Mortgage Your House, Not Your Soul

money matters *Shop for a house mortgage like you'd shop for a new stove.*

By Steve Mulligan

Here's an admission. We accountants are often so focused on the business side of our clients' lives that we don't give personal budgets the attention they deserve. A lot of owner-operators go out of business because they have trouble managing their personal finances, especially when it comes to cash flow.

Look at cash flow in your personal or family life like you would your trucking business and put expenses into two groups: 1) an expense or outlay that eats up a lot of your cash flow, and 2) an expense or outlay you can reduce with little effort.

Perhaps your biggest expense has a foot in both categories: your home mortgage. It's the biggest investment you'll make, yet here's what we know: 1) Most owner-operators don't use a mortgage broker to shop the market for the best combination of rate and term. 2) This same majority of O/O's don't negotiate with their current lender at the time of renewal. 3) Many O/O's aren't aware of the vast array of mortgage products that are aimed at the self-employed. And 4) Many also don't know what their "beacon" score is *(see below)* or how it relates to their ability to borrow at the best rates.

If you don't fit into these four bullet points, then congratulations: you can bet that your mortgage rate is, without exaggeration, 100 or more basis points less than the average mortgage secured by your fellow O/O.

Don't blindly accept your first mortgage or its first renewal happy in the comfort of knowing you're approved.

A basis point is one-hundredth of a percentage point. What does a full 1-per-cent reduction realize in savings? Well, if you borrowed $100,000 at 5 per cent and your buddy did the same at 6 per cent, over 25 years you'll be $17,500 ahead of the game.

Let's put those savings into context. If you make a reasonable assumption that your buddy who is paying out $17,500 more than you on a $100,000 mortgage will always be in a 30-per-cent marginal tax bracket, then he'll have to generate an extra pre-tax income of $24,940 in order to have the net after-tax dollars to pay the extra interest.

Still not shocked? If you take the rate per mile from several recent studies on owner-operator net cash flow per mile, then your friend is going to drive 70,000 miles more than you to pay for the same amount of mortgage debt.

Don't blindly accept your first mortgage or its first renewal happy in the comfort of knowing you're approved. You wouldn't buy a pickup or tractor this way. Shop for the best deal. Here are some points to keep in mind if you're self-employed and looking for a better deal on a mortgage:

1. Mortgages for the self-employed. If you think being an owner-operator means you've punched your ticket to a higher interest rate, think again. Lenders have mortgage products for everyone, including the self-employed. (It's a big market — about one in six Canadians.)

2. Go for broker. If you don't have the time or inclination to hunt for the best mortgage deal, talk to a mortgage broker. It's their job to find the best rate and term.

3. Know your credit score. The "Beacon" score I mentioned comes from Equifax, one of the big credit reporting agencies. It's based on the timeliness of your bill payments; your outstanding credit; how long you've had credit accounts and how often you use them; the type of credit you have (personal loans, credit cards, mortgages, etc.); and whether you've opened credit accounts recently. The higher your score, the better your credit. And the better the mortgage terms.

4. Time counts. Expect to provide incorporation papers or a GST number or other proof that you've been self-employed for an extended period of time (three years is customary). Again, the more stability you can show, the better negotiator you can be.

5. Don't be a "borrower". A mortgage — money, for that matter — is a commodity. With a mortgage, you're buying money. And when you buy anything for your business or personal budget, you should shop it, compare it, and negotiate the price. Forget the concept of "borrowing". It makes you feel like you're beholden to the lender, like you're coming hat-in-hand or on bended knee. If you're a good risk-you've got a decent credit history, you've been in business for a while, and you care about saving money — you'll be the one in the driver's seat.

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