

Deal of the Month – Managing a Consumer Proposal

Borrower Dilemma

- Borrowers were in a high interest mortgage (8.29%) that was up for renewal in 6 months time.
- Renewal date didn't match any of the other debt obligations (Consumer Proposal; current 2nd mortgage)
- Early renewal would have incurred a \$6k prepayment penalty and rate was not much better (7.99% for new 3 year term)
- Cash outflow from Consumer Proposal was excessive (\$1k per month). Cheaper to replace it with an "Interest Only" private mortgage
- To refinance all 3 obligations immediately, would have required a new 1st to 80% w/penalties and a new 2nd to 90% LTV, which was not available.
- Stressed and afraid client!

Initial Application

- Prior to new 2nd mortgage financing
 - Borrowers were entering 5th and final year of Consumer Proposal - \$12k per year
 - \$285,000 1st Mortgage @ 8.39% (Monthly Payments of \$2,575) up for Renewal in 6 months
 - \$15k current 2nd Mortgage @ 15% (Monthly Payments of \$188)
 - \$12k of Consumer Proposal (Monthly Payments of \$1,000)
 - De minimus credit card debt
 - Both Borrowers have salaried job totaling \$155k per year (based on T4)

Property \$370,000 <i>Appraisal 6 months ago</i>			
	<i>Credit Scores 664 (Borrower A); 664 (Borrower B)</i>		
	Monthly		
Subject Property Secured	Debt	Payment	Rate
1st Mortgage	\$285,175	\$2,574	8.39%
Current 2nd Mortgage	\$15,000	\$188	15.00%
Consumer Proposal Brahma (New 2nd)	\$12,000	\$1,000	15.00%
Total Secured	\$312,175	\$3,762	
	LTV	84%	
Other Secured			
Auto Loan	\$16,000	\$744	
<i>Employer Reimbursement</i>		-\$744	
Motorcycle	\$5,045	\$302	
Total Autos	\$21,045	\$302	
Unsecured			
Credit Card (xx-938)	\$3,032	\$92	
Total Unsecured	\$3,032	\$92	
TOTAL DEBT	\$336,252	\$4,156	

Private 2nd Mortgage

- Brahma Capital provided \$32,000 2nd Mortgage Loan to 86% LTV
 - Paid off and discharged \$15k 2nd Mortgage and \$12k Consumer Proposal
 - Borrowers' monthly cash flow improved by around \$800 per month (annualized \$9,600)

Property	\$370,000 Appraisal 6 months ago			
	<i>Credit Scores 664 (Borrower A); 664 (Borrower B)</i>			
	Monthly		Pro Forma	1-Dec-13
Subject Property	Debt	Payment	Debt	Payment
Secured				
1st Mortgage	\$285,175	\$2,574	\$285,175	\$2,574
Current 2nd Mortgage	\$15,000	\$188		
Consumer Proposal	\$12,000	\$1,000		
Brahma (New 2nd)			\$32,000	\$400
Total Secured	\$312,175	\$3,762	\$317,175	\$2,974
LTV	84%		86%	
Other Secured				
Auto Loan	\$16,000	\$744	\$16,000	\$744
Employer Reimbursement		-\$744		-\$744
Motorcycle	\$5,045	\$302	\$5,045	\$302
Total Autos	\$21,045	\$302	\$21,045	\$302
Unsecured				
Credit Card (xx-938)	\$3,032	\$92	\$3,032	\$92
Total Unsecured	\$3,032	\$92	\$3,032	\$92
TOTAL DEBT	\$336,252	\$4,156	\$341,252	\$3,368

Renewal

- Borrowers were advised to obtain new appraisal ahead of renewal date of current 1st Mortgage
 - New appraisal came in at \$390k due to general price appreciation.
 - \$312k new 1st Mortgage @ 4.99% (monthly payments of \$2,080) – DOWN \$1,680 per month!
 - Borrowers repaid “stub” (\$5k) above 80% LTV to Brahma separately at a later date
 - Borrowers’ cash flow **improved by \$20k per year** since initial application 6 months ago

	Before Dec 2013		December 2013		June 2014 Refinancing	
	Debt	Payment	Debt	Payment	Debt	Payment
Secured						
Current 1st Mortgage	\$285,175	\$2,574	\$285,175	\$2,574		
Current 2nd Mortgage	\$15,000	\$188				
Consumer Proposal	\$12,000	\$1,000				
Brahma (New 2nd)			\$32,000	\$400		
New 1st Mortgage					\$312,000	\$2,080
Total Secured	\$312,175	\$3,762	\$317,175	\$2,974	\$312,000	\$2,080
Appraised Value	\$370,000		\$370,000		\$390,000	
Implied Equity/Net Worth in Home	\$57,825	\$3,762	\$52,825	\$2,974	\$78,000	\$2,080
					Annual Cash Flow Savings	\$20,182 (\$3,762 less \$2,080)

Conclusion

Benefits of using a 2nd Mortgage to repay Consumer Proposal early

- Pay off and discharge Consumer Proposal at least 6-8 months ahead of renewal of 1st mortgage
- Improves credit score and credit quality of Borrower(s). New Lender sees documented record of discharge and can look past derogatory comment/flag on Credit Bureau Report
- Gives Borrower(s) time to shop around for lower, better mortgage loan
- Preserve built up equity in home and gain time for additional home price appreciation
- A combination of the factors above can lead to a dramatic reduction in mortgage renewal costs and mortgage payments that will generate significant cash flow improvement.
- Happy client!