

Podcast 17 - Final - Should you use your equity to service y...

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SPEAKERS

Harman



Harman 00:15

Welcome back everyone, it's been a breakdown that with Harmon. Today we're gonna be talking about one of the options that we typically would consider regarding your debt situations. The question is often asked, especially, you know, when there are things to consider such as highly valued housing market? The question is, should you use your house equity to pay off your debts? So today, we're gonna dig deeper into this question and provide some basic information to these options where you're debating if you should be using your house equity to pay off your debts. So as you're aware, you may be considering their real estate is a safe investment. It's a common, I would like to say it's a myth. So recently, you saw that we had a, what I would say is mini boom in Calgary, we saw the housing market fluctuate rapidly. And my opinion is seems to be on the cooling down part of it now. I mean, I'm no real estate expert, but based on what we're hearing in the market, and the news being reported, and the professional opinions of real estate experts, that seems to be the ongoing trend. I mean, whether becoming a homeowner, is your thing or not. That's another thing. You know, renting versus owning, is a topic that one can spend multiple podcast sessions on. So but that's not what we're gonna be talking about today. So maybe we will touch base on that and cover that topic in the future as well. Let us know if that's something you're interested in. finding out more about topic essentially has to do with different values, what sort of things do you prioritize? What's the consideration, but as you know, with the mini calorie boom with the reports, indicate that there was a

26% increase in selling and buying transactions comparatively to a year ago, in July and August 2020. So and an average price at this point in Calgary has reached a point that is seems to be getting out of hand. And not a lot of first time homebuyers are able to keep up with it, given the inflation rates, and average price of the home sold in Calgary was about \$489,000. So that being said, you need to be prepared for certain things. When you're looking at that home purchasing plan. Here we are few years down the road, you've had bought this property and now you have significant amount of equity built into this property, let's pose and you're wondering, should I use this equity to pay off my debts? So let's put some examples to this. John Doe, called our office and says, here's my debt situation, I owe \$50,000. I also own a home, and I have some equity in my property. Should I use that equity to pay off my debts before considering any of my insolvency options? So here's steps you want to consider. There are key factors to evaluate. Before you make that decision. Number one, you need to consider what sort of penalties are waiting for you on the other side? Is refinancing an option for you? Are you due for a renewal? In which case, it may not be as hefty as breaking your current mortgage contract? Or are you looking to obtain perhaps a second mortgage? Perhaps you're looking at getting a home equity line of credit to use that to pay off your debts? Second factor to consider is in those options you want to take into account, what is the interest rate that you're going to be paying? So keeping in mind, if you're looking to wrap these debts into your mortgage, perhaps because it's renewal time and you're hoping to get everything bundled up the interest rate? Sometimes we may compare it at the face value thinking Well, okay, my mortgages can be 2% 3%, wherever you may be at and comparatively may say, Well, my credit cards are a lot higher interest or rapid in here. But what's that going to do is that now you've turned your unsecured debt that you had multiple option available for and turned it into a secured debt. Now that debt is attached to your property, therefore it becomes even more difficult to deal with. So if you were hoping to let's say, file, one of the insolvency options, then now we've pushed that option out of the way because that debt is no longer unsecured. Another factor to consider is, are you able to pay off your debts in full using the amount of equity that you may be holding in your property? If not, then it makes a little bit easier to make the decision because you don't want to end up turning half of your debt into secured debt, and still having to file for insolvency to deal with the rest. Let's take example to John Doe owes \$50,000. And he reaches out to a license onto trustee. Because of the due diligence we'll do we'll talk about your different options. And you mentioned that while you also happen to own a property, and you have \$300,000 of equity in that property. Now in this example, it's very clear that you will be able to service your debts using that equity. So you've your assets are worth more than your liabilities. So that takes away one of the definitions. So filing for insolvency may not be the best thing at this moment. But it can be considered if you're unable to meet those obligations as they were coming to. So if cash flow your monthly income is a problem, then that will be the roadblock in deciding whether that's a good

option for you or not. So there are a number of different factors to consider when you're debating whether that is an option for you. So we are here to go over all of your options with you. If you are in debt or needing assistance with this similar situation, feel free to give us a call. We are a licensed homecare trustee, you can reach out to us at 403-232-6220. Hopefully, we're able to kind of simplify the decision making process for you when it comes down to whether you should be using your equity in the property to service those debts. As always, thank you for joining. It's BNA breaks down debt with Harmon