

MONEYWISE

A Quarterly Publication by Seville Mortgage Corporation www.yourmortgage.ca

Welcome to MONEYWISE

Our goal is to arm you with the tools that will assist you in making those tough financial decisions. Seville Mortgage, along with other contributors, will be providing you with current financial news, homeowner tips and mortgage updates and articles that will make you a more informed consumer. Our ultimate goal, providing you with everything you've always wanted to know about mortgages but were afraid to ask.



The Canadian mortgage market is undergoing a fundamental change as more and more buyers turn to companies such as Seville for their home financing. Why?

Because we can save you time, trouble and money.

We do the work for you. You could spend days shopping around for the best mortgage deal or simply call Seville. We are electronically connected with Canada's top banks, trust companies and credit unions' Bank of Montreal, TD Bank, Scotiabank, First Heritage Credit Union, Laurentian Trust to name a few. These lenders bid on your business, so we can offer you **lower than advertised rates.**

There is no fee for first mortgages or renewals on approved credit. We are paid by the lenders on all institutional loans.

If you are thinking about buying a home, renewing your mortgage or refinancing at today's low rates, please give us a call.

Fax us, phone us or e-mail us with your questions as well as subjects you like to see covered in future articles. We would love to hear from you.

Donna Telep
President & CEO
Seville Mortgage Corporation

When Should I Refinance My Mortgage ?

Refinancing an existing mortgage is a popular option for home owners who want to trade in a high interest rate for a lower one. This offers you the opportunity of either lowering your monthly payment or paying off your mortgage faster.

A general rule of thumb is that refinancing becomes worthwhile if the current interest rate on your mortgage is at least two percentage points higher than the prevailing rate. This minimum spread is required in order to meet the costs of penalties on your existing mortgage and closing costs. If you are increasing your existing mortgage, which would be necessary to cover the costs of any penalties, then legal and possibly appraisal costs may be incurred. You must also consider how long you are planning to stay in the house. It usually takes at least three years to make up for the costs of refinancing.

Benefits of Refinancing

- Your overall monthly payments may be reduced due to a lower interest rate if the loan term remains the same.
- You may choose to keep your higher payment thereby shortening the term of your loan. Because you will now be paying off your mortgage sooner and paying less interest, the equity in your home will build up faster.
- You may want to combine two existing mortgages into one new mortgage which could lower the overall interest rate and the payment.
- You may want to use the equity in your home for home improvements or other financial needs.

Home Equity Loans and Lines of Credit

Financial advisors often recommend a home equity loan or line of credit as the best way to finance a major purchase like a home addition or a child's education.

Home equity loans and lines of credit are a low-cost way to borrow, a privilege just for homeowners. Interest rates are lower than most credit cards or other types of consumer loans.

Choose the One That's Right for You

Home Equity Loan Use your equity to obtain a loan if you need a certain amount of money all at once. The interest rate is fixed and your payments will be the same each month. Repayments can be amortized for up to 25 years.

Home Equity Line of Credit Use your equity to obtain a line of credit if you prefer to have ongoing credit available that you can access multiple times, as you need it. The interest rate is variable and monthly payments will differ depending upon the amount you borrow each month.

Contact one of our financial advisors who will be happy to answer your questions and you assist in your home financing needs.



HOW TO SAVE MONEY ON BANKING FEES

The average Canadian pays about \$39.12 a year in bank service charges, according to the Canadian Bankers Association. Of course, an average is just that, with some people paying two or three times that amount a year and others paying nothing. Here's how you can reduce or eliminate those annoying banking fees.

Shop Around

Banks set their own fees, so it is possible to find different charges for similar accounts at other financial institutions. If chequing account fees are better at the bank or credit union across the street, but loan rates are lower at your current bank, move only your chequing account. No one says all your banking has to be done at the same institution.

- Always double check bank statements. Mistakes cost you money.
- If you are a student, youth or senior citizen, ask about special discounts and packages.

Electronic Banking

- Investigate online, personal computer or phone banking. By avoiding tellers, charges may be reduced.
- Ask your employer to direct deposit your paycheque into your bank account. Not only will the money begin earning interest sooner, but some banks will also offer free chequing or lower fees for chequing because this payment method saves them money. Direct deposit is also available for pension, annuity and dividend cheques.

Chequing and Savings

- Open an account that doesn't have monthly and per-cheque fees. These accounts usually require a minimum balance but can save you money if you write a lot of cheques. Find a fair minimum balance account and make sure not to go below it.
- Be sure that the minimum balance required doesn't tie up a significant amount of your money, however. Saving a few dollars in banking fees may not be the best move if your money could be earning a better return elsewhere.
- If you have several accounts with minimal savings, consider consolidating them into one.
- Don't bounce cheques. If you find yourself bouncing cheques, make sure you have overdraft protection in which all cheques and pre-authorized payments will be honored up to a pre-set limit.

ATMs

- Bank at a financial institution that does not charge you for automatic transaction machine use.
- If the bank of your choice charges for ATM transactions, make sure you know how many free transactions you get with your account. Avoid going over your limit.
- Withdraw one large amount instead of several small ones.
- Use only your own bank's ATM's. Other banks will charge \$1 for every transaction.
- Use your debit card wisely when shopping. It is usually cheaper than writing a cheque. If you know you're going to make several small purchases, however, it might be cheaper to withdraw sufficient cash at an ATM.
- When paying with a debit card, some stores may allow you to withdraw extra cash along with the debit transaction. Debit fees are sometimes cheaper than ATM withdrawal fees.

Credit Cards

- Get a credit card that does not charge an annual fee.
- Find a card with the lowest rate or with no interest rate. When cards come with low interest rates for a limited time, find out how long that time is and budget payments accordingly.
- Compile purchases on your credit card instead of writing cheques or instead of making several debit card payments. That makes it easier to stay within your limit for free transactions each month. You don't risk incurring a fee unless you make a late payment.



Information Insurance Brokers Need to Know

You've found the perfect house, been pre-approved for a mortgage and finally your realtor calls, It's A Deal!! There are hundreds of details to take care of, a very important one being the insurance. One of the most valuable investments you will make in your life time is the purchase of your home and you need to feel confident that your insurance broker understands your needs. In order for your broker to ensure that you are properly insured they are going to require information on the dwelling, past insurance history and some personal details, ie: age, occupation etc.

When you go in to see your insurance broker be prepared. The broker is going to need to determine the amount of coverage required on the dwelling. It's not just a matter of deducting the value of the land from the purchase price to determine the value of the house. You and your broker will work together to calculate the replacement value of your home for insurance purposes. The information you provide to your broker must be accurate to ensure your coverage is adequate in the event of a loss. If you have the real estate listing, an appraisal or the house plans, you should have the majority of information the broker will require.

Brokers across Canada use a specialized form called a Boeckh Calculator to provide evidence of the value of the dwelling to the insurance underwriters. Using this calculator the insurance broker will, step by step, take all the features of your home and work out the replacement value. It is important to remember that your insurance broker is not an appraiser, but the insurance industry does recognize the calculator to be an accurate measure to use in order to estimate the replacement value of your home. Your broker

will need to know the square footage on each floor, number of bathrooms, deck sizes, how many fireplaces, roofing material etc. The broker will also ask you a series of questions in order to identify the construction class. Is the house economy, standard, custom or luxury built or something in between? Does the home have a formal dining room, large foyer or laundry room? Is there any specialty flooring such as hardwood or marble? Custom made cabinets or specialty woodworking? If you are prepared and don't have to rely on memory or guesswork the evaluation is much more accurate.

If you are buying an older home, over 25 five years, the broker will need additional information. If you have had a home inspection completed, bring the report with you as it should have the information required. They will require information on the heating, plumbing, wiring and roof. Have these been updated? If so, when? The insurance company will usually require a photo of the dwelling. If you do not have one, the broker can often arrange to have the photos taken.

Your homeowners policy will automatically include a limit for your personal contents but you should be made aware of any limitations and ensure that the limit for your contents is adequate.

As mentioned before, this is a valuable investment to you and it is important that you are confident in your broker and your policy. Feel free to ask questions. Your broker is there to help you.

**Johnston Meier
INSURANCE AGENCIES LTD.**



"The way to stop financial joy-riding is to arrest the chauffeur, not the automobile."

Woodrow Wilson



Planning Ahead

Bob Thompson

RBC Dominion Securities Investment Advisor

They say there are only two certainties in life – death and taxes. But did you know that, even in death, there can be taxes? However, with the proper planning, it doesn't have to be a certainty.

Without planning ahead, your heirs may have to pay punishing taxes on your Retirement Savings Plan (RSP) or Retirement Income Fund (RIF). Your heirs could also pay taxes on certain assets where there are unrealized capital gains. One way to avoid or minimize this usually unexpected tax burden is through the use of life insurance products.

Many RSP/RIF planholders are not aware that half their retirement savings balances are directly payable to the government on the death of the surviving spouse. For example, on a \$300,000 RIF account balance, there could be roughly a \$150,000 tax bill from Revenue Canada.

An easy, cost-effective way to compensate for this tax bite is to purchase a life insurance policy which provides a lump sum of cash that is equal to the tax bill. This lump sum is given to your intended beneficiary on a tax-free basis. Furthermore, it does not trigger any accounting, legal or probate fees in the estate of the planholder.

The cost of this insurance ranges from 1-2 per cent of the average RSP/RIF account balance. In the end, what you pay in insurance premiums is much less than the potential 50 per cent tax bill.

Insurance is also a possible solution for another problem that your heirs could face – capital gains tax. If you own any of the following types of assets, your heirs may face a bill for unrealized capital gains:

- shares of a private corporation
- shares of a public company
- real estate (other than principle residence)
- U.S. assets
- collectibles such as jewelry, antiques or fine art

After death, your assets can be transferred to your spouse without incurring taxation. However, on the death of your spouse, the capital assets in your estate are treated for tax purposes as if they had been sold.

But what if your heirs don't want to dispose of the assets – often treasured family heirlooms – to pay the tax bill? Well, they could pay the bill out of pocket. Perhaps they could borrow the money. Or you could plan ahead by purchasing an insurance policy which allows your heirs to retain the family heirlooms and costs far less than what the tax bill would be.

This article is for information purposes only. Before taking any action based on information in this article, please consult with a professional financial advisor. This article was supplied by RBC Dominion Securities Investment Advisor Bob Thompson. For more information, please call Bob at 467-5321 RBC Dominion Securities is a member of the Canadian Investor Protection Fund.

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YOUR TAXES Jim Maroney

If you're considering moving, make sure you're not caught in the big trap. This happens when people live in their humble abode for time eternal until the mortgage is finally paid off. Along with the urge to move to a new home, comes a desire to hang on to old "Betsy" and make some money on the side in the form of rental income. Often the mortgage-free homeowner heads off to the bank to borrow whatever money is needed to purchase a new piece of paradise. In many cases, the old home is provided as security to the lender for the purchase of the new home. The intent being to move into a new home, rent out the old home and write-off the interest on the new mortgage. Sounds pretty simple, so what's the problem?

The mistake that has been made

here is to confuse the security for the loan with the use of the borrowed funds. Revenue Canada isn't particularly concerned about the security provided for the borrowed money. They are, however, very concerned about what the borrowed funds were used for. If the borrowed money is used to earn investment income, chances are the interest paid will be deductible. On the other hand, if the borrowed money is not used to earn investment or business income deductibility of interest is nothing more than wishful thinking

In the situation described, the borrowed money has clearly been used to finance the purchase of a principal residence. As we all know, interest paid to purchase your own home is not tax deductible. The fact that the old

home (which is now a rental property) has been pledged as security doesn't suddenly make the interest deductible.

The absence of interest deductibility is even more painful when you consider that the income received from rental of the old home is fully taxable. This certainly doesn't sound like prudent financial planning to me but what could have been done in the alternative?

The homeowner could have chosen to sell the old home. In most cases, the proceeds will be received free of tax. The proceeds so received could then be used to buy the new home. Then, using the new home as security, funds could be borrowed to acquire a "new" rental property. Since the borrowed money has been used for investment purposes

(i.e., to earn rental income) the interest should be tax deductible and can be applied as an offset against the rental income received.

Notice that the individual has used their principal residence as security for the mortgage financing yet the interest is tax deductible. This is the exact opposite of the original scenario. The unfortunate part, however, is that the old home had to be sold in order to minimize the tax bite. Sometimes it pays to be a stoic.



ANDREWS BROWN MARONEY
Chartered Accountants

Jim Maroney is a chartered accountant with Andrews Brown Maroney in Maple Ridge.

a Wee Bit O' Fun

St. Patrick's Day (march 17), is an Irish holiday honoring Saint Patrick, the missionary credited with converting the Irish to Christianity (in A.D. 400's).

In America, St. Patrick's Day is basically time to wear green and party. The first American celebration of St. Patrick's Day was in Boston, Massachusetts, in 1737. As the saying goes, on this day "everybody is Irish!" Over 100 U.S. Cities now hold St. Patrick's Day parades, the largest held in New York City.

Green is associated with St. Patrick's Day because it is the colour of spring, Ireland, and the shamrock. Leprechauns are also associated with this holiday, although we're not sure why. Leprechauns of legend are actually mean little creatures, with the exception of the Lucky Charms guy. They were probably added later on because capitalists needed something cute to put on the greeting cards.



What's good luck on St. Patrick's Day?

- Finding a four leaf clover (that's double the good luck it usually is)
- Wearing green. (School children have started a little tradition of their own - they pinch classmates who don't wear green on this holiday).
- Kissing the blarney stone.



Your Canadian Mortgage Source



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fees payable to lender/broker may apply