The Perfect Smith Manoeuvre Mortgage

There are lots of companies offering mortgages out there, a few offering mortgage products that are suitable for the Smith Manoeuvre, but there are none out there offering the perfect Smith Manoeuvre mortgage (PSMM for short). Here is what the perfect PSMM would have in the way of features:

1. It would have competitive rates. At one point we saw variable rate mortgages under prime, and HELOCs at prime but recent conditions have changed but we don't want to pay a premium to have the PSMM.
2. It would have the option of being fixed rate or open. Flexibility is always preferred. Although I would generally prefer variable open to fixed rate closed, there may be rare occasions when we would prefer a fixed rate (i.e. when rates are extremely low and the spread between short and long is narrow).
3. It would allow investments direct from the line of credit. Some Home Equity Lines of Credit (HELOCs) do not allow Pre-Authorized Cheques (PACs) to come out of the account so we are forced to open another bank account (which we call the Investment Chequing Account as opposed to the Personal Chequing Account or PCA).
4. It would have automatic re-advancement . Obviously the less work we have to do the better and automatic processes are less prone to error or negligence.
5. It would have lower or no fees. I think the main thing here is that the less costly the better, and obviously we want to get good value for money. Waiving appraisal and legal fees is great too.
6. It would allow multiple credit lines or subaccounts with PACs allowable from each account. If we are using the Cash Damming strategy or want to track interest expense for a number of small businesses, or have an additional line of credit for emergencies, multiple lines of credit or sub-accounts would be ideal. They facilitate bookkeeping, which is important when you are claiming interest deductions.

<u>Suitable Smith Manoeuvre Mortgage Products</u>

Here is a list of suitable (barely for most) Smith Manoeuvre mortgages/HELOCs with their pros and cons (I will update these details as I get them):

Merix – available from mortgage brokers
- Pro – competitive rate, variable rate available
- Con – not fully automated

BMO Readiline – available from BMO only
- Pro – may be competitive rate, PACs OK
- Con – can't capitalize interest (need a second LOC)

Royal Homeline – available from Royal only
- Pro – may be competive rate, PACs OK
- Con - can't capitalize interest (need a second LOC)

First Line Matrix – available from mortgage brokers
- Pro – very competitive rates, functional, asset based lending avail. (65%)
- Con – no variable, some manual effort required, no direct PACs

Manulife One – available from financial advisors or Manulife
- Pro – 3 sub-accounts allowed, good cash flow mgmt, PACs OK, asset based lending avail. (65%)
- Con – rates higher by about .25%, high monthly fee ($14)

TD HELOC – available from TD only

Pro – may be competitive rates, PACs OK
Con – can't capitalize interest (need a second LOC)

Scotia STEP – from Scotiabank or mortgage brokers
Pro – may be competitive rates
Con – can't capitalize interest, need to go to the branch for readvances, no direct PACs

When I use the expression "may be competitive rate" what I mean is that if you negotiate really hard, have great credit, and have a really good relationship with the bank, you may get a competitive rate.

I would generally recommend working with an Accredited Mortgage Professional (AMP) because they are experts at obtaining mortgages. It is unfortunate that they only have 2 or 3 products that work so you want to keep your options open. I don't trust the banks because I feel that they are run by their marketing departments and don't have your best interest at heart.