

Building wealth using a re-advanceable mortgage

There's a nice little tax advantage that American homebuyers have been enjoying for years that has never been available in Canada. Our tax rules do not allow us to directly deduct the interest we pay on our homebuying debt as they can in the U.S.

Here in Canada though, we do have an investment-friendly tax policy that has a little-known advantage for homeowners. With the right professional guidance, thousands of Canadian homebuyers are using a conversion strategy to get a tax-deductible mortgage. You heard that right: you can write off the interest you pay on your mortgage, and you can do it – perfectly legally – right here in Canada.

The strategy takes advantage of our tax breaks designed to encourage non-registered investing. If you borrow money to invest, the interest on that debt can be tax-deductible. If, for example, you borrowed against your home equity – for the purpose of investing to make money – the interest on that loan would be tax-deductible. There are many types of qualifying investments: you could purchase a rental property, for example, or a bunch of blue-chip stocks or mutual funds, if that's what you're comfortable with. Your goal then is to convert your non-deductible mortgage debt into a tax-deductible investment loan.

What makes this strategy such a great fit for many Canadians is that those of us in our homebuying years are always juggling to find a balance between paying off our homes and investing for the future. Using a re-advanceable mortgage that includes a line of credit (LOC), we can actually do both.

Here's how it works. You convert your existing mortgage to a re-advanceable mortgage/line of credit combination, which will allow you to automatically take advantage of any increasing equity in your home. *As you create equity in your mortgage account through mortgage paydown, your line of credit is automatically increased by the same amount.* As the non-tax-deductible mortgage is paid off on one side, then, it is re-advanced to the wealth-building investment LOC, or the

tax-deductible side of the ledger if those funds are used for investments. The tax refunds you generate can be used to accelerate mortgage paydown and increase the LOC portion for further investments.

For years now, Canadian homeowners, after having built up some equity in their homes, have taken out lines of credit on that equity so they could access that money for renovations, debt consolidation or investments. Often though, those lines of credit are separate from the mortgage and have set limits so they don't automatically increase as equity builds unless the homeowner applies for an increase. The re-advanceable/line of credit combination then offers more convenience and flexibility over this more traditional approach.

The mortgage planners at Mortgage Architects have access to over 50 lenders, many of which offer a competitive re-advanceable mortgage. They know them all so they can find the one that best meets your needs and goals. Some offer flexible features that include:

- Sub accounts so you can borrow for different purposes and keep track of the interest expenses (important when tracking interest for tax purposes);
- Automatic deposit features – so you can use your paycheque or other deposits to temporarily offset your debt while those deposits aren't in use, which will save you interest;
- Flexibility to split the mortgage into sections with different rates, terms and amortizations, pay interest only, or even skip a payment

When you are in your mortgage years and life doesn't stand still, a re-advanceable mortgage may be the perfect tool to help you balance your financial goals: debt paydown and wealth accumulation.

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