be in your best interest.

d Credit Status

You will also need to re-evaluate your current credit status. Do you recall when your credit report was "pulled" and examined to determine if you were ready to buy a home? The same process will happen again if you choose to refinance your mortgage.

e Credit Status

Additionally, examine your most recent mortgage statement and consider how much you have "paid down" on your loan. Most mortgages are paid out over a 30-year term. Consider whether it makes sense to refinance the last 10 years of your mortgage loan. Remember, you pay most of the interest on your mortgage loan in the beginning!

f Equity

Consider the amount of equity in the home. If your home's value has increased since the time you bought it, then you may want to refinance.

Change

THE TERM OF YOUR MORTGAGE.

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change

THE TERM OF MORTGAGE

A SOLID ALTERNATIVE.

You may find that it makes a lot more sense to shorten the term of your mortgage. Let's examine the consequences.

2 *Shorter Term*

Refinancing a 30-year mortgage to a 10-, 15- or 20-year loan allows you to pay off your home faster. At the same time, this will mean a higher monthly payment. To better understand if this is the best way to go for you, consider first and foremost if you can afford a higher mortgage payment.

A refinance to a shorter-term loan may work if you don't have many long-term debts and you have enough money coming in each month to pay your bills, with extra cash to spare.

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a Higher Payment

Shorter-term loans offer lower interest rates but can come with significantly higher monthly payments. Since failing to make payments can put you in jeopardy of losing your home, you need to be sure that larger payments will fit your budget.

b Other Finances

if your budget is tight, putting more money into your home may not be the best long-term strategy. Rather than refinancing, it might make stronger financial sense to put that money to work in other ways, such as a RESP fund, retirement accounts, life insurance policies or investments.

c What Have I Paid?

Cutting your loan term in half after paying it down for only a handful of years can significantly increase your monthly payment. But shaving a couple years off a loan that has been repaid over a long period of time will have less of an impact, and could even slightly decrease your monthly payment.

d Staying Put

If you plan to stay in your current home for only a few more years, refinancing might not save you money. I can help you understand how many months it will take to reach the break-even point. If you don't stay in the home long enough to reach the break-even point, you won't see any savings before you move.

Break Even

THE BREAK-EVEN POINT AND WHAT IT MEANS FOR YOUR REFI PLANS *the*

BREAK-EVEN POINT

RECOUPING YOUR CASH

Finally, you will have to consider how many months it will take to recoup the cash you used to refinance your loan.

3 *Calculations*

Prior to refinancing your mortgage, you'll want to figure out when you would break even. Your break-even point occurs when you begin saving money. In other words, once your accumulated savings exceed the costs of the new loan.

The sooner you can realize savings, the more cost effective your loan refinance will be. Reach out so we can calculate your break-even point and evaluate if refinancing your mortgage is the best option for you.

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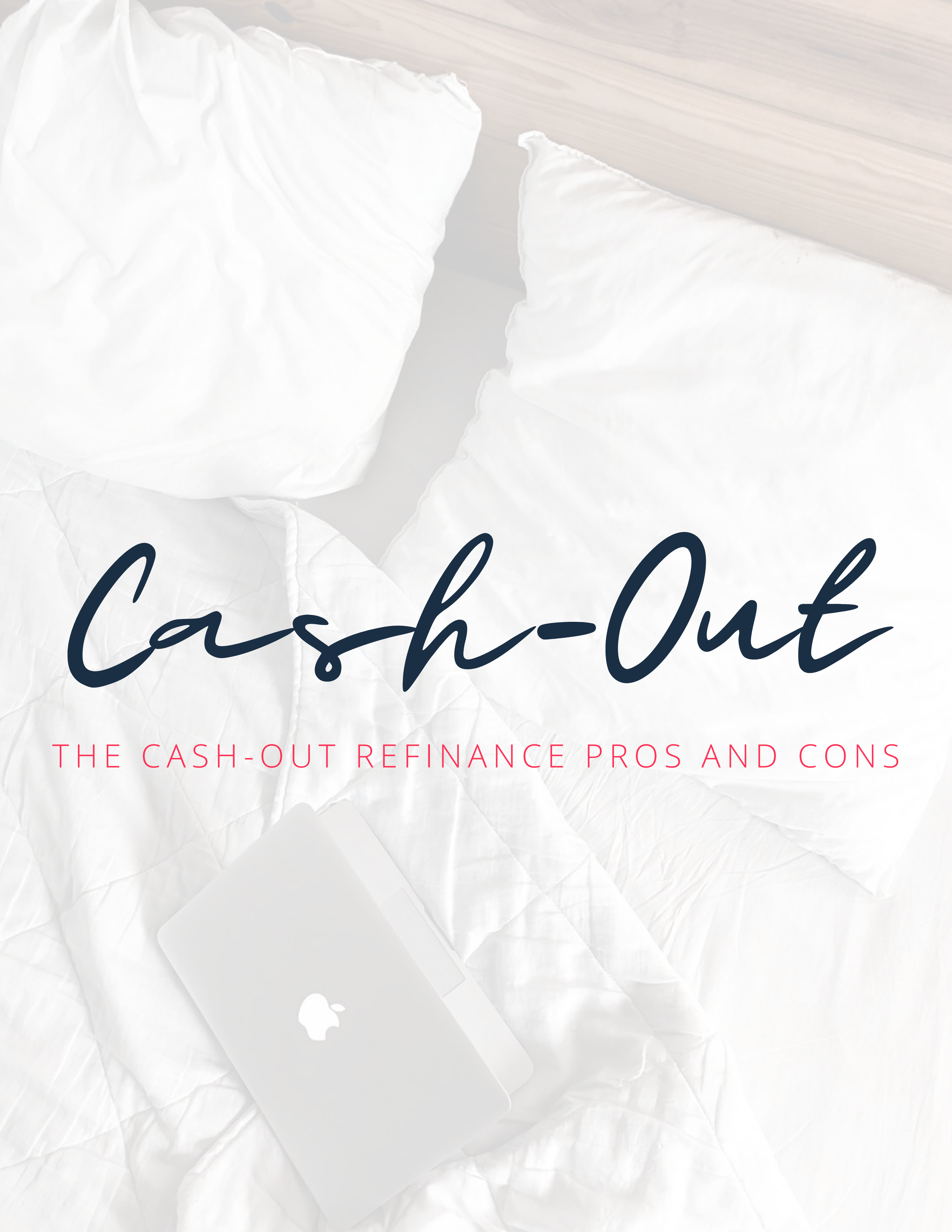

Cash-Out

THE CASH-OUT REFINANCE PROS AND CONS

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the CASH-OUT REFINANCE

NOT FOR EVERYONE!

A cash-out refinance would replace your existing mortgage with a new home loan.

4 *Best Candidates*

This option is not for everyone, but it could be the right choice for you. If your current mortgage loan is at a high interest rate and you are thinking of refinancing, you may be able to refinance into a lower rate, and take out some cash in equity at that time. If you already have a competitive mortgage interest rate, the cost to refinance may not be worth it.

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pros of a CASH-OUT REFINANCE

a Lower Rates

A cash-out refinance may afford you a lower interest rate if you originally bought your home when mortgage rates were much higher. If you're only after a lower interest rate on your mortgage and don't need the cash, regular refinancing will likely make more sense.

b Consolidate Debt

Using the money from a cash-out refinance to pay off high-interest credit cards could save you thousands of dollars in interest.

c Increased Score

Paying off your credit cards in full with a cash-out refinance can result in a higher credit score for you... by reducing your credit utilization ratio (the amount of available credit you're using).

d Tax Deductions

You can benefit from the mortgage interest deduction on a cash-out refinance if you use the money to buy, build or substantially improve your home.

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cons of a CASH-OUT REFINANCE

a Foreclosure Risk

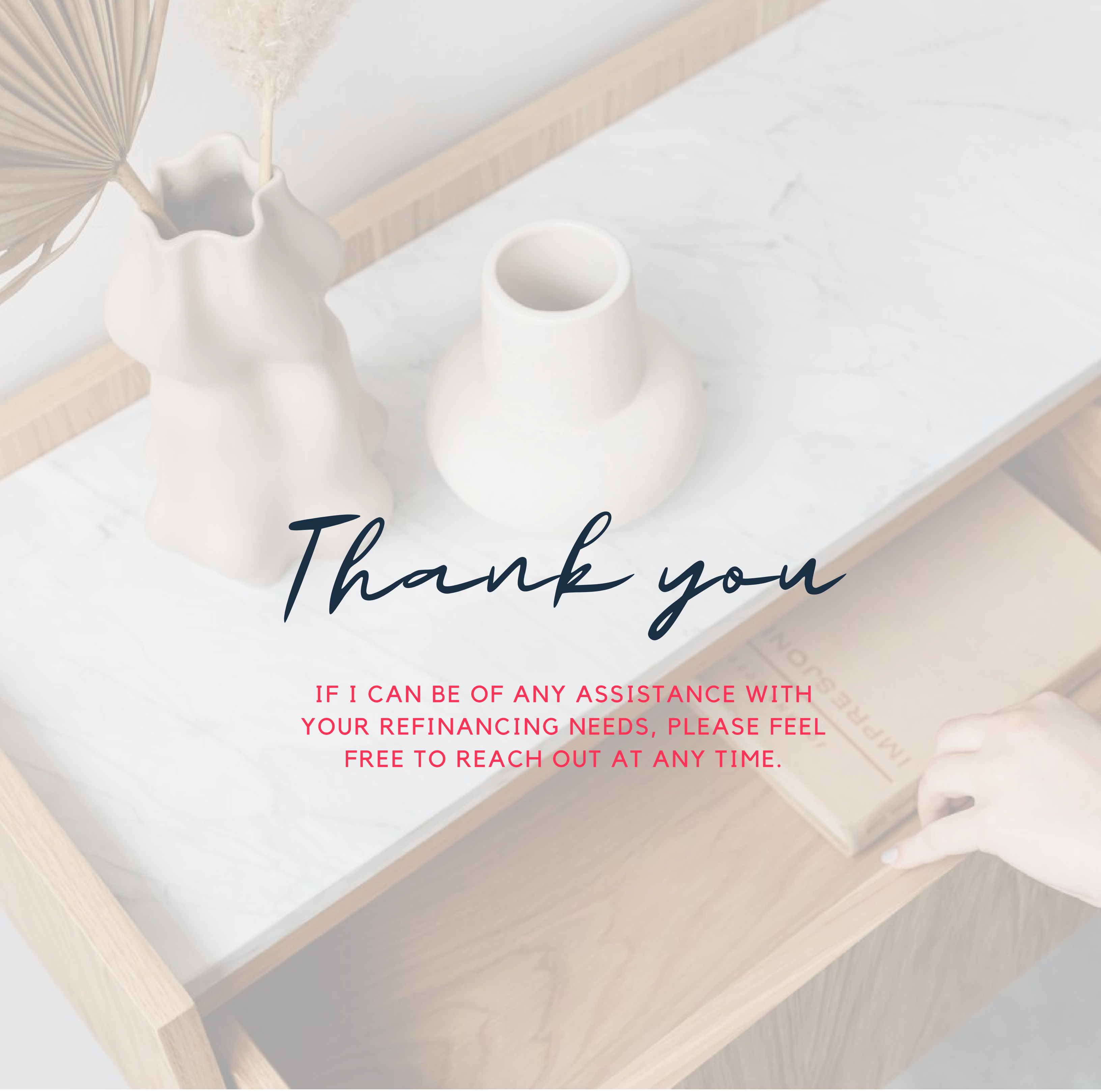
Given how your home is the collateral for any kind of mortgage, you risk losing it if you can't make the new, refi payments.

b New Terms

Your new mortgage can and will have different terms from your original loan. Double-check your interest rate and fees before you agree to the new terms!

c Closing Costs

Just like with any refinance, you'll pay closing costs for a cash-out refinance, typically 1% to 3% of the mortgage. Make sure your potential savings are worth the cost!



Thank you

IF I CAN BE OF ANY ASSISTANCE WITH YOUR REFINANCING NEEDS, PLEASE FEEL FREE TO REACH OUT AT ANY TIME.

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