



Debt Shifting

Debt shifting is a financial strategy that involves restructuring or reallocating debt to improve cash flow, reduce monthly expenses, or enhance borrowing capacity.

1. Increasing the Amortization Schedule

- **How It Works:** Extending the amortization period (the time it takes to pay off a mortgage) spreads the principal and interest payments over a longer timeframe, reducing the monthly payment amount. In Canada, amortization periods for insured mortgages are typically capped at 25 years, but uninsured mortgages (e.g., for income properties or refinances with more than 20% equity) can go up to 30 or even 35 years with some lenders.
- **Impact on Qualification:** Lower monthly mortgage payments decrease your GDS and TDS ratios, which measure housing costs and total debt against income. For example, on a \$500,000 mortgage at 5% interest, a 25-year amortization results in a monthly payment of about \$2,930, while a 30-year amortization drops it to \$2,684—a savings of \$246 per month. This reduction can improve your ratios enough to qualify for additional financing.
- **Trade-Offs:** Longer amortization means more interest paid over the life of the loan, but for investors, the goal is often to secure the property and leverage rental income to offset costs, making this a strategic move.

2. Consolidating Monthly Debt with a Private Lender

- **How It Works:** Private lenders offer more flexible financing options than traditional banks, often with less stringent credit or income requirements. You can take out a loan or second mortgage from a private lender to consolidate high-interest debts (e.g., credit cards, personal loans) into a single payment with a lower interest rate or longer repayment term.
- **Impact on Qualification:** High monthly debt payments—like \$500 on a credit card and \$400 on a personal loan—can inflate your TDS ratio, making it harder to qualify for a new mortgage. A private lender might offer a \$20,000 loan at 8-12% interest (higher than a bank but lower than credit card rates of 19-29%) with a 5-year term, reducing your monthly obligation to around \$400-\$450. This consolidation lowers your debt servicing costs, improving your ratios and potentially allowing you to borrow more for the income property.
- **Trade-Offs:** Private loans come with higher interest rates and sometimes additional fees (e.g., origination costs). They're often short-term (1-2 years), so you'd need a plan to refinance with a traditional lender later. However, the immediate relief can unlock property investment opportunities.

3. Using a HELOC to Pay Off Monthly Payments (e.g., Car Loans)

- **How It Works:** A HELOC leverages the equity in your primary residence or another property, allowing you to borrow up to 65% of its value (or 80% when combined with a mortgage, minus existing liens). You can use these funds to pay off high-interest, short-term debts like a car loan, replacing them with a flexible, lower-rate line of credit.
- **Impact on Qualification:** Say you have a \$30,000 car loan at 7% interest with a monthly payment of

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\$600 over 5 years. Using a HELOC at 5% interest, you could pay it off and owe only interest payments (e.g., \$125/month if you borrow the full \$30,000), with the option to pay down principal as cash flow allows. This slashes your monthly debt obligation by \$475, significantly lowering your TDS ratio and boosting your borrowing power for the income property. Plus, HELOC interest rates are often variable and tied to prime, which can be lower than fixed loan rates.

- **Trade-Offs:** A HELOC is secured by your home, so defaulting risks foreclosure. It's also a revolving credit line, meaning discipline is required to avoid re-accumulating debt. Lenders may also factor the HELOC limit into your TDS ratio, even if unused, though the actual payment reduction still helps.