

## ScotiaMcLeod Mortgage RRSP Program

### How it works:

You may actually use cash within your ScotiaMcLeod *self-directed* RRSP to purchase your own mortgage obligation. Rather than paying interest to a mortgage lender, both principal and interest are payable back into your RRSP. Because your mortgage payment will be based on posted mortgage rates, it will be possible for your RRSP to earn a more robust return as compared to traditional fixed income alternatives (GICs.)

Because mortgage interest and principal payments flow back into your RRSP as you make payments, your opportunity to reinvest will be more frequent. Note too that your mortgage payments do not affect your eligible RRSP contribution limit (\$21,000 for 2009.)

### Underlying Mortgage Security:

The Mortgage RRSP Program allows for your registered plan savings to be invested in a first mortgage, secured by real property (your principal residence.)

- The mortgage must be a non-arm's length first mortgage on a Canadian principal residence
- Arrangement to set up the mortgage must be made through **Scotiabank**
- The mortgage must be insured by the Canada Mortgage & Housing Corporation (CMHC) or GEMICO
- The mortgage's rate and terms must be in-line with those generally available in the marketplace
- One mortgage can be financed using the funds of two RRSPs belonging to a husband and wife
- The RRSP Mortgage can be transferred into a Registered Retirement Income Fund (RRIF) upon the maturity of your RRSP, provided that there are sufficient liquid assets to meet the required annual (RIF) payouts. Mortgages may be allowed in Locked-In plans and LIRAs (with the exception being plans Locked-In under Alberta, BC, Manitoba and Nova Scotia legislation.)
- The suggested minimum mortgage value is \$50,000
- The mortgage document is held by the Trustee (Bank of Nova Scotia Trust Company,) recorded in your RRSP account and cash equal to the amount of the mortgage is wired to the branch.
- Monthly mortgage payments are made electronically from your bank account to the Trustee, which in turn deposits these funds to your ScotiaMcLeod RRSP, where they may be reinvested as received.

### Borrower's Obligation:

Note that a mortgage is a signed formal obligation to repay a loan – The Bank of Nova Scotia Trust Company, the trustee for ScotiaMcLeod RRSPs, will only allow such an investment within an RRSP as long as the borrower understands that a *default* on loan interest or principal may well trigger enforcement proceedings against the property and/or the borrower.

### Associated Costs:

Despite the additional costs involved (see table below,) the ScotiaMcLeod Mortgage RRSP Program can be highly beneficial. Bear in mind too that some of the related fees are standard charges; incurred when arranging a new mortgage and payable regardless of whether or not you choose to hold your mortgage within your own RRSP.

<b>One-Time Costs</b>		<b>RRSP Pays?</b>
<b>Set Up Fee:</b>		
- ScotiaMcLeod	\$300	Yes
- Trustee	\$100	No
<b>Appraisal Fee:</b>	Variable (~\$175 + GST)	No
<b>Insurance</b>		
<b>Application:</b>	\$75 CMHC	No
	\$75 GEMICO (loan < 80%)	No
	\$235 GEMICO (loan > 80%)	No
<b>Mortgage Insurance:</b>	Premium 0.5% - 3.0%	No
<b>Ongoing Costs:</b>		
Mortgage Admin Fee	\$185 (incl. RRSP Admin Fee)	Yes
Trustee Admin Fee	\$175	Yes
<b>Miscellaneous:</b>		
Transfer-In	\$250 (non-Scotiabank)	No
Discharge	\$85 (includes transfer-out)	No
Early Renewal	\$85	No

Consider this...

The Mortgage RRSP Program works best during periods when interest rates are high and the cost of borrowing is higher than the expected return from variable (growth) security.