

# Podcast 18 - Final - Is mortgage a good debt

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## SUMMARY KEYWORDS

debt, mortgage, market, cash flow, homeowner, valid points, real estate market, volatile, evaluating, real estate, high risk, assume, reach, bna, housing market, paid, initial consultations, firm, previous recessions, discussed



00:15

All right, welcome back everyone, you're currently joined with Harman with BNA Breaking Down Debt. In the last session, we discussed whether using home equity to pay off debt is a good idea. Since the housing market has been the hot topic in Calgary, we're going to be continuing off of that topic. And today we're gonna discuss is mortgage a good debt? They're typically debates regarding whether what is it good debt, and what is it bad debt. So let's break that down today. So different ways to value what we would consider a good debt. So there are a number of different factors to consider when you're evaluating whether mortgage is a good debt. This is an ongoing debate. And there are valid points on both sides of the spectrum. So it's not a definitive answer. But we'll try to break down essentially, what sort of things you're considering when you're deciding whether it is a good debt or bad debt.



01:11

Let's put some numbers to this example. Let's assume that you go out and you finance \$400,000 from a bank for your mortgage, let's assume you obtain a mortgage rate. And it's financed at two and a half percent. And the more position period is 30 years. So what that based on those rough numbers would mean that by the time you are debt free from that mortgage, you would have paid to the bank about \$170,000 in interest. So that house has cost you a significant amount more. So is mortgage a good debt. So that's all hypothetical, because it based on what your cash flow is and what the market does. So

real estate may not be as safe as what some people may think of it as real estate can be very volatile. So nobody knows what the future holds.



02:14

When somebody purchases a house. It's a common thing for people to assume that the real estate market will continue to go up. But as we've seen, there has been booms, but there have been busts, part of those sessions have been a heavy blow that was delivered to homeowners, as we saw in the previous recessions, especially the 2008. Market meltdown, the housing market took a significant hit. While if you happen to buy a property at right time in the market, which again, timing a market is not as easy and simple as it may sound, and the market seems to have gone up.



02:55

Now it seems like a good debt. But if the market turns the other way around, and now your house is worth less than what you paid for. Now, it's not so much of a good debt. And the other factors to consider are, it's a good debt also, even if the market's gone up, but are you able to keep up with it? What is your cash flow? Like? Is this debt that you're about to take on? Are you going to be able to maintain it? What are the maintenance costs? So you're gonna want to look at your budget, you're gonna consider the mortgage about to take on, plus the costs of being a homeowner? Are you going to have significant amount for utilities? What sort of bills? Are you looking at property taxes, is you're gonna have a homeowner's association fees, or their condo fees, perhaps. So you're considering different expenses in your cash flow to decide that, or on the positive side? Is this perhaps a property that's big enough and you plan to rent out part of the house? Perhaps you plan to live in the basement and rent out the top part of the house, and you're going to generate more revenue?



04:05

Is that revenue going to be more than what your mortgage payments are? So those are all valid points to consider in evaluating whether mortgage is a good debt? Typically, for any valuation you're considering? You always want to keep in mind when you're evaluating if you think it's a good debt or a bad debt, try to look at your cash flow first. Is the debt you're about to take on going to increase your cash flow, or is it going to decrease your cash flow? What are the risk factors? Are you about to take on a debt that's going to put you at a higher risk place? Are you borrowing a loan so you could put money in stocks? Perhaps that could be a very high risk? Are you taking on loans to purchase a rental

property in a real estate market? That's very volatile right now, or is it a stable market of the trends have been and of course, if you're not familiar with the real estate



05:00

business, you want to make sure you have an opinion of a professional. So I'm not a real estate professional. But debts are something we deal with. And we see every day as a license on the trustee firm. That is where our expertise lies. That's where we deal with and commonly, the questions we will have from people when they're asking similar things, whether it's during the initial consultations, or it's during the counseling sessions that we hold, when you're borrowing money on their credit, you are selling your future time. So you want to make sure that any credit you're taking on, is it going to be worth the risk in selling your future time?



05:42

To summarize, is mortgage a good debt? As discussed, you want to evaluate and go through a checklist of those factors? and decide for yourself as it's not as simple of an answer, as you may think it is, like the example we gave is paying \$170,000 in interest over the course of your monetization period, a beneficial situation or no. So as you see, a mortgage can be a good debt, and it can be a bad debt. So it's not safe to always assume that taking out a mortgage is your safest bet. So real estate can be very volatile. So want to make sure you keep your eyes and ears open and have opinions of other professionals that are familiar with the market before you make big decisions, as buying a home is likely going to be one of the biggest decisions in your life probably. So keep those into account. If you're dealing with any debt situations, and you're wondering if you should be looking at one of the insolvency options, please reach out to us.



06:49

We are relicensed on to trustee firm. You can reach out to us BNN Debt Solutions. Our number is 403-232-6220. Once again, it's B and he breaks down debt with Harmon thank you for joining again. See you next time.