A YYZ MORTGAGE GUIDE · NO. 03

03

Your House, Your Backup Plan

The plain-words HELOC handbook for Ontario homeowners

YYZ MORTGAGE

yyz.mortgage · Checked & current as of August 2026

BEFORE YOU START

The short version

> *Who this is for: You've built real equity and you keep hearing 'just get a HELOC' — you want the honest version first.*

1. A HELOC is revolving credit on your home: mortgage + HELOC ≤ 80% of value, HELOC alone ≤ 65%. Unused room costs $0.
2. Lenders qualify you on the full limit under the stress test — a big unused line shrinks what you can borrow elsewhere.
3. The interest-only minimum is the trap: pay it forever and the debt never shrinks. Give every draw a payback date, automatically.
4. In Canada, interest is deductible only when you borrow to earn income — never for renovations or personal spending.
5. A line opened in good times is cheap insurance for bad times — but lenders can freeze it, so keep cash savings too.

Read it cover to cover, or jump straight to the chapter that answers your question — every chapter stands on its own. The examples are labelled illustrations, the numbers were checked in August 2026, and nothing in here is a sales pitch. When you're ready for a human, we're on the last page.

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Hi there

If you've owned a home in the GTA for a few years, something changed while you were busy living: you built up **equity**. Equity is the part of your home you truly own — the home's value minus what you still owe.

A HELOC is one way to put that equity to work without selling. Used well, it's a flexible, low-cost tool that can carry your family through a rough year or fund the renovation that makes your house finally work. Used carelessly, it's a debt that quietly never goes away.

This book covers both sides honestly. The good, the trap, the tax rules people get wrong, and what happens when things go sideways.

No sales pitch, and no pretending the risks aren't real.

CHAPTER 1

What a HELOC is, exactly

HELOC stands for **Home Equity Line of Credit**. Three things make it different from a regular loan:

1. **It's revolving.** Like a credit card, you can borrow, pay back, and borrow again. You only pay interest on what you've actually used. A $100,000 limit with nothing drawn costs you $0 in interest.
2. **It's secured by your home.** That's why the rate is far below a credit card and usually below a personal loan.
3. **The minimum payment is usually interest-only.** This is the feature that makes HELOCs flexible, and dangerous. Chapter 5 is all about it.

HELOC rates are almost always **variable**: the lender's prime rate plus a bit. When the Bank of Canada moves, your HELOC rate follows within days. And a HELOC typically has no end date. A mortgage marches toward zero on a schedule. A HELOC will happily sit there forever.

CHAPTER 2

How much can you get?

Two rules set your ceiling:

- Your HELOC **plus** your mortgage can't be more than **80%** of your home's value.
- The HELOC portion **by itself** can't be more than **65%** of your home's value.

ILLUSTRATIVE EXAMPLE – NOT AN ACTUAL CLIENT

Rosa owns a house in Markham worth $1,000,000, with $500,000 left on her mortgage. Eighty percent of her home's value is $800,000. Subtract the $500,000 mortgage, and her maximum HELOC is about $300,000. That's also comfortably under the 65% cap, which would be $650,000.

You don't have to take the maximum. You can ask for exactly what you need, and often you should. Here's why.

HOW MUCH HELOC A $1,000,000 HOME SUPPORTS



Both ceilings apply at once. Here the 80% rule binds first.

Two ceilings, applied at the same time. Whichever binds first is your real limit.

Qualifying works like a mortgage. The lender checks your income, your credit, and your debts, and you must pass the **stress test**: qualifying at your rate plus 2%, or 5.25%, whichever is higher. Most lenders want a credit score in the high 600s or better.

The part that surprises people: lenders usually test you as if you had borrowed the **entire limit**, even if you plan to use a slice. So a large unused HELOC can shrink how much you qualify for elsewhere: a car loan, a rental property, even your own mortgage renewal at a different lender. Size it for what you actually need, not for the biggest number they'll approve.

Costs to set one up. Usually an appraisal ($300–$500) and legal work to register the charge on your home. Some lenders cover these; some don't. Ask for the all-in number before you apply.

CHECK IT YOURSELF

The federal consumer agency's plain-language HELOC guide covers the limits, the risks, and the questions to ask any lender: **canada.ca — home equity lines of credit**.

CHAPTER 3

The collateral charge — read this before you sign

When a lender registers a HELOC on your home, they often use a **collateral charge**. Two things to understand:

It's often registered for more than you're borrowing. A lender might register a charge for 100% or 125% of your home's value even though your limit is much smaller. That's not a debt. It's just how much

room they've reserved. It lets them lend you more later without new legal paperwork.

It can make switching lenders harder. With a regular mortgage charge, moving to a new lender at renewal is often a simple, cheap transfer. With a collateral charge, the new lender may require a full discharge and re-registration, meaning legal fees you'd otherwise avoid. Many lenders will cover those costs to win your business, but not always, and you should know before you're in it.

None of this makes collateral charges bad. Readvanceable products need them. Just ask two questions before signing: *What amount are you registering, and what will it cost me to leave?*

CHAPTER 4

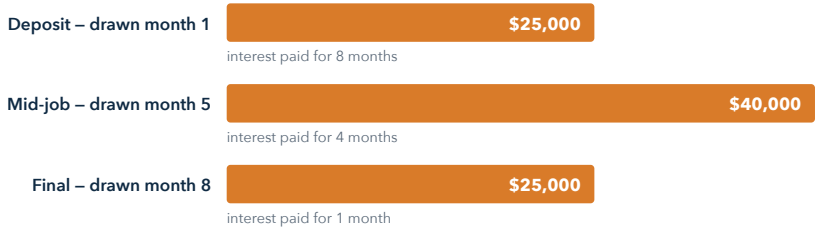
What people use HELOCs for

Renovations. The classic. Reno bills arrive in waves (deposit, materials, final payment), and a HELOC lets you draw only as bills land.

ILLUSTRATIVE EXAMPLE – NOT AN ACTUAL CLIENT

Ken and Joy budgeted $90,000 for a kitchen and basement in their Etobicoke bungalow. Instead of borrowing it all on day one, they drew as the bills arrived: $25,000 for the deposit, $40,000 mid-job, $25,000 at the end. They paid interest on that first draw for eight months, but on the last draw for only one. Same reno, thousands less interest than a $90,000 lump-sum loan up front. Then they set an automatic payment sized to clear it in six years and stopped thinking about it.

DRAWING A $90,000 RENOVATION IN STAGES



Same renovation as a $90,000 lump sum up front, but far less interest.

Only the first draw carries interest for the whole job. That timing is the whole advantage.

A true emergency fund. A job loss or a roof failure doesn't wait for payday. An open, unused HELOC costs nothing to keep and can carry a family through a rough patch.

ILLUSTRATIVE EXAMPLE – NOT AN ACTUAL CLIENT

Dario, a project manager in Scarborough, opened a $150,000 HELOC while work was steady. For three years he used none of it. Cost of carrying it: zero. Then his contract wasn't renewed. Over five months of job hunting he drew $16,000 to cover the mortgage and groceries — no panic, no credit cards, no borrowing from family. New job in hand, he set up an automatic payment and cleared it in under two years. The line he opened on a good day carried him through the bad ones. That was the whole point.

Rolling up expensive debt. Moving credit card balances onto a HELOC can save serious interest. But read Chapter 5 first. This is where the trap lives.

Big planned costs. Tuition, a car bought outright, a wedding, or helping a child with a down payment. (That last one deserves its own conversation — see our companion book, "The Family Money Talk.")

Bridging a gap between homes. Some people use an existing HELOC instead of a formal bridge loan when their closing dates don't line up. Cheaper, if the room is already there.

Buying a rental property down payment. Common, and legitimate. Just remember you're now carrying two properties' worth of risk with borrowed money, and the lender qualifying you for the rental will count the full HELOC limit against you.

Investing. Some people borrow against their home to invest. Interest may be tax-deductible when you borrow to earn income, which is why you hear about it. Chapter 7 explains the actual rules, and the actual risk.

CHAPTER 5

The trap (read this chapter twice)

Here's the honest part of this book.

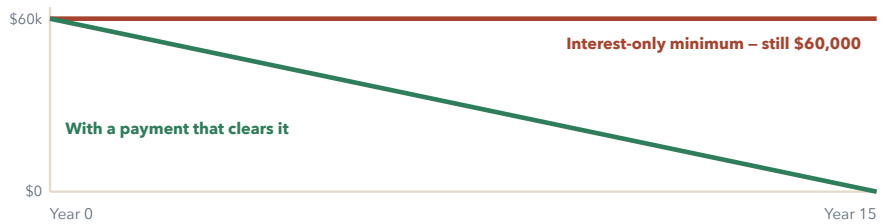
The interest-only minimum payment is a feature *and* a bug. If you only ever pay the interest, **the debt never shrinks**. Not in a year. Not in twenty years. Canada's own consumer protection agency has warned about exactly this: HELOCs let people carry balances indefinitely, paying interest forever without ever rebuilding equity.

ILLUSTRATIVE EXAMPLE – NOT AN ACTUAL CLIENT

In her forties, Lena borrowed $60,000 on her HELOC to finish the basement. The minimum payment was interest-only and easy, so that's what she paid. Fifteen years went by. She'd handed the bank tens of thousands of dollars in interest, and still owed exactly $60,000. The payment never hurt enough to force a decision, so no decision ever got made. At sixty, she finally set an automatic $650 monthly payment with a real end date. The balance is falling now. She wishes someone had made her do that on day one.

The debt-consolidation version of the trap. You move $30,000 of card debt onto the HELOC, feel the relief of a smaller payment… and then the cards creep back up. Now you owe both, and the "cheap" debt is secured against your house. The HELOC didn't fix anything. Spending did the damage, and only a spending fix stops it. If you consolidate, close or freeze the cards the same day. Not next month. That day.

FIFTEEN YEARS OF A $60,000 HELOC DRAW



Same debt, same fifteen years. The only difference is whether the payment touches principal.

The minimum payment is comfortable precisely because it never forces a decision.

Four risks worth naming plainly:

- **Rates float.** Your payment rises with every rate hike. Budget as if the rate were a couple of points higher than today, because someday it will be.

- **The lender holds levers.** Your line can be frozen or reduced (Chapter 8).
- **No safety net on value.** Unlike a reverse mortgage, a HELOC has no "no-negative-equity" guarantee. If home values fall hard, you can end up owing more than the equity supports, and the lender can react.
- **Your house is the security.** This is not credit card debt you can negotiate away. Miss enough payments and the home is genuinely at risk.

CHAPTER 6

Three payback plans that hold up

The fix is simple, though not easy: **give every dollar you borrow a payback date.** Treat each draw like its own small loan. Here are three ways people do it.

Plan A: the fixed automatic payment. Decide how long you want the draw to last, then set an automatic payment big enough to get there. Borrow $30,000 and want it gone in five years? That's a bit under $600 a month at typical HELOC rates. Set it and forget it. Automatic is the key word — discipline you don't have to remember is the only kind that survives.

Plan B: the mortgage match. Set your HELOC payment to mirror what a real mortgage payment would be for the same amount. You're borrowing like a mortgage, so pay like one. Simple, and it removes the temptation of the interest-only minimum entirely.

Plan C — convert part of it. Many lenders let you lock a portion of a HELOC balance into a fixed-rate, fixed-term segment with real principal payments. You keep the flexible room for future needs while the big

chunk gets paid down on a schedule you can't wriggle out of. Ask your lender whether your product allows this — many do and never mention it.

Whichever you pick, do two things: write the payoff date somewhere you'll see it, and check the balance every three months. Balances that get looked at get paid.

CHAPTER 7

Is the interest tax-deductible?

Short answer: **only if you borrowed the money to earn income.** Not for personal spending.

This trips up a lot of Canadians, partly because of American movies and websites. In the United States, mortgage interest on your own home is often deductible. **In Canada it is not.** Interest on money borrowed for personal reasons — renovations, a car, tuition, a vacation, consolidating personal debt — is never deductible, no matter what it's secured against.

Interest **may** be deductible when the borrowed money is used to earn business or investment income: buying a rental property, investing in dividend-paying stocks, or funding a business. What matters is what you *did with the money*, not what secured it.

If you go this route, keep the borrowed money completely separate. If you mix investment borrowing and personal borrowing in one account, the Canada Revenue Agency can deny the whole deduction. Use a separate HELOC segment or a separate account, and keep records.

LOOK IT UP

The CRA's official position on interest deductibility is Income Tax Folio S3-F6-C1 — technical, but it's the document your accountant will use: **canada.ca — Folio S3-F6-C1, Interest Deductibility**.

About the "Smith Manoeuvre." You may hear about a strategy where you use a readvanceable mortgage to gradually convert your non-deductible mortgage into deductible investment debt. It's legal and some people do it well. But be clear about what it is: **borrowing against your home to invest in markets, on purpose, for years.** If investments fall, you still owe every dollar, and it's secured by the roof over your head. It suits a narrow group — high income, long horizon, steady nerves, real professional advice. It is not a beginner move, and it is not free money. Talk to an accountant and a fee-based financial planner before, not after.

CHAPTER 8

Can the bank freeze my HELOC?

Yes. This surprises people who think of a HELOC as "their" money sitting in a drawer.

A lender can reduce your limit or freeze further draws if your home's value drops significantly, your credit deteriorates, your income changes, or they simply reassess your risk. Your existing balance, rate, and terms don't change, but the unused room can disappear.

You should get written notice explaining why, and you can ask for a review or reinstatement once the issue is fixed.

What this means practically: a HELOC is a very good backup plan, but it should not be your *only* backup plan. Think about when you'd

most want to draw on it: job loss, a market slump, falling home values. Those are exactly the moments a lender is most likely to tighten up. So keep some real cash savings too. Belt and suspenders.

CHAPTER 9

HELOC vs. the other ways to use equity

	BEST FOR	RATE	PAYMENT	WATCH OUT FOR
HELOC	Flexible, repeat, or uncertain amounts	Variable, above mortgage rates	Interest-only minimum	The never-shrinking balance; can be frozen
Refinance	One large lump sum you want locked in	Mortgage rates, fixed or variable	Real principal + interest	Breaking mid-term triggers a penalty; legal and appraisal costs
Readvanceable mortgage	Disciplined borrowers who reborrow as they repay	Mortgage + HELOC combo	Both	Same traps as a HELOC; collateral charge
Second mortgage	When you can't qualify for the others	Highest of the four	Often interest-only, short term	High rates and fees; usually a bridge to a better solution, not a destination
Reverse mortgage	Homeowners 55+ who can't or don't want to make payments	Higher than a HELOC	None required	Compounding balance eats equity; see "The Family Money Talk"

There's no universally best option. There's the best option *for your situation*: the amount, the timeline, your rate, your discipline, and your

age all move the answer.

A quick decision guide:

- Need one big number and want it gone on a schedule? **Refinance**, ideally timed to your renewal so there's no penalty.
- Need money in unpredictable pieces? **HELOC.**
- Want a safety net you may never use? **HELOC**, opened while your income is strong.
- Can't qualify anywhere and need a short-term fix? **Second mortgage**, with a written plan to get out of it.
- Retired, on a modest pension, and can't carry a payment? Read the reverse mortgage chapter of our companion book before deciding anything.

CHAPTER 10

HELOCs and the rest of life

If you lose your job. Your line may already be frozen or might get frozen. Call your lender before missing anything. Draw what you need for essentials, not for keeping up appearances.

If you separate or divorce. A HELOC on the matrimonial home has to be dealt with in the settlement, and both of you likely remain liable until it's paid or refinanced. One person continuing to draw on a joint line during a separation causes real damage — freeze it early if that's a risk.

If you die. The balance becomes a debt of your estate. If the line is in your name alone, the lender can require it to be paid off first. That often means selling the home before it can pass to your beneficiaries. If it's joint, the survivor becomes responsible for the whole balance. This is

worth telling your family about now, not leaving as a surprise for your executor.

If you retire. Your income drops, but the HELOC payment doesn't. Lenders don't automatically reassess, but you might not qualify for a *new* line after retiring. If a safety net matters to you, set it up while you're still working. And go into retirement with a real plan for any balance you're carrying — interest-only payments on a fixed income get harder every year.

If you're selling the house. The HELOC gets paid off from the sale proceeds, along with your mortgage. Remember that when you're estimating what you'll walk away with.

CHAPTER 11

Getting one, step by step

1. **Do the math first.** Home value (be honest, not hopeful), minus your mortgage, against the 80% and 65% rules. That's your rough ceiling.
2. **Decide the job.** "General flexibility and a safety net" is a fine answer. "I don't know, the bank offered" is how balances creep.
3. **Pick a size, not the maximum.** Remember it counts against you elsewhere at full limit.
4. **Apply.** Through your bank, or better, through a mortgage agent who can compare several lenders. Rates differ, and so do the quiet details: minimum draws, annual fees, whether you can lock portions at a fixed rate, and what gets registered on title.
5. **Appraisal and approval.** The lender confirms value, income, and credit. Stress test applies.

6. **Legal setup.** The charge is registered. Confirm who's paying for what.
7. **Set your own rules before you draw a dollar.** Automatic payment above the interest-only minimum. A payback date for each draw. A calendar reminder to check the balance quarterly.

CHAPTER 12

HELOC questions, answered

Does opening a HELOC hurt my credit score?

The application creates one inquiry, which is minor. What matters more is how much of the limit you use. A heavily drawn line looks like heavy debt to lenders.

Can I get a HELOC if I still have a mortgage?

Yes. That's the normal case. Your mortgage plus the HELOC just can't exceed 80% of the home's value.

Can I get one with a different lender than my mortgage?

Sometimes, but it means a second charge behind your existing mortgage, and many lenders won't do it or will price it higher. It's usually simpler with your current lender or as part of a refinance.

Is there a minimum I have to borrow?

Some lenders have minimum draw amounts. Many don't. Carrying a zero balance is normally free, but check for an annual fee.

What's a readvanceable mortgage?

A combined product: a mortgage and a HELOC together. As you pay the mortgage down, the HELOC room grows automatically. Tidy for disciplined borrowers, and the standard tool for people doing the Smith Manoeuvre.

How fast can I get the money?

Setup takes a few weeks (appraisal, approval, legal registration). After that, draws are usually instant — online transfer, card, or cheques.

Can I use a HELOC for a down payment on another home?

Yes, and many people do. Expect the new lender to count the entire HELOC limit as debt when qualifying you.

Will the lender check on me after approval?

They can. Lenders periodically review, and may re-appraise or reassess your limit. See Chapter 8.

Is a HELOC better than a personal loan?

Usually cheaper, because it's secured. But a personal loan has a fixed end date and forces you to pay it off. If your honest weakness is discipline, the "worse" product may be the better one for you.

What happens at renewal?

Most HELOCs don't have a term that ends the way a mortgage does. They continue until closed. That's convenient, and it's also why balances linger for decades.

Should I use a HELOC to pay off my mortgage faster?

Be careful. Some strategies move mortgage debt to a HELOC to "save interest," but HELOC rates are usually higher and there's no forced repayment. Extra payments straight onto your mortgage are simpler and work.

Can I deduct HELOC interest if I use it for a renovation?

No. That's personal use. See Chapter 7.

Is a HELOC good for a small business?

It's often the cheapest money a small business owner can get, and interest on funds genuinely used for the business may be deductible. But you're securing business risk against your family's home. Go in with eyes open and separate the accounts.

How do I close a HELOC?

Pay it to zero and ask the lender in writing to close it and discharge the charge. There may be a discharge fee. Don't assume paying it off closes it.

Word list

Collateral charge — a registration on your title that can cover more than you borrowed. **Draw** — taking money from your available limit. **Equity** — your home's value minus what you owe. **Interest-only payment** — a payment that covers interest and reduces nothing. **LTV (loan-to-value)** — how much you owe against what the home is worth, as a percentage. **Prime rate** — the base lending rate HELOCs are priced from. **Readvanceable mortgage** — a mortgage and HELOC bundled, where paid-down room reopens. **Revolving credit** — credit you can borrow, repay, and reborrow. **Second mortgage** — a separate loan registered behind your first mortgage.

Before you draw a dollar — a five-question self-check

1. What exactly is this money for, in one sentence?
2. What's my payback date, and what monthly payment gets me there?
3. Is that automatic payment set up right now?
4. Could I still afford it if the rate rose by two points?
5. If this line got frozen tomorrow, would I still be okay?

If you can answer all five, you're using the tool. If you can't, the tool is using you.

Your equity took years to build.
Spend it like it took years to build.

Where these numbers come from

Every load-bearing rule in this book, and where to check it yourself. Checked August 2026; the links beat the printed page.

HELOC limits (65% standalone / 80% combined with your mortgage) — OSFI guideline B-20; plain-language version at FCAC. **canada.ca — home equity lines of credit**

The stress test (contract rate + 2% or 5.25%) — OSFI (**osfi-bsif.gc.ca**). Test your own numbers on the federal **Mortgage Qualifier Tool**.

The interest-only risk — FCAC's research on HELOCs is the source for "balances can persist for years"; their consumer guide is linked above.

Interest deductibility (income-earning use only) — **CRA — Income Tax Folio S3-F6-C1**

What happens on death, freezes, and collateral charges — lender-specific contract terms; ask for them in writing before signing.

Reverse mortgage comparison — FCAC. **canada.ca — reverse mortgages**

Licence check for any mortgage agent or broker — FSRA public registry. **fsrao.ca**

The fine print (the honest kind)

This guide is for learning. It is not financial, legal, tax, or investment advice, and it is not an offer of credit or a commitment to lend. Everyone's situation is different, so talk to a licensed professional before making big money decisions. All the people and numbers in the examples are illustrative examples, not actual clients. Lending rules, limits, and tax treatment were checked in August 2026; lenders, regulators, and the CRA change them, so confirm the current rules before you act. Sources for every number are listed in "Where these numbers come from."

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WHEN YOU'RE READY

What now?

Books are great. Answers about *your* situation are better — and the first conversation is free, friendly, and pressure-free. Three ways in:

Email us	**hello@yyz.mortgage** Tell us what you're working on. We reply like humans.
Call us	**905-597-5463 ext. 200** Old-fashioned, still works.
Start online	**yyz.mortgage** Calculators, guides, and a 60-second estimate.

The free guide library

01 **Keys, Please!**
Buying your first home in the GTA, step by step.
yyz.mortgage/guides/first-home

02 **The Big Switch**
Selling and buying at once – penalties, porting, bridges, renewals.
yyz.mortgage/guides/moving-up

04 **The Family Money Talk**
Reverse mortgages, care costs, POAs – for adult kids and their parents.
yyz.mortgage/guides/family

05 **Money Smarts, Toronto Edition**
The everyday money habits that work in Canada's priciest city.
yyz.mortgage/guides/money