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Navigating mortgages and high interest rates with specialist Morgan Englebretsen

Announcer: Welcome to the Empowered Investor Podcast. Have you ever felt overwhelmed by the sheer volume of choices and voices telling you how to plan or invest for your future? With a straightforward approach, host Keith Matthews of Tulett, Matthews & Associates cuts through the noise to help you create a winning action plan for you and your family. The decision-making framework discussed in this show can transform you and your investment experiences and will increase your odds of becoming financially secure. Learn more and subscribe today at TMA-invest.com

Marcelo: Welcome to the Empowered Investor Podcast. I'm joined today by my co-host Lawrence Greenberg. Lawrence, it's nice to have you back.

Lawrence: Happy to be back on the show.

Marcelo: You just hit four years at TMA. An eventful summer for you. You're finishing your CFA, you got married. So tell me more.

Lawrence: Things at the firm are going great. We met a couple of young hires, got a lot younger. The vibe has changed. We've got some youth in. I'm not that junior advisor anymore. And it's a great energy here at the firm, and yeah, things are great.

Marcelo: A hundred percent. I remember when I started, you were just an intern, and those days there were very few people in the office. And now we have a very collaborative environment where everybody's learning from each other. And it's just amazing to see. And I think clients are feeling it too. So it's nice to see you grow, and it's nice to see you working with clients. And I see the relationships you're building are pretty good. Today we're going to talk about a very important subject: mortgages. We're going to talk about the ins and outs of mortgages. We have a very special guest, Morgan Englebretsen. He's really good at what he does, and I think the listeners will pick that up as soon as we start. But mortgages are complicated, and there's a lot of ignorance. So tell me more about why this subject is important.

Lawrence: It's super relevant in terms of where Canadians get their advice. It's often very bank heavy. It could be one-dimensional. So having someone come in with broad expertise that is independent, which is great, is super valuable.

Marcelo: One hundred percent. All right, so tell me more about Morgan. So Morgan Englebretsen, he goes by "The Mortgage Guy" online. He works with Mortgage Architects. He's been there for about two years. So Morgan, very interesting person, super sharp, very personable. So he's been in the industry for actually eight years now. He got his start in automobile financing along with mortgages. He's independent. He truly does put the client first. He does emphasize transparency and helping people understand why they're making certain decisions. So it's quite refreshing, really sharp guy.

Marcelo: What I like about Morgan is he has a very similar approach to us. It's very holistic; he tries to look at the big picture. He's not trying to make a quick buck, not about the short term. He thinks long term, just like us. And I think that's why we connected well. People are going to learn his background is fascinating. Both of his parents are academics. He's grown up in a house where people are taught from a very young age to make rational decisions, think things through logically. Super interesting. The listeners will like the show and happy listening.

Marcelo: Morgan, welcome to the show.

Morgan: Yes, thank you, Marcelo. It's a pleasure to be here.

Marcelo: It's great to have you here. And you know what? I got to say, the way we met is such a fascinating feature of the time we live in and social media because you reached out to me on LinkedIn. I said yes, we started chatting, and then we had great synergy from the get-go. So I always appreciate that from you and how direct you were from the get-go. And thank you for reaching out. It's been nice. The reason we're doing this episode is you're quite passionate about what you do. I always appreciate that. The clients that I've sent to you, they've spoken very highly about you and about your process. So I always appreciate that. But the more I'm in the business, I realized that we are sometimes the triage people at the hospital. Sometimes as financial advisors and working with people, we need to identify the issues that people are having. And one issue that people are having today is they're feeling the pain about mortgages and they don't know where to start. So let's just start from the beginning because you have a fascinating background. Tell me about your background. Why mortgages? How did you land in the industry?

Morgan: Fascinating might be a stretch, but I was doing automotive financing prior to the pandemic. And obviously, when the pandemic hit, that changed everything. And when I was looking at what my options were, I really loved the aspect, the mechanics of financing something. And I found that I was spending a lot of my time, a lot of my effort with the people that I worked with trying to figure out ways to reduce their risk and save them money with their automotive financing. Which is something that's good. I always had this in the back of my mind that I was still working on a depreciating good and I wasn't helping someone build wealth. I was just mitigating risk. And so when I had that pause because of the pandemic and I could take a step back, I said home financing is almost the same mechanically but not only can we talk about mitigating risk and saving money, but we can also talk about building wealth, which to me was very appealing. So that's how I got into mortgages.

Marcelo: You were telling me when we met that your parents are both academics. I think that's huge in your story. So tell me more about that. How was growing up with two academics?

Morgan: Always made for interesting dinner conversations. It was a—I think it still is a distinct advantage because from a very young age I was taught how to process and absorb information. And I should mention that, so my mom is a mathematician and my dad is a

logician philosopher. So it was a very rational environment. We were very pragmatic about things, which obviously lends itself well to the world of finance.

Marcelo: We did this podcast with this great author called Will Rainey. And we did learn that a lot of the money habits and the way people think about things are ingrained in our children when they're between zero and eight. So I can only imagine like you growing up in that environment it's setting you up for success in the future because it's teaching you how to think about things and break them down logically.

Morgan: It may come as a surprise but I am the one who gives the advice when it comes to finances. This is most likely the same in your environment there but everybody has their niche strengths. And so because we're good with math. It doesn't mean we're necessarily good with finance. And I do think you are correct when saying that finance really comes from behavior. As much as it may be a science in real life it's a practice.

Marcelo: We always tell clients at least I speak for myself here but I know the team thinks about things similarly. But I think in financial decisions there's always two aspects. There's the rational what the numbers say and then there's the behavioral aspect. How does that decision make the person feel? Now if you can explain something to someone and have them change that misconception or pain that they may have about a certain decision you can influence them sometimes. But some people I think about the example of debt. Sometimes for some people you can explain to them, "Oh if you actually just invest your money, don't worry about your debt." When it makes sense, they're okay with the logic but they're not okay with the behavioral side, the fact that they owe debt. Somebody like you, for sure you're walking people through that rope every day, right?

Morgan: Correct. And actually if we jump into automotive financing because this was a conversation I would have often with the people I worked with who would choose to purchase their vehicle cash as opposed to financing it at 1 or 2 percent interest. My thesis was always that $40,000 you're spending lump sum today, if you were to invest it even in something very low risk, your return would outpace the cost of interest. But psychologically the person didn't have a car payment, so it's about what's reasonable, not always what's rational.

Marcelo: I agree. All right, so you delve into the mortgage world, you become a mortgage broker. So tell me what does an independent mortgage broker do? Because I feel like there's a lot of misconceptions and ignorance around this subject.

Morgan: Yes, there's an enormous amount of ignorance actually in the whole subject of mortgages. What we actually do is we act as an in-between for the client looking for a mortgage and a lender looking to lend their money. In reality, what we do is we're guiding the person through what may appear to be very murky waters, a very confusing process to make sure that not only do they get from point A to point B, but that hopefully they understand why they're making the decisions that they're doing and that by doing so they're better off than when they started. So we're really there to guide them through the process

and not just do the transaction. Because doing the transaction anybody can do. It's all of the other aspects when it comes to guiding and advising.

Marcelo: Why do you think people don't know about the existence of an independent mortgage broker? Is it a lack of information? Lack of awareness?

Morgan: I think that in our business the biggest hurdle anyone has as a mortgage broker in running a successful mortgage business is just being known. Having people know that you exist and the service exists. When I'm meeting somebody for the first time and I'm explaining the process and how it works, one of the very first things that I'll explain is how our services are offered at no cost. And this has been the case for a long time now. Most often than not comes as a surprise. So there's very little knowledge of what a mortgage broker is and that you can work with them for your residential mortgage or your commercial mortgage or whatever mortgage you're looking to get.

Marcelo: One of the questions that I think most people will have, and we'll go back into the compensation after because I think that's an important one. How are you different from somebody, let's say, working from a bank or for a bank just doing mortgages? How are you different?

Morgan: And that's a very good question. I think the primary difference is—and I know plenty of bankers, plenty of bankers, and there are some really fantastic professionals out there. The fantastic professionals typically get promoted. That's one of the disadvantages. A mortgage broker that is an independent mortgage broker is looking to do mortgages for the future as well, meaning that when I form a relationship with a client, my objective is not just to do this single transaction, but it's the relationship that we'll build over the next 10, 20, 30 years. And when you take that in consideration, the time horizon or the outlook is very different. We're not just thinking about what strategy are we doing for the next three to five years, but what is the overall strategy that's being put in place.

Marcelo: What would be the benefit if, say, we have a client and they ask us, "Hey, what's the benefit of working with somebody like Morgan over Joe at the bank?"

Morgan: One of the primary benefits would be the fact that we're unbiased. We're not working for a specific lender. So we reverse engineer, if you will, the mortgage transaction.

Marcelo: That's a good way to put it.

Morgan: So we start with who is the person? What are they trying to accomplish? And then from there, we'll discuss. Whereas when you walk into the lender, and to no fault of their own, the lender has their set of parameters, and they're going to do their best to figure out how do they fit you within their parameters. Whereas for us, obviously, it's the opposite. We'll figure out what parameters we need and then pinpoint the right lenders to work with.

Marcelo: You could say you could have more flexibility into what type of lending and which institution you're going to be dealing with for that particular mortgage. Okay. In terms of

compensation, you said there's no cost to the client, but how do you get paid? How does an independent mortgage broker get paid?

Morgan: The way that a mortgage broker will be compensated, when we're talking about residential mortgages, commercial mortgages, the client, the end user pays for the service. But for the residential mortgages, the lender will be paying a fee for having brought them a new mortgage file. And if you'll permit me to clear up some confusion because then people think, "Okay, so I'm not paying for the mortgage broker, but I am paying for them through the lender." But it's important to explain that the lender has a cost of acquisition to get a new customer. So when you walk into your branch and you say, "I'd like to get a mortgage," they had to pay for all of the infrastructure that surrounded that—the support staff, the insurance. It's also an advantage for the lender to work with a mortgage broker because they only get finished products. They get a mortgage file where all the documents have been reviewed. Credit has been verified. There's an accepted purchase offer. All they need to do is then determine do they want to take on the risk or do they not want to take on the risk? So it's a win for the client, an unbiased person to give them advice. And it's a win for the lender because they didn't have to have all of the rigmarole of acquiring a customer through all of the work that it takes for them directly at the branch.

Marcelo: I never thought about it that way, but it is true. At the end of the day, they're giving you a finished product, but you're doing all the upfront work. And for that work, you get compensated at the end of the day. \

Morgan: We're taking on the risk.

Marcelo: Do you know what the percentage is of those people who use mortgage brokers versus traditional institutions?

Morgan: We can verify this after. I believe that in Canada it is less than 40 percent of individuals go through a mortgage broker versus going directly through the lender. So that number has grown significantly in the last decade and a half. If we look at comparative markets like the UK or Australia, they're floating more around 80 percent of the market that goes through a mortgage broker and their lending is very similar to us. So it's a growing business because I think people who've worked with a mortgage broker don't tend to stop working with a mortgage broker. So those clients stay and then new people that come into the home purchase process, more people know about mortgage brokers. The internet, social media has made that a lot more accessible. And so they tend to also want to work with mortgage brokers. In fact, I think that first-time homebuyers have a higher percentage of mortgage broker use versus existing homeowners that simply renew directly with their lender.

Marcelo: Oh, interesting. I do remember when I did my mortgage—and don't get offended, Morgan. I didn't know you then. So I remember that I was approaching it like the way we run our business here, and I can relate because banking has such a strong grip on the investment industry and the mortgage business, and people tend to feel very comfortable towards a bank. So for an independent firm like us, we need to educate a lot. We need to

get out there and educate people about what we do and why an independent firm is more convenient in a lot of senses. I did experience that when shopping for a mortgage. I did see significant differences between interest rates from various lenders when I was dealing with my broker. So he would go back to me and say, "Okay, we have this three that are very attractive, this three that are not so attractive, but they have all their benefits here and there." You could say that I literally got the best offer because I used a broker.

Morgan: I think we're touching on this a little bit later. Also, when someone is not versed in mortgages, and the thing is everybody knows we need to get the best interest rate, but where working with a mortgage broker will also come to you as an advantage is that the rate is only one piece of the equation. And there are so many other things to take into consideration when shopping for a mortgage that are not necessarily outwardly advertised by the lenders. Not that they're hidden, but you have to look and know to look for that piece of information. I think the best example is penalties. I think that people don't pay enough attention to the penalties paid in the case of breaking a mortgage. And again, we can corroborate this statistic, but it's a large portion, like 60 or 70 percent of Canadians at some point will break their mortgage during their term. And that's logical because no one sells at a five-year exact interval. Life does what it does, and you adjust as you go along. And if you find a lender, for example, that has a significantly higher prepayment penalty but a slightly lower interest rate, and you know this is not your forever home, then there is an argument to make to say, "I'll pay a little bit more interest rate so that down the line I'm saving tenfold on my penalty."

Marcelo: That's an excellent point, actually. That brings me to the question I wanted to ask. Are all lenders created equal? I feel like there's a lot of ignorance when it comes to this subject because it's like our perception of geography. Like when I tell people I'm from Latin America, it's "Oh, do you do this?" And it's something like they do in Mexico, but I'm from El Salvador. So they put us all in the same bucket. So I do the same thing. I think about mortgages, and I tend to bundle all of them in the same bucket. So break that down for me. Are all lenders created equal? Yes or no?

Morgan: Definitely not. And every lender, it's important to say, has their strengths and has their weaknesses. And you can think of it like the lender, when they're lending for a mortgage, they're choosing to take on a certain type or a certain amount of risk. And so every financial institution will have different things that they like or that they don't like. So there is nuance. Obviously, the Canadian banking system is very well regulated. So there are some guiding principles that are going to be similar from one lender to another. And lenders are going to be typically fairly similar in terms of interest rates. Not that they'll be the same, but it's not like someone will be two or 3 percent higher than someone else. But how they calculate pre-payment penalties will be very different. How they calculate your income if you're self-employed or if you're incorporated. How many properties you're allowed to own with them are going to change from one lender to another. Types of properties conditions. So there's a lot of variables that will affect one lender or another's decision to go forward. Which is one of the reasons why when we do things upside down, we've figured out what may be a pitfall for one lender but is of no importance to another lender.

Marcelo: I only learned this recently because we were dealing with a client who says the mortgage and I'm renovating my house and I don't know whether I should pay it cash, finance it through my home equity line of credit, and then realize, "Oh wait, your mortgage lender doesn't do home equity line of credits." And a light bulb went up and, "Oh my God, I have a huge hole in my knowledge when it comes to this." So that's an excellent point. And you're right. We do see that, especially now that interest rates are going higher. And we'll talk about that, but we see it more and more of people who say, "You know what? I have a bonus, I have an inheritance, I have some extra cash. Do I pay my mortgage? Do I invest?" That penalty that you're talking about could be a great asset. And it could be a make or break after when you're thinking about this decision.

Morgan: In your line of work, annual bonuses are common. And so if you've targeted or worked with a bank that allows you a very small annual repayment on your mortgage, you might be limiting your ability to make lump sum payments on said mortgage when the annual bonus comes in. So these are things to take into consideration because every lender will have different ways of seeing or doing things.

Marcelo: One follow-up question that I had for you. You said that some lenders have different ways of calculating income, and we do have a lot of clients who are incorporated or have corporations or they may be on commissions. So what are some of the things that they should be thinking about when they're either getting a first home or just renewing their mortgage?

Morgan: Getting a mortgage, one of the calculations that any lender is going to do is a debt servicing calculation, which just means how much debt do we have? Property-wise, so mortgage payment, municipal taxes, school taxes, the heat will be included in that, and condo fees will be included in that versus the amount of income. And I always use this example to make the math really simple. If the property costs you $20,000 a year and you were making $40,000, half of your required income would be to just pay for that property. Part of that calculation is how do we calculate your income? And most lenders will simply, if we're on a variable income, look at an average of your last two years. Now, if you're on a commission income and you're nine months into the year three, say, of said commission income, and so your first year was not very strong, your second year was very strong, and your third year is even stronger, you'd want to focus on a lender maybe it's a little bit more flexible on what your income actually is versus what the two-year average is. Some lenders will be more flexible and some lenders it's a hard rule. It's simply two years of taxable income and that's it.

Marcelo: Interesting. I never thought about it, but I think it's a huge one because if you have the flexibility to look for that lender that has a different way of calculating, it may have a significant difference into the mortgage you can get.

Morgan: And if I can add to that because there are different types of lending solutions that are available that you would not necessarily have when you're dealing directly with your lenders. So you're going to have other types of lenders that are not your standard lenders. We're going to call them B lenders, and those are going to have more flexible ways of

calculating income. So there are a number of B lenders that will say, "What were the last six months? What were the last 12 months of your revenue?" And that's how we're going to do that income to debt ratio calculation. So sometimes if you are earning commission, you did find an awesome property you want to buy. You don't want to have to now wait an additional year to file your taxes to now fall within a standard bank's ratios. There are other solutions to go get that financing to bridge the gap for the year or two that you may need to now qualify for regular financing.

Marcelo: Tier one would be the regular banks that we know and tier two would be those lenders that you're talking about. Are there any drawbacks of dealing with such institutions like a tier two institution?

Morgan: So they're taking on more risk by doing this. So in turn, they're going to charge more in interest. Maybe this is an important note. They're always going to be uninsurable. So the CMHC or Sagen will not insure those transactions. So they start at a minimum of 20, 25 percent down payment as opposed to a 5 percent down payment. Like anything else, it's a question of what you want, what you're trying to accomplish. So if you've got an opportunity to buy something and it costs you a few interest points higher, but you're getting a wonderful price or it's in the exact location that you want, it doesn't come up very often, something definitely to consider.

Marcelo: Interesting. Thank you for that. That's very clear. It's something that I had a lack of knowledge in the area. So thank you for that. Let's talk about the next question that I had for you here. What are some of the costs that people need to think about that are associated with closing their mortgages? And I'll tell you what I've experienced. Sometimes I hear people, "Oh, I have, let's round it up and say I have $40,000 to put into a down payment." But in reality, there's a lot of costs that people don't take into account that ends up making that 40,000 go down to 30,000. So now you have a different conversation about how much you're going to owe. So let's talk about that.

Morgan: It's important to state that everyone's situation obviously is different. And so what I'm going to say does not necessarily apply to everybody or in every scenario. I'm of the opinion that when you can put a little bit less down payment, you probably should. But yes, there are basically two kinds of costs when you're purchasing your property. So you have the fixed costs. So those are going to be the amount you're putting as the down payment, the cost of the notary, the tax adjustment. Now this one, sometimes people don't know, but a tax adjustment is you buy a property, to make the math simple, the current owner has paid for the full year's municipal and school taxes on January 1st and you're buying the property six months later. So you have to reimburse the current owner the taxes that they no longer get to benefit. So you're going to have the tax adjustment. If the transaction is insured, so you have a CMHC or a Sagen insurance on there, you're going to have to pay taxes 9 percent on the premium. That's non-financeable. So the premium itself is financeable, but you always have the taxes like any other kind of insurance that you buy in Canada. So those are the fixed costs. You can calculate those. The welcome tax is going to be included. They're known. There are calculators online. You can create a spreadsheet. It's very easy to figure those things out. But then you have the variable costs, and those are the

ones that are a little bit harder to determine. And I always say that when you're purchasing a property, even if there are no renovations to do, there are two things that you never want to have to do later, which is floors and walls. So if you have to paint even one room, you're not going to want to do that a year after you've moved in. You're going to want to do it when there's no furniture in the property. So those are things to think about when you're preparing your budget to move in. Do we want to sand down a floor and finish it? Is there a wall we want to repaint? Does the whole place need to be repainted? How much is that going to cost? Is that going to cause delays from us moving in? Other things are going to be furniture. So a lot of people just think, "I'm just going to move all my furniture into my place. I've measured my couch and it fits." But the truth is, and you can speak from personal experience, once you've got all your stuff in, you might realize, "Actually, this doesn't look very good. I'm going to change this or I'm going to change that." And then the danger if you've spent all of your money on your down payment is that now you're taking out a higher interest rate loan to buy furniture, which is not good. It doesn't make any sense.

Marcelo: I think those things are very important to keep in mind, especially because if you're thinking about how much money you have, but at the end of the day it's going to be less purchasing power because you haven't taken into account these hidden costs, you could be in a worse place. But do you encounter a lot of that with the clients that you deal with?

Morgan: Down payment discussions are a big part of what we do when we're meeting, figuring out how much capital we do actually need to allocate. So in that discussion, creating a buffer for external or unpredictable expenses is definitely part of that. And I think anyone who's buying a property needs to do that math.

Marcelo: Especially houses in Montreal, they're old. If you're buying in the city, my house is from like 1964. So if you're buying in the city, it's going to be common that people are going to want to get in and maybe change the floors, paint the walls, get different furniture if you're coming from an apartment.

Morgan: Yeah. When there's one room that's orange and one room that's blue and one room that's burgundy, you might want to paint it.

Marcelo: The fashion statements 20, 30 years ago has changed a lot. All right, Morgan, let's talk about the elephant in the room: interest rates. So obviously the interest rates are older than money, that paper money itself that is as old as us, as human civilization. So at the end of the day, interest is the price of money. It's how much it costs us to borrow today. It's the time value of money. And it does change the way people behave. It does change the way people have purchasing power. So now we're obviously coming from a 20-year period of low interest rates, and we're getting a shock because interest rates have gone up significantly. And who knows what will happen, but they'll either stay high or they could increase in some way if inflation doesn't go down. And a lot of things don't align for the central banks. By the way, you got to feel it for central banks, by the way. You're dealing with a hammer and you're tearing down a building. And the only tool you have is a hammer

to bring down the building. So it is an interesting situation, but obviously, what are you seeing in terms of mortgages? What are the pain points that people are feeling now?

Morgan: First, I agree with you that being a central banker right now is definitely an unenviable position to have because you do not have the tools required to manage the inflation problem with finesse. All you have is a hammer. I think the two biggest pain points are if we're first talking about purchasers and the way that you do those ratio calculations that we discussed, that mortgage payment that gets calculated has to qualify, which means that you have to be able to afford the payment 2% above the rate that you actually will get. So if your interest rate is 5%, you have to be able to afford it 7%. It's a stress test. And so that reduces or degrades someone's purchasing power. So that's the first pain point is especially first-time homebuyers that maybe don't have a whole bunch of equity from the sale of a property and are going in with their own assets. They're seeing their purchasing power reduced. So that's definitely a pain point, especially because prices of properties are obviously high and probably will only go higher over a long period of time.

Marcelo: Tell me why you think that.

Morgan: There's a number of reasons. The first thing is that anything else in our world, inflation just rises. It's a tide that rises all ships, I think the saying is. But the second thing is we have a supply and demand problem in Canada. So we have more people who want to buy or will need to buy or will need to rent, hence someone will need to buy so that they can rent, then we can produce homes, especially when we're talking about major urban centers. Which is why you look at what's going on in Halifax, what's happened in Montreal, Toronto, Vancouver, home prices have gone up and they're going to keep going up. We have a large amount of immigration coming into Canada. People who immigrate to Canada typically buy within two to five years of moving here. It's a way of officializing setting roots, saying we're now part of the Canadian economy. And so whenever there's an imbalance of supply and demand, prices will keep rising. So that's the broadly speaking why I think that properties and historically in most markets over the last 50 years, properties have gone up in value. The second elephant in the room when it comes to interest rates is those renewing their mortgage. And especially for those who opted to take a fixed-rate mortgage because there was no gradual—being a relative term in this environment—but there was no gradual increase in their payments. So they just simply get sticker shock. We were at 3 percent, now we're renewing at 5.5 percent or whatever the rate is for their renewal. And so that can come as a shock to them.

Marcelo: Break this down for me. What advice would you give to a first-time buyer or somebody renewing their mortgage? What advice would you give them as a mortgage broker based on your knowledge?

Morgan: If we're a first-time homebuyer, the most important thing I think is to determine what your objective is when purchasing a property. Are you looking for a property that will later become a rental property, or are you looking to live there for five years, 10 years, 20 years, and that will shape the strategy? And we can have long discussions about the different kinds of strategies that can be put in place. I have clients that their objective is to

be mortgage-free as soon as possible. And I have other clients that are looking to use their property as a tool for leverage and buy as many properties as they can get away with. So strategies will change depending on that. I will say, before I talk about the renewal strategies, that it's important to mention that even though rates are significantly higher than they were at their low point in the pandemic, they're not significantly high. So if you're buying an asset that appreciates anywhere between say 3 and 7 percent annually, and you are borrowing at a rate of 5 percent, 4.5 percent, 5.5 percent, whenever this airs, we'll see what the rates are at that point, you're still getting a great deal, especially because your property is compounding. So if you're able to acquire a property now that will compound, if you're having to pay around 5 percent interest, that's very good. Not much to say, it's just it's not fun to renew in these environments, but it is an ever-changing environment. So it's more important to get the house that you want at the price that you want, maintain it so that it holds and gains in value, and live through the fluctuations and rates. Rates have been really low, rates have been really high, and they're going to change over the next 25 years. One thing is for sure, we will be surprised by what happens with the interest rates. We don't know what's going to happen. We don't control that. So we tailor the solution based on the medium to long-term goals. So right now if we're talking about people who are renewing their mortgage and their payment now is a little bit too high for what they want, there are things like stretching out the amortization to reduce the payment at the very least temporarily so that if rates do come back down, you can then start putting more money on your mortgage and bringing back down that amortization. But in the short term, you can protect yourself against a spike in payments.

Marcelo: That's great advice. And I always think more from our side of the equation where when we're dealing with clients here, we always advocate for having a buffer, making a budget, knowing where your money's going. If you have that level of safety and level of buffer, if you know your house expenses have gone above 30 percent, maybe yes, you may want to bring them down, but having that budget and knowing what you can afford and being ready for those interest rate hikes. So you're ready to pay a bit more into the property and not being squeezed. I think that's an important aspect.

Morgan: To add to that because it is hard to look at things singularly. It's more like a financial pie. So hypothetically or in a scenario where you have someone who has a mortgage but they also have savings and investments. The return even on a high-interest savings account has also come up significantly. So it's not like only your mortgage has gone up in interest. It's that other parts of your financial pie may also be different. And so the total impact on your life may not be as grand as you may see it when you're just looking at your mortgage. One of the things that we do when we qualify for a mortgage is that stress test. 2 percent above the rate that you have. So right now, people who are renewing in those 5 percent when they took their mortgage three, four, five years ago, they were qualifying at 4.25, 4.79, 5.25 depending on when they were. So on their income of 2017, 2018, they were able to afford back then 5 percent interest. Hopefully between then and now, their incomes have risen. And so if their incomes have risen, calculations had been done properly. In theory, maybe a little bit of adjustment is necessary to alleviate the payment pain, but we should be okay.

Marcelo: One of the things that's important too is not to do, I think, what people do sometimes. And that's a mistake we all make because of how our brain works is we do mental accounting. And I see this often with clients where they'll say, "Oh, you know what? I want to be debt-free, but I'm not looking at all my assets." And I think that's our job a little bit when we put it all on the screen and we do an asset projection and we're saying, "You know what? Instead of thinking about just the mortgage, let's look at everything. What are your assets? What are your saving rates? What's the projected growth of the house, of your assets, of your income?" And I think we tend to see things differently when we see the big picture. We work with a lot of medical professionals, so some of the young doctors that I work with, they have a lot of debt. And some of them, they feel uncomfortable about it, but I tell them if you think about the whole picture and you think about, "Okay, we're going to max out your RRSPs, you're going to build wealth through your corporation, and we're going to pay the debt as we go," that when you look at the big picture over five, 10 years, it makes a huge difference instead of focusing just on the debt. So I think it's important to bring it full circle. It's important to have the vision and the plan on not only knowing where your money is going but having a well-crafted plan about how you're going to tackle these issues like high-interest rates if your mortgage payments go up 20, 30 percent. It does add a level of peace of mind, I think.

Morgan: None of these things, none of these various financial aspects of a person's life operate within a vacuum. They're all connected to each other. And that mental math that you were talking about, something that is important also to mention is that the way mortgage interest rates or the mortgage interest is calculated is on the leftover balance to pay. So if you've benefited from three to five years of a lower rate, you've been effectively paying capital off at a more aggressive rate, which means that as that rate rises, it's still rising on now a smaller balance. So it's not necessarily as detrimental as one might think, especially once you lay out all of the facts onto the table. You look at how much capital has been repaid on the debt, how much the property is worth now, what our other investments are doing. When you look at it in a holistic way, not so bad.

Marcelo: One of the things that we do is sometimes clients will have the question, "Hey, I got a bonus. I got an inheritance. What do I do with it? Do I pay 10,000 to my mortgage? Do I put 30,000 into my RRSP or my TFSA?" So we get on the financial planning software and we tend to do the projection and say, "Okay, what happens if you put 10 to the RRSP and 20 to the mortgage? What happens if it all goes to your TFSA and RRSP but now you're increasing your monthly payments into the mortgage?" So we can project all those things. So I think sometimes we think we know the answer of things, but when we see it on paper and we see the actual math, our perception of things may change.

Morgan: Absolutely. No, that's very well said. And that's one of the things that we do with someone who is doing a renewal is having a holistic conversation, which is why I like working with financial professionals so that we can say what are all the pieces to our puzzle? Because they all work together.

Marcelo: Some of the feedback that I've gotten from the clients that I have sent you, it's been really good and it's been that you are very detailed and very holistic in your way of

thinking. And I think that's why we click because our firm also focuses on that holistic approach of looking at everything. We may not do insurance, we may not do mortgages, but again, you're like that triage person at the hospital. You got to be able to identify these pain points and send them to the right professional. Let's start wrapping up here. If you were to give your top advice of the things that people need to be thinking about before they get a mortgage, what would be those things?

Morgan: That's a good question, Marcelo. There's different advice depending on our objective, but if I speak in general terms, there are some very easy things that can be done when you're taking a mortgage on to save yourself money. So the easiest one is an accelerated payment. That by far—and I'll explain actually what an accelerated payment is and then you'll see why that makes such a big difference on someone's mortgage. When we're paying off our mortgage on a monthly basis, every month we make a payment which includes some capital and some interest. And as we pay down our capital, because there's now less capital to repay, the amount of interest on the next payment is a little bit less and the amount of capital is a little bit more. So when you look at, and you can type on Google, mortgage amortization chart, you'll see that as the months go by we keep repaying more capital. And if you take an accelerated payment every two weeks, what that means is that we take the monthly payment, we divide it by two. So let's say the monthly payment was 2,000, and so you now pay 1,000 every 14 days. What that does is that because there are 26 bi-weekly periods in a year, you are effectively paying one month's worth of fees annually of just capital. And that additional capital that you're paying off over the lifetime of the mortgage will compound to a large amount of savings. We're talking years off of your amortization and tens of thousands of dollars in interest saved over the lifetime. So that's a very easy one that especially if you're paid from your job every two weeks, it's very comfortable to say, "Look, every time I get paid, my mortgage payment will come out." I'm comfortable with that. You're not really doing anything. You're not making any extra effort. You're just paying your regular payment. It's slightly higher than what it would have been had it been just a bi-weekly payment, but the impact is large. So that's the first thing. The second thing, which I alluded to a little bit earlier in our conversation, and this really does not apply to everybody, but it's to really look at how much down payment you actually need to put. And one of the things that people don't know is that if you get mortgage insurance, so you 20 percent down, what that means is that the debt is insured on the lender's side. What that means is that if you don't pay the mortgage, the lender will get paid out that mortgage from the insurer and the insurer will take care of liquidating the asset. You're still on the hook for that mortgage, but the lender is not on the hook for that mortgage. You're effectively taking away the lender's risk on that. Because of that, and not every lender is created equal, so some lenders will give you a discount on your interest rate if you take the insurance versus not taking the insurance. So there are two ways to use that to your advantage. So the first one would be just put the least amount of down payment. Take the extra money you would've put in the down payment and invest it elsewhere with a trusted advisor who will gain more than what you would have saved an interest. The second thing is if you're trying to pay down that mortgage as fast as possible. You can say I'm going to take the mortgage, I'll put 15 percent down payment. That leaves me with another 50,000 let's say of leftover capital. Once I take possession of this property, I will immediately take that

capital and put it as a prepayment. And that does a few interesting things because now you have a smaller capital repayment due.

Marcelo: Because that 50,000 goes strictly to capital.

Morgan: Strictly to capital. But now you're calculating a lower interest rate on a lower amount to pay, especially at the beginning of the mortgage when you're paying the most interest because you owe the most capital. That will have an enormous effect on how many years it'll take and how much total interest you're going to have to pay. And that discount that you get from getting the insurance, as long as you don't break the insurance, as in you've refinanced or sold the property, you will keep being able to benefit from discounts moving forward. It's not like you got a better rate on the first five-year mortgage. You're going to keep being able to benefit, assuming the lender you're working with gives you those discounts. So that's a savings that you can carry all the way to the end of your mortgage.

Marcelo: Wow. That's a great strategy, actually. I never thought about that one, but it definitely could save you quite an amount of money. Okay. That's great. Thank you for that. So tell me, just before we wrap up, let's say somebody is getting a mortgage for the first time. How would you tell somebody to get your house in order? These are the things that you should absolutely have to be ready to get that mortgage.

Morgan: When you're working with a mortgage broker, we're going to do a lot of the analysis with you, looking at credit, calculating your qualifiable income. So one of the things that is probably the most important is actually getting your documents. This is my largest pain point when it comes to working with people because when you have to get tax documents in the middle of the year or statements, it can be cumbersome. So what we want is that you have your T4s, your T1s, your letters of employment, a pay stub, your bank statements. The faster you have all of that, the faster the rest of the analysis of the file will be.

Marcelo: I think that process may be processed in your brain the same way that your brain processes when you go to the dentist.

Morgan: Yeah. Yeah, it's not fun. But I tell people all the time, especially when it comes to those tax documents, if you're working with a good accountant, reach out to your accountant and say, "Hey, I need these documents." They have them. That's probably the biggest thing to do at the beginning because a delay to those documents means a delay to an accurate answer to your question, which may be how much can I afford? So you want to make sure you have those things in line. Obviously, there are other basics: pay your credit card on time, these kinds of things. The other thing that we do with our clients is that when we pull the credit, we look at it together. So if we're in the planning stage and we say, "Hey, there was an error on the credit report or there's this that we need to work on," now the sooner you have that information, the sooner you can rectify the situation and be in a position to make a purchase.

Marcelo: All right. So it sounds like we can go into a rabbit hole in a lot of the subjects and do a podcast on its own. But one of the last things that we encounter is a house is an asset, a hundred percent, but it's not liquid. So a lot of the times people may have the question, "Okay, how do I get equity out of a property? There's a different type of products." So just give me a rundown on basic ones. What are the things to think about when we're taking equity out of a house?

Morgan: My favorite thing about homeownership is the power of leverage. This is the coolest part of owning a house. And there are two ways to take out equity. So you can either refinance your property, and typically we're going to be able to go up to 80 percent of the now market value of said property, less what you already owe as a mortgage.

Marcelo: When people say refinance, my brain just swirls. I don't know exactly how they do it. So give me a basic example. Let's say your house is 100,000 dollars, and you owe 50,000.

Morgan: So I'll buy your house if you have one for 100,000 dollars. So let's take that example. It wouldn't give us very much borrowing power, but let's say we had a house that was a million dollars, and we owe currently 300,000 on that property.

Marcelo: I could say I have 700,000 of equity in that property.

Morgan: You now have $700,000 of equity. Now, the next question becomes, what do you need the money for and how quickly do you need it? If, for example, you're saying, "Morgan, I would like to buy a second property, and I would like to use this equity as the down payment or the entire finance of said property," then a refinance would probably be better for a number of reasons.

Marcelo: Forget about buying a house. Let's say something simple. I want to redo my kitchen, and it's going to cost me 60,000.

Morgan: Perfect. So what we do is we issue a new mortgage contract based on the new value. So the value of the property is worth a million dollars. You owe 300,000. You now want a total of 360,000. So what we're doing is we're canceling the old mortgage that was at 300,000, taking out a new one. And that difference, that 60,000, because it's left over from paying the original mortgage, is now yours to use.

Marcelo: Is that interest rate going to be the same one as you had, or is it now going to be higher?

Morgan: I guess it depends on what your interest rate is now.

Marcelo: Again, I don't want to get into a rabbit hole, but just a basic example. Let's say you're talking about breaking a mortgage at 300,000, 3 percent, and now you're going to current interest rates.

Morgan: So it's going to be higher. It's going to be whatever the mortgage rates are at the time of the refinance. And then coming back to not all lenders being created equal. There are some lenders that will charge a premium for a refinance versus a renewal or a purchase. And my reasoning behind this is that chances are if you're refinancing your property, you're taking that money and making more money with it. And so the lender's not naive. They want a little piece of that action, so they increase. It will be less interest than a home equity line of credit.

Marcelo: Oh, okay. That's important.

Morgan: Yes. And that's why the question what the money is for is really important because if you're doing a renovation on a kitchen, you're sinking that money into your house and you're not taking it back out until you sell or refinance again later. If you need liquidity, you want a home equity line of credit because it's a line of credit that is secured by the home. As such, typical lender is going to be a variable rate, typically prime plus something. So it's going to be higher than whatever available mortgage or refinance rate there is, but it comes with the added advantage that you can take it out and put it back in at will. If you were doing a kitchen, there's no logic in having access to that money back and forth because you're sinking the money into it and then you're never pulling it back out. But for example, if you're a business owner who would like to have some flexibility because there's a period of the year where payroll is just the same, but maybe cash flow is a little different, it gives you that cash flow. You can take the money out, use it for six months, put it back in.

Marcelo: Thank you for that. I think that clarifies a lot. It's very good the way you explained it. So tell me, where can people find you? I know you're active on social media. I also love that you like Donald Miller, the guy who does the power of the story and being a guide. So we have that similarity in the way we think about clients. Where can people find you? Where can people look at your stuff, look you up online?

Morgan: If you can spell my last name, you can Google Morgan Englebretsen.

Marcelo: We'll have that in the notes.

Morgan: I'm also on social media as The Mortgage Guide. So the.mortgage.guide, a little bit inspired by Donald Miller because we're guiding someone through the process of home purchasing. And then my cell phone number, which is my personal cell phone number that all my clients have, will be up on the notes.

Marcelo: All right, Morgan. Thank you so much for taking the time, making your way here. Believe it or not, we've done 70 episodes, almost 70, 71, 72, but this is the first episode we're doing face-to-face. Thank you for being the first one.

Morgan: Thank you for having me. It was an absolute pleasure.

Marcelo: All right. Thank you for listening. Bye.

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