



Friday » January 30 » 2004

## Real estate investing pays off

### Rules of game have changed over time; eligibility now simpler

Michael Kane  
Vancouver Sun

When it comes to mortgages, the rules of the game were brutally simple for young, single women.

"It was get a guy, get a house," says Katannya Kayler, 43, a real estate investor who is contemplating semi-retirement in just two years.

Kayler, who is single, discovered the rules were changing 14 years ago when she had the choice of borrowing enough to buy an investment property or replacing her old car. She kept the old beater and bought a townhouse in Nanaimo for \$50,000 and rented it out.

Fast forward to 2001 and she had traded up to a detached house on Vancouver Island that she rented out while self-employed in Vancouver as a sales marketing demonstrator.

"I didn't think I was eligible to buy anything in Vancouver," she said. "The banks wouldn't look at me without a steady income."

With the help of a mortgage broker, however, she qualified to buy a two-bedroom apartment in Richmond where she now lives.

"I bought this place and thought, well that's it, and then I will retire on the Island when I am 45," she said. "I didn't think I could buy anything else because I had borrowed to my limit."

Then Kayler found a job with a steady income as a dispatcher and driver for a limousine service. Last month she was able to buy another apartment across the hall, which she plans to rent out and she is considering buying another place.

"I am amazed, but I can borrow more," she says. "I never thought it was possible."

Welcome to the new world of mortgages, in which character and credit history, combined with historically low interest rates, can influence borrowing capacity as much as income.

It is also a world in which more people are turning to mortgage brokers to find the right deal for their circumstances.

That usually means a better interest rate than those posted by the banks and credit unions but it is not just about rates, says Kayler's mortgage broker, Rob Regan-Pollock of Invis Financial in Vancouver.

Chasing the best rate can backfire if you subsequently want to refinance, perhaps to take advantage of still lower rates, or to pay off other debts, or to buy an investment or recreational property.



Finding the lowest mortgage rate isn't always the best way to go, says mortgage broker Rob Regan-Pollock.



Katannya Kayler has increased her leverage after making her initial real-estate purchase 14 years ago.

CREDIT: Steve Bosch, Vancouver Sun

The hidden cost of the very best available rate may be the maximum penalty for breaking your contract, usually the greater of loss of interest until maturity -- also known as the interest-rate differential -- or three months interest.

Another lender may charge marginally more interest but be willing to waive or significantly reduce penalties if you refinance with them and are borrowing more money.

"I had one client who decided to go with another broker instead of us to save three basis points -- a basis point is 100th of a percentage point -- which was worth about \$1.67 per month," Regan-Pollock says.

"When they wanted to sell their apartment to buy a house, they had to pay an \$8,000 loss-of-interest penalty. Had they taken the lender we recommended, it would have cost them \$1.67 more every month but saved them \$8,000 when the time came to trade up."

Industry surveys suggest about one quarter of home buyers rely on mortgage brokers to arrange their financing, an increase of five per cent in 2003.

Regan-Pollock says brokers are able to synchronize the long-term needs of clients with the best-available lenders.

"We start with the rate but it is also important to consider the management of the debt and to understand their long-term plans."

For example, buyers prepared to live with the fluctuations of variable-rate mortgages may be well advised to opt for a contract that becomes open after three years rather than locking in for five years for a slightly better interest rate.

"Prime minus .75 per cent is the best deal if you stay with the lender for five years but not if you might want to get out of the mortgage and will face a penalty," Regan-Pollock said.

"Then you would be better off going with a lender who offers a low introductory rate of 1.74 per cent for three months, followed by prime minus .4 per cent. You will pay a bit more over five years but it is not all about price. Flexibility is important, too."

Home owners are increasingly refinancing to consolidate debt or to buy another property. However, while mortgage brokers can help maximize your borrowing at the lowest cost, they are not financial advisers trained to determine if you have the temperament, time and financial resources to leverage your home equity for investment purposes.

"The risk when you are borrowing to invest is that you could end up borrowing at a higher rate than your return," Regan-Pollock said. "You need enough money to make your payments when investments underperform."

In some scenarios, Regan-Pollock favours "all-indebtedness mortgages" where lenders will finance up to 75 per cent of the value of a home, split into a mortgage portion and a line of credit portion.

Instead of refinancing when they want to make a down payment on a revenue property, or purchase investments, borrowers such as Kayler have the ability to draw on their line of credit.

The difference between an all-indebtedness mortgage and a home equity line of credit is that borrowing on the former can be locked in as a fixed-rate mortgage when interest rates start to climb, whereas interest on a line of credit typically floats with prime. An all-indebtedness mortgage is insurance for the day when interest rates inch higher and real estate prices plateau or dip.

For now interest rates are close to rock bottom and home values are at record highs. That means a wealth of opportunity for home owners who want to refinance to reduce the carrying cost of their debt or to build an investment portfolio like Kayler.

Her rental properties are generating positive cash flow and helping her toward her dream of buying acreage on Vancouver Island and building an animal shelter.

"I have borrowing power beyond anything I ever imagined," she said.

[mkane@png.canwest.com](mailto:mkane@png.canwest.com)

© Copyright 2004 Vancouver Sun

CLOSE WINDOW

---

Copyright © 2004 CanWest Interactive, a division of [CanWest Global Communications Corp.](#) All rights reserved.  
Optimized for browser versions 4.0 and higher.

