Deal of the Month – Debt Consolidation

Short Term Private More Cost Efficient than B/C Loan To Improve Credit Rating, Cash Flow AND Equity Collateral

Borrower Dilemma

- 'A' Borrower (>$85k gross; $600k home) incurred a surge in unexpected cash expenses during winter months – car and furnace broke down; seasonal christmas surge; recently separated.
- $32k credit cards and LoC maxed out and a few missed payments caused credit score to drop to 538
- Monthly cash outflow on the $32k credit card and LoC debts was around $1,100 per month
- $2,500 prepayment penalty for moving to alternative Lender offering refinancing & debt consolidation.
- Stressed and afraid client!

Alternative 1: Refinance loan **to 75% LTV ($457k) @ 4.99%** for 1yr. Monthly mortgage payment would **INCREASE** from $1608/month to $2,439/month. **ONLY** $20k of credit card debts would go to zero. LoC would remain $12k. New mortgage loan would cover $2,500 prepayment penalty to switch.
$6,860 in Commitment Fee (excl. legal)

Alternative 2: Take out a $40k short term private 2nd mortgage loan **to 76% LTV @ 15% Interest Only ($500/month)** plus Closing Fees of approximately **$4,200** (lender, broker, and legal) to pay off **ALL** credit card and LoC debts to $0. **NO** prepayment penalties. **$1,500** in excess cash proceeds to Borrower.

Initial Application

- Prior to new 2nd mortgage financing
  - Borrower entering 3rd year of 5yr term (due June 2016)
  - $421,500 1st Mortgage @ 2.35% Variable (Monthly Payments of $1,608)
  - $12k LoC w/1st Mortgagee @ $360/month
  - $46k of auto and credit card debt serviced @ $1,120/month
  - Credit Score of 538

Subject Property	$610,000	*Appraised for $610k June 2014*	
	Credit Score: 538		
	Original	**1-Jul-14**	
Subject Property	**Debt**	**Payment**	**Eff Rate**
Secured			
1st Mortgage	$421,462	$1,608	2.35%
Line of Credit	$12,000	$362	*$12k limit*
Brahma 2nd Mortgage		$0	
Total Mortgaged	**$433,462**	**$1,970**	
LTV	71%		
Other Secured			
Auto Finance Loan	$26,000	$397	
Total Secured	**$26,000**	**$397**	
Unsecured			
American Express	$2,100	$250	*$2200 Limit*
Visa Desjardins	$2,500	$231	*$2300 Limit*
Scotiabank Visa	$8,250	$130	*$8k limit*
Scotialine	$6,800	$77	*$6500 Limit*
Visa Desjardins	$606	$35	
Total Unsecured	**$20,256**	**$723**	
TOTAL DEBT	**$479,718**	**$3,090**	

Private 2nd Mortgage

- Brahma Capital provided $40,000 2nd Mortgage Loan to 76% LTV
  - Paid off LoC and credit cards amounting to $32k
  - Avoided $2500 prepayment penalty and $1k increase in monthly mortgage payments ($12k annualized)
  - After payouts and closing costs, **provided** the Borrower with over **$1,500 cash from proceeds**
  - Borrower's monthly payments **dropped almost $600/month** (OR **$7,200 annually**)

Subject Property	Original Debt	1-Jul-14 Payment	Eff Rate	Pro Forma Debt	1-Jul-14 Payment
Secured					
1st Mortgage	$421,462	$1,608	2.35%	$421,462	$1,608
Line of Credit	$12,000	$362	*$12k limit*	$0	$0
Brahma 2nd Mortgage		$0	15.0%	$40,000	**$500**
Total Mortgaged	**$433,462**	**$1,970**		**$461,462**	**$2,108**
LTV	71%			76%	
Other Secured					
Auto Finance Loan	$26,000	$397		$26,000	$397
Total Secured	**$26,000**	**$397**		**$26,000**	**$397**
Unsecured					
American Express	$2,100	$250	*$2200 Limit*	$0	$0
Visa Desjardins	$2,500	$231	*$2300 Limit*	$0	$0
Scotiabank Visa	$8,250	$130	*$8k limit*	$0	$0
Scotialine	$6,800	$77	*$6500 Limit*	$0	$0
Visa Desjardins	$606	$35		$0	$0
Total Unsecured	**$20,256**	**$723**		**$0**	**$0**
TOTAL DEBT	**$479,718**	**$3,090**		**$487,462**	**$2,505**

Monthly Credit Payments

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Exit Strategy

- Mortgage Agent and Lender cut Borrower's monthly payments by **$750 ($9k/year)** by doing the following:
  - Broker worked with 1st mortgagee to refinance 75% to 80% LTV once credit score exceeded 650
  - Reporting Covenant – Borrower to submit credit card and LoC balances every 2 months

  - **Within 6 months, Borrower's Credit Score was 670!**
  - **Borrower upsized & refinanced into new 1st mortgage @ Prime – 0.60%** (2.75% < initial B Lender option)
  - **TOTAL COST = $7,200** ($3,000 Interest Costs *plus* $4,200 Fees) = **Increase in Cash Flow** (Previous Page)

Subject Property	Original Debt	1-Jul-14 Payment	Eff Rate	Pro Forma Debt	1-Jul-14 Payment	Actual Debt	20-Jan-15 Payment
Secured							
1st Mortgage	$421,462	$1,608	2.35%	$421,462	$1,608	$460,000	$1,800
Line of Credit	$12,000	$362	*$12k limit*	$0	$0	$1,941	$58
Brahma 2nd Mortgage		$0	15.0%	$40,000	**$500**	$0	$0
Total Mortgaged	**$433,462**	**$1,970**		**$461,462**	**$2,108**	**$461,941**	**$1,858**
LTV	71%			76%		75.7%	
Other Secured							
Auto Finance Loan	$26,000	$397		$26,000	$397	$23,000	$397
Total Secured	**$26,000**	**$397**		**$26,000**	**$397**	**$23,000**	**$397**
Unsecured							
American Express	$2,100	$250	*$2200 Limit*	$0	$0	$0	$0
Visa Desjardins	$2,500	$231	*$2300 Limit*	$0	$0	$0	$0
Scotiabank Visa	$8,250	$130	*$8k limit*	$0	$0	$2,361	$41
Scotialine	$6,800	$77	*$6500 Limit*	$0	$0	$3,298	$50
Visa Desjardins	$606	$35		$0	$0	$0	$0
Total Unsecured	**$20,256**	**$723**		**$0**	**$0**	**$5,659**	**$91**
TOTAL DEBT	**$479,718**	**$3,090**		**$487,462**	**$2,505**	**$490,600**	**$2,346**

Borrowing Capacity Intact

Monthly Credit Payments

Summary Comparison

- Alternative 2 (private 2nd mortgage) for debt consolidation is much **superior** in terms of (a) lower annual cash outflow **($25k vs $33k)**; (b) lower closing costs and fees **($4k vs $9k)**; and (c) higher post- home equity value **($161k vs $147k)**

	Original	Alternative 1	Alternative 2
Interest Rate	2.35%	4.99%	15% Int Only
Debt Amount			
1st Mortgage	$421,500	$457,500	$421,500
2nd Mortgage	$0	$0	$40,000
Line of Credit	$12,000	$12,000	$0
Credit Card Balances	$20,256	$0	$0
Cash from Proceeds			(1500)
Total Debt	$453,756	$469,500	$460,000
Monthly Payments			
1st Mortgage	$1,608	$2,439	$1,608
2nd Mortgage	$0	$0	$500
Line of Credit	$362	$362	$0
Credit Card Balances	$723	$0	$0
Total Monthly Payments	$2,693	$2,801	$2,108
Annual Payments	$32,316	$33,612	**$25,296**
Prepayment Penalties		$2,475	$0
Closing Costs & Fees		$6,863	**$4,200**
Mortgage Balance after 1 year:			
1st Mortgage		$450,600	$409,000
2nd Mortgage		$0	$40,000
LoC		$12,000	$0
Market Value		$610,000	$610,000
Equity in Home		$147,400	**$161,000**

Conclusion

Benefits Private 2nd Mortgage Financing

- Improves credit score dramatically (reduce utilization. Payments and loan NOT reported on CB report)
- Access to credit card and LoC liquidity and limits remains intact (NOT required to close out accounts)
- Consolidation reduces the risk of missing a monthly payment – less monthly payments to deal with.
- Prevents Borrower from getting locked into a medium to long term higher rate alternative 1st mortgage – 'A' Borrowers should be taking 1st mortgage loans at 'A' rates (< 3%) and NOT at B/C rates (> 4.75%).
- Helps avoid potentially excessive upfront prepayment penalties and/or closing costs – especially if only 8-12 months away from end of term.
- A combination of the factors above could lead to dramatic reduction in mortgage and credit card costs versus traditional alternatives (B/C Loans) resulting in immediate positive free cash flow improvement, lower closing costs, and higher preservation of equity value in home.
- **Ecstatic client!**