

## THE POWER OF EQUITY

Reducing home owners monthly expenses by up to 75 percent!

**H**ave you ever thought of utilizing mortgage refinancing as an effective debt management tool? As the winter seasons approach, we as consumers tend to use our various credit cards to make numerous Christmas purchases while ignoring the fact that we are going to be faced with a big bill come New Year. Unfortunately, the when day arrives when we are faced with the reality of paying for these items with an additional 18+ percent interest payment! Nowadays we are spending more and more in this way. Consumer reports in 2004 show Canadians charged almost \$170 billion on Visa and MasterCard, an increase of \$141 billion from 1990.

Credit card companies are forever offering consumers incentives such as rewards and points, fully realizing that most card owners will accrue a full balance by the end of each month. Many clients intend to collect their rewards and points while paying off the balance, however, in actuality many of us cannot meet the full payment. In fact, over 30 percent of us do not pay our credit card balance each month, in a survey 15 percent of Canadian men, and 18 percent of women expressed extreme concern about being able to make the minimum payment. Another important aspect of this form of debt or money management which is often overlooked is that the higher the balance is on your credit cards, the more it will bring down your credit rating. This will make it extremely difficult to qualify for loans in the future.

There is a pragmatic solution to this merry-go-round. You can now access the equity in tied up in your home to pay out those high interest loans and credit card debt by refinancing your existing home by up to 90 percent of its current value. To find the amount of equity that you could access take 90 percent of the value of your current home, minus the outstanding mortgage balance, and what remains is the amount of equity that you can cash out.

### Example:

With a Home Value of \$360,000	
\$324,000	90 percent of Current Value of Home
- \$198,000	Outstanding Mortgage Amount
= \$126,000	Amount of cash available

Monthly Expenses	Monthly Payments
\$25,000 Credit Card Debt 3 percent OSB	\$750.00
\$30,000 Car Loan	\$520.00
\$20,000 Line of Credit 3 percent OSB	\$600.00
<b>\$1,870.00 Total Monthly Payments</b>	

By pulling out \$75,000 equity and paying off the Car Loan, Line of Credit and Credit Cards and any other debts, your debt monthly repayments have dropped from \$1,870.00 month to \$450.00 month!

This example illustrates a savings of \$1,420 a month that can be put into your savings account. After 12 months, you would accumulate over \$17,000 in savings! In essence, you can stop your own personal debt merry-go-round and create you own stable, secure nest egg.

*For questions on this topic and other mortgage related topics feel free to contact Grant at [grant@grantpowell.ca](mailto:grant@grantpowell.ca)*

by Grant Powell