I want my reno

by CHRISTINE IBBOTSON

Dear Money Lady

My husband and I love our neighborhood, but our home is really dated and too small for our growing family. We have been with the same bank for 12 years and recently tried to refinance our mortgage to consolidate debt and take out funds to start our reno. I was shocked by the penalty that my bank planned to charge us. It was $12,869. How can a bank charge this to an existing customer who is taking more money? I want to do my renovation, but not if it is going to cost me over $12,000 just to get the money! Any suggestions?

Debbie, (Want My Reno !!)

Dear Reno Girl!

Banks these days are not in the mood to ?buy business? like they used to years ago.

Today, because interest rates have been at record lows for almost ten years, lenders will charge for all fees, refusing to absorb any extra costs. Appraisal fees, title charges, and penalties are no longer waived regardless of how long you have been a valued customer.

Penalties to break a mortgage, whether it be to refinance or to discharge, are based on a standard format that all lenders are mandated to use.

For variable loans, they will charge a three-month interest penalty. However, for fixed rate loans, the penalty could be higher. Lenders will use a rate-differential calculation which measures how long you have been in your term, the discount you were provided compared to the rate for a similar term today, multiplied by the outstanding balance you now owe.

Needless to say, Canadians wanting to refinance their mortgage like they used to in the past, are now getting sticker shock.

The best solution would be to keep your current fixed rate mortgage intact but move it into a Collateral Charge. All Canadian banks now have some form of this product, originally only available to high net worth clients in private banking. Basically, a Collateral Charge can be placed for the full 100% value of your property and provides the flexibility of borrowing more funds if needed in the future.

Considered to be a lifetime open lending tool, clients can have multiple loan segments under their plan, which can be easily manipulated.

Most CC's will allow for 5-10 loan segments of which your current fixed mortgage could become one, allowing you access to additional funds without modifying your existing loan.

Another option could be to use a HELOC or Home Equity Line of Credit. The HELOC provides clients with a mortgage segment and a line of credit portion that utilizes the equity built up in your home.

The CC would be my product of choice and is very similar to a HELOC, however it allows for more division of equity and a better future platform for estate planning. An appraisal and title cost would apply, but these are small compared to a break fee on your mortgage. Appraisals typically cost $300 and title will cost about $500.

Because a CC is considered the Bank's premium lending product, you will need to have very good credit to qualify. Having a long customer relationship with your bank will also help with your approval.

I would suggest setting up a ?Reno-Loan Segment? in your CC, where you are now free to negotiate separate rates and terms with your banker.

Good Luck and Best Wishes,

Money Lady

Christine Ibbotson is author of ?How to Retire Debt Free and Wealthy? Follow on Facebook & Instagram. If you have a money question, please email: askmoneylady@gmail.com