# Building a house of cards

Garry Marr, Financial Post  Published: Saturday, February 23, 2008

Should you hold a mortgage in your retirement plan?

Never loan money to friends or relatives, or so we have all been told. But what about loaning money to yourself ? Is that OK?

One of the more obscure tricks of the RRSP trade is to hold your own mortgage in your retirement plan. That's not the same as withdrawing money from your plan and repaying it later, the popular program the government created for first-time home buyers 15 years ago.

Holding your mortgage in your RRSP is a slightly more complicated transaction with completely different issues.

When you hold your mortgage in your RRSP, 'You are robbing Paul to pay Peter, except that Paul and Peter live in the same house'

acting as your own bank. If you have, a $400,000 home with 20% of equity in it, you could hold a mortgage for $320,000 on your own home.

**But it's not that simple, says Rob Regan-Pollock, a Vancouver-based senior consultant with mortgage brokers Invis Inc.**

**"For starters, you have to insure the mortgage," says Mr. Regan-Pollock, and that can cost thousands of extra dollars in unnecessary fees. If you were borrowing from a traditional bank with a 20% down payment, you would not be required to have mortgage insurance.**

**"When the mortgage is non-arms-length, you have to have the insurance," Mr. Regan-Pollock explains.**

You can count on more fees than just insurance because to hold the mortgage in your RRSP, you have to hire a third-party trustee to administer the mortgage.

And don't think you can suddenly stop making mortgage payments if times get tough. It does not matter that the holder of the mortgage is yourself, through your RRSP. **"There is no forgiveness on delinquency because these are insured mortgages," says Mr. Regan-Pollock.**

At least you do not have to shop around for the best rate. The government is fairly strict about the fact that you can only charge yourself current market interest rates, although there is some flexibility given the wide range of interest rates in the competitive mortgage market.

Give yourself a rate in the low range and you will be spending less money on your mortgage. The low rate would give you better cash flow, while the freed-up money can be invested elsewhere.

You could also lock yourself into a 10-year term and guarantee an 8% return in your RRSP, based on the current posted rate.

Moshe Milevsky, a professor at the Schulich School of Business at York University in Toronto, says he does not see the logic. "If you take out a mortgage, you want to get the best possible rate," he says. "If you have a RRSP you also want to get the best possible return on your investment. So right off, there is a conflict of interest between the two sides of your wallet."

He adds a mortgage does not make sense for a RRSP, which should be made up of long-term investments in equities with a chance for appreciation. "There's no free lunch. With a high rate, you are robbing Paul to pay Peter, except that Paul and Peter live in the same house," says Mr. Milevsky. "The only way this makes sense is for people who have a tough time qualifying for a mortgage anywhere else."