5 Tips for Homeowners to Save $ & Increase Cash Flow

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Hey there! Thanks so much for downloading my e-book! If you are a homeowner hoping to save money and increase your monthly cash flow, you are in the right place! I'm excited to show you how we can improve your overall financial situation by using your mortgage to your advantage, with just a few simple strategies. But first, who am I, and why should you believe what I'm saying?

About Me

I'm Melissa Kuczepa, and as a Mortgage Agent licensed with Mortgage Architects, I work with over 57 lenders on your behalf to secure you the best possible mortgage product, rate, and terms for your unique situation.

As a previous Ambulance Dispatcher turned Mortgage Agent, I work very hard to make a positive impact on my clients' lives by helping them navigate complex and often daunting mortgage transactions with compassion and understanding. I used to save people's lives, now I save them money.

What my clients are saying:

"MELISSA IS A TRUE PROFESSIONAL. NO PRESSURE TACTICS OR MISLEADING ADVICE.WE HAD A BIT OF A TRICKY FINANCIAL SITUATION BUT MELISSA MADE US FEEL LIKE NOTHING WAS TOO DIFFICULT FOR HER TO INVESTIGATE OR RESEARCH FOR US. SAVED US LOADS OF TIME AND FRUSTRATION. WOULD DEFINITELY RECOMMEND MELISSA TO ANYONE JUST STARTING OUT OR LOOKING TO RENEW. GIVE HER A CALL.THANKS AGAIN MELISSA."

-Michelle T.

It's important to remember that I work for YOU, not the lender, so when it comes to your largest financial asset, I would love to be the expert in your corner! Can't wait to meet you!

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Introduction

With inflation at an all time high, many homeowners are finding themselves using credit to get by. They are using their credit cards, lines of credit etc. to keep up with bill payments, feed their families, and keep a roof over their heads. Many of these of these same homeowners are extremely worried about reaching their mortgage maturity date and are wondering how they will be able to afford their mortgage payments with all of this newly acquired debt and a higher interest rate. The good news is, if you have equity in your home, you do not have to simply accept whatever your lender offers you at maturity, you have options.

What are these options?

1. Consolidate Debt
2. Extend Amortization
3. Lower Rate
4. Lump Sum Payment
5. Reverse Mortgage

Let's look at each of these in more detail.

Consolidate Debt

The first option you have is to consolidate debt. In the A and Alternative lending spaces, you can borrow as much as 80% of the current value of your home. This means that if you have a mortgage balance of $500,000 and your property is valued at $800,000, you could borrow an additional $140,000. The math looks like this:

(Current Property Value) x 0.8 = Maximum Mortgage amount

Example: $800,000 x 0.8 = $640,000

(Maximum Mortgage Amount) – (Current Mortgage Balance) = Available Equity

Example: $640,000 - $500,000 = $140,000

**This is called a refinance and means that you are changing the terms set out in your original mortgage commitment. A refinance requires that you re-qualify for your mortgage and the transaction must be closed with a lawyer. This also means that you will be responsible for paying closing costs, which are typically around $1500, and a home appraisal may also be required. Appraisals are usually around $500. Closing costs can be deducted from your advance on closing. However, appraisals are paid for by the borrower up front. You may also refinance your mortgage mid-term. Be aware that you will be charged a pre-payment penalty on your remaining mortgage balance with your current lender.*

These additional funds are available to use as you wish, so long as you qualify based on income, credit, and other factors. In this strategy, I am going to show you how you can use these funds to pay off high interest debts to improve your monthly cash flow.

Case Study

Josh and Amanda are approaching their maturity date. Lately, they have found that with the cost of living having increased so dramatically in such a short time, they have accumulated some debt in the form of credit cards and an unsecured loan to make ends meet. They also have a car loan from upsizing their vehicle last year when they had a baby. They are worried about affordability with a much higher interest rate on their mortgage. Here we will look at how consolidating debt could make sense.

Their current mortgage balance is $340,000, with an interest rate of 2.5%. They have 20 years remaining of their amortization, and their estimated property value is $650,000. Their current monthly mortgage payment is $1799.53.

Financial Snapshot

Estimated Property Value: $650,000

Maximum Mortgage Amount = $650,000 x 0.8 = $520,000

Current Mortgage Balance: $340,000

Available Equity = $520,000 - $340,000 = $180,000

Debt	Balance	Interest Rate	Monthly Payment
Current Mortgage	$340,000	2.5%	$1799
Visa	$15,000	19.99%	$450
Mastercard	$23,000	24.99%	$690
Fairstone Loan	$10,000	39.99%	$300
Car Loan	$47,000	7.99%	$1410
Total	$435,000	-	$4649

Proposed Solution

Since Josh and Amanda have $180,000 in available equity as they approach their mortgage maturity, this is the perfect opportunity to consolidate their high interest debts into a new mortgage. As you can see from the above chart, they have accumulated $95,000 in consumer debt and combined with their current mortgage balance, totals $435,000. Their overall monthly payments come to $4649. If we were to refinance their mortgage, keep the same 20-year amortization and use some of their equity to pay out their debts to improve their cash flow, it would look like this:

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Debt	Balance	Interest Rate	Monthly Payment
Old Mortgage	$340,000	2.5%	$1799
Monthly Debt Load	$95,000	-	$2850
New Mortgage	$437,000	5.24%	$2928
Savings	-	-	$1721

*The new mortgage amount includes an additional $1500 which has been added to cover closing costs to process the transaction with a lawyer

As you can see, by simply combining their debts into their mortgage, they are now saving over $1700 per month, which works out to $20,652 over the course of the year.

Extend Amortization

Now, if Josh and Amanda's new monthly payment is still unaffordable, or they really want to maximize the surplus of cash they have on a monthly basis, we have options to extend the amortization out to 30 years (we can go as far as 35 years but that would be in the alternative lending space and would involve extra fees and a higher rate) to help lower the payment further. Let's review what that would look like:

Mortgage Balance	Interest Rate	Amortization	Monthly Payment
$437,000	5.24%	20 years	$2928
$437,000	5.24%	30 years	$2395
Difference	-	-	$533
Overall Monthly Savings	**-**	**-**	$2254

So based on the above scenario, if we were to now extend the amortization from 20 years to 30 years, the new monthly amount would be $2254. If we then calculate the difference from the original monthly amount of $4649 compared with their new monthly mortgage payment of $2395, you can see they are saving $2254 monthly! If we annualize that, it comes to $27,048 per year or $135,240 over their 5-year term. What a MASSIVE difference! Now, they could use the surplus of funds to begin investing, saving, build an education fund, complete renovations, or make additional payments to their mortgage to pay it down even faster. They have now set themselves in a much better financial position and created a much more sustainable monthly budget for themselves.

Additionally, if in future rates were to come down and they would like to shorten their amortization back to 20 years, they can definitely do so. However, this would be another refinance and would involve closing costs, as well as a penalty if they are mid-term.

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Lower Rate

Case Study

Liam and Brandon have owned their home together for the past 7 years. They do not have any debts they and they don't want to make any changes to their amortization. However, they want to make sure they are getting the best rate and terms possible to ensure their monthly costs do not increase dramatically.

As they are approaching their mortgage maturity, their current lender sent them a renewal offer with an interest rate of 5.75% for a 3-year fixed rate. They approach their Mortgage Broker to see if they can get a lower rate.

*At maturity, you have the option to transfer your mortgage to a new lender without refinancing. You can usually cap up to $3000 in fees into your mortgage without penalty. This means you are transferring your mortgage "as-is" to a new lender with a better rate. You cannot withdraw equity; you cannot lengthen or shorten your amortization or make any other changes.

Financial Snapshot

Current Mortgage Balance: $340,000

Current Lender Offering: 5.75% on a 3-year fixed, 20-year amortization.

Proposed Monthly Payment: $2373.96

Interest Paid Over 3-Year Term: $82,771

As their broker, I was able to negotiate a better interest rate with a new lender of 5.49% and that had favourable terms. Liam and Brandon would still have a 3-year fixed and 20-year amortization. Their mortgage balance would change to $343,000 because they would need to incorporate closing costs and any applicable discharge fees from their previous lender. Their new proposed monthly payment would become $2345.57 and their interest paid over the 3-year term would be $53,475.

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Mortgage Balance	Interest Rate	Term	Amortization	Monthly Payment	Interest Paid Over Term
$340,000	5.75%	3 years	20 years	$2373.96	$82,771
$343,000	5.25%	3 years	20 years	$2345.57	$53,475
Monthly Savings	-	-	-	$28.39	-
Interest Savings Over Term	-	-	-	-	$29,296

Now, their monthly savings seem insignificant at only $28.39 – which over the 3-year term equals $1022.04. It may not seem like much BUT…

The interest savings over the 3-year term is: $29,296!! A MASSIVE savings!

In this case, adding $3000 to their mortgage balance saves them thousands of dollars!

Lump Sum Pre-Payment

Another option homeowners have to save money or improve cash flow is to consider making a lump sum pre-payment onto their mortgage if they have the funds available.

If you happen to have a lump sum amount of cash sitting in an investment or savings account and you wish to pay down part of your mortgage to reduce your payments, you can definitely do so. Most lenders will allow for up to 20% of your principal to be paid down each year of your term without penalty.

Case Study

Francine recently received an early inheritance of $180,000 from her mother to help offset rising costs. She wants to evaluate whether it would make sense for her to put a portion of her inheritance onto her mortgage to keep her payments manageable.

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Francine has a current mortgage balance of $340,000 with an interest rate of 5.24%. She is on a 5-year fixed that is coming up to maturity with 25-years remaining of her amortization. Her monthly payment is currently $2024.16.

Financial Snapshot

Amount in Savings from Inheritance: $180,000

Maximum Pre-Payment Amount: $68,000

New Mortgage Balance at Maturity: $272,000

Interest Rate: 5.24%

Term: 5-year fixed

Amortization: 25-year

New Monthly Payment: $1607.42.

Mortgage Balance	Interest Rate	Term	Amortization	Monthly Payment
$340,000	5.24%	5 years	25 years	$2024.16
$272,000	5.24%	5 years	25 years	$1607.42
Monthly Savings	-	-	-	$417
Interest Savings	-	-	-	$36,016

By making that lump sum payment prior to renewal, she is decreasing her monthly payment by $417 which helps improve her cash flow. However, Francine is also saving $38,016 in interest and paying off her mortgage 4 years and 8 months sooner!

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Reverse Mortgage

There are occasions where homeowners may be retired and finding it difficult to maintain their current lifestyle based on their limited income. Especially now with the cost of living increasing and pensions remaining the same, these homeowners may be facing the reality that at maturity they may no longer be able to afford their home and be forced to sell. This is where a reverse mortgage is an excellent option.

A reverse mortgage allows homeowners who are 55+ to borrow up to 55% of the equity in their home to improve cash flow issues, improve quality of life, complete renovations, travel, give an early inheritance to family etc. A reverse mortgage does NOT have a monthly payment. Instead, interest accumulates on the balance owing and when the house is sold, or the last homeowner dies, the mortgage and all accumulated interest becomes payable in full.

Many people who hear about reverse mortgages worry that they will no longer own their home, or that the mortgage balance will exceed the value of the home in the future, and they will have no equity left.

This is not correct. The homeowner remains in full control of the property and remains on title. The home belongs to them, not the lender. Most reverse mortgage lenders also have a "No Negative Equity Guarantee" which means you will never owe more than the fair market value of your home.

Case Study

Deacon and Miriam, both aged 70, earned modest incomes during their working years, but were able to buy a nice house and a cabin. Both mortgages were paid down before they retired, but their retirement savings are nearly gone, and their pensions don't cover monthly spending.

Their cabin needs repairs and could use an addition, as Deacon still enjoys skiing at a nearby resort, and their kids and grandkids love to spend time there. They considered downsizing, but realized they wouldn't net much after paying real estate commissions, moving costs, and legal fees.

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Deacon and Miriam would like:

1. To keep their home equity line of credit secured by their home for topping up their bank accounts beyond their pensions.
2. To remain in their home, as their family, friends, and healthcare providers are all nearby.
3. To renovate and build an addition onto their cabin.

Proposed Solution

- Access 40% of the value of their home ($200,000) with a reverse mortgage.
- Pay an estimated $2,000 - $3,000 in reverse mortgage closing and legal fees.
- Repair and add on to the cabin.

Pay down reverse mortgage with:

- Expected inheritance from Miriam's 94-year-old mother in the next 5 years.
- Anticipated sale of the cabin to one or more of their kids.

With a $200,000 reverse mortgage, Deacon and Miriam can keep their house, maintain their cabin, and most importantly, continue to do what they want during retirement—spend time with their family.

Conclusion

As you can see, there are some fantastic strategies that we can use to make a positive impact on your financial situation. If you would like to schedule a call where we can discuss your individual circumstances and how I can best help you, please click here.

Thanks so much for reading,

Melissa

*All rates and figures discussed throughout this e-book are for illustrative purposes only and are subject to change. All scenarios are O.A.C and dependent on individual circumstances.