

Refinance – Equity Take Out (Part III)

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What is home equity?

The difference between your home's market value and the mortgage on the home is your home equity.

Example:

- Market Value: \$500,000
- Mortgage Amount: \$300,000
- Equity in Home \$200,000

The market value of your home is depending on the market, it is not your purchase price. A realtor or an appraiser can tell you how much your property worth. Their criteria are usually comparison of the sold homes in the neighbourhood in the last few months.

How do you build Equity in your home?

You put a big down payment when you purchase. Prices go up and you create equity (remember the market value not purchase price), although this does not happen always. The last method is over the years you have paid a portion of the principal (monthly payment or lump sum) of your mortgage to the banks. Every single monthly payments of your mortgage payment consist of principal and interest payment.

How can the equity be used?

The equity take out can be for any purposes. Usually reasons could be investment (Stocks, Bonds, RRSP, business enhancement). Also some people use the cash Taken out for renovation, trips, car purchase, etc. However one of the wise ways is to use the equity take out to purchase your next home as investment or new place to live in. This equity take out is a valid down payment in order to do your next home purchase.

How much can you Refinance?

When you refinance usually the banks/lenders finance up to 90% or 85% of the price of the market value (appraised value) of the house. This also depends on your qualifying for that amount of mortgage.

So in the example above the maximum mortgage considering 85% would be:

- Market Value: \$500,000
- Current Mortgage Amount: \$300,000
- New Mortgage (85% of Market Value) \$425,000

Now we assume you have the current mortgage at:

- Market Value: \$500,000
- Mortgage Amount: \$300,000
- Amortization 25 Years
- 5 Years Fix Rate 4.00%
- Payment \$1,578

If we like to take out \$100,000 equity from your home.

- New Mortgage Amount \$400,000
- Amortization 25 Years
- 5 Years Fix Rate 4.00%
- New Payment \$2,104

And if you are moving to a lower rate mortgage:

- New Mortgage Amount \$400,000
- Amortization 25 Years
- 5 Years Fix Rate 2.00%
- New Payment \$1,693

How much Equity Take out is allowed?

Although it depends on your mortgage and market value of your house but the banks limit the equity take out usually to the maximum of \$200,000, and remember this is considering you have to be qualified for larger mortgage amount.

Conclusion

The equity take out is one of the best methods to use your existing equity cashed out for your investment. You will have small interest rate of the mortgage to make your investment. Use is wise!