

## Cash Back Mortgages

Cash-back mortgages were more popular prior to the last economic downfall, the 2008 financial crisis. While they have not been completely written off as a worthy mortgage option, there are still some property owners that choose this option.

### Are Cash-Back Mortgages Worth It?

This is how it works:

The 5% cash-back mortgage is perhaps the most common offer, though it is only featured by a few of the Chartered Banks in Canada. With 5% cash-back, the client will receive a mortgage rebate at the time of closing the mortgage. Typically, rebates will vary from 1% to 5% of the mortgage amount, depending upon the financial institution and the term that is chosen.

The funds that are redeemed from a cash-back mortgage may be especially appealing to a first time home-buyer. They might require the added funds to purchase different home improvement items such as new appliances, new furniture, new flooring, or new window treatments. The first time home-buyer is in fact the primary consumer of the cash-back mortgage option in Canada. Some banks will even allow the funds from the cash-back mortgage to be used towards the down payment on the property. In order for the bank to recoup their money on a cash-back mortgage, the bank will increase the interest rate of the mortgage. This is because the actual rebate is never directly paid back to the Bank.

### Why would I consider a Cash-Back Mortgage?

There may be a few different reasons why a cash-back mortgage will appeal to clients. For Example:

• If you have received a monetary gift from family that was to be applied towards a down payment but you're not quite comfortable with taking on this new responsibility and you would prefer to have some extra money on hand just in case.

• Being a new home owner, you may want the extra cash to act as a buffer for the first little while. Your money might not have stretched as far after the mortgage closes, even though you did adequately save up enough money to purchase your home.

• If you have taken advantage of the RRSP Home Buyers program to afford the down payment on your new property, but lacked the funds to cover additional expenses like legal fees and moving expenses, the cash-back option might come in handy.