



Strategy & Success Training Guide



MODULE 04:

**KNOW
YOUR
CLIENT,
KNOW
YOUR
LENDER**

Business is
built on
relationships –
make building
them your
business.





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Know Your Lender pt. 1



A Lenders

Deals that would fit into these lenders guidelines would have strong credit (normally over 680 beacon score), confirmable income and would meet all the lending policies. On the uninsurable side, some of these lenders are more flexible with regards to GDS/TDS. Always know your lender's guidelines and policies! You won't know everyone's, but you won't be working regularly with everyone. When looking for a lender on a deal that is outside of the norm, you will rely on your network, mentor, franchise broker/owner or some of the social media platforms set up for agents. Providing information regarding key details of your deal to the different Facebook groups, (I Love Mortgage Brokering or Newbie Mortgage Professionals, WIMI) will in most cases, illicit feedback on the lender that will entertain that type of deal.

Some of these A-lenders do offer stated income programs; however, that is strictly for BFS applicants that meet the product guidelines.

TIP *If your client is better suited for a B-deal, don't waste time trying to make them an "A" deal! Your client, your lender and your business all benefit from YOU identifying which Lender is the best fit.*

Know Your Lender pt. 2

B Lenders

Alternative (Alt-A) or B-lenders offer a lower barrier of entry to qualifying for their products but can offset that with higher interest rates due to the risk attached to the deal. In short, Alt lenders cater to people who may not qualify for a mortgage at one of Canada's six big banks because they lack either strong credit history or a guaranteed income (i.e.: recent immigrants or the self-employed).

Clients still have to qualify for the mortgage, which will also be supported by the KYC (Know Your Lender) and suitability; these checks and balances are an essential part of the deal.

The majority of homeowners are blissfully unaware of alternative mortgages. They presume everyone is entitled to sub-3% mortgage interest rates, with no fees of any kind. Still, there is a growing, significant percentage of borrowers who need a different type of mortgage financing solution. Sometimes there is no choice, which is why the alternative lending market (B-lenders) is so essential to the overall health of the mortgage industry and, indeed, our economy.

If the primary financial institution (bank, MFC, credit union, trust company) declines your clients deal, you will need to explore alternative financing options, hopefully with a B-lender solution. And, if that doesn't work out, then there are many potential private mortgage lenders too.

Most mortgage brokers are very comfortable working with A-lenders like banks, credit unions, and monoline lenders. With new regulations introduced in recent years, brokers have had to expand their businesses to provide alternative and private lending solutions. Be sure to familiarize yourself with these types of specialized products as you will have clients that require a non-traditional mortgage.

Mortgage brokers have access to a fair number of alternative mortgage lenders (B-lenders) who offer excellent solutions above and beyond the traditional branch-based lenders, including:

- Expanded debt-service ratios—some alternative lenders will allow GDS and TDS ratios as high as 50% and are not constrained by 35/42 or 39/44 ratios, as traditional lenders usually are. If the loan-to-value ratio is low, they can get creative (for example, some alternative lenders may consider up to 60/60 debt service ratios when the LTV is below 65%, under their nonconforming product).
- Tolerant of damaged credit histories—they will reserve their lowest rates for those with high credit scores (720 and above, sometimes less) but at the same time may entertain your mortgage application with a score as low as 500 or even lower.
- Receptive to forms of income that traditional lenders cannot consider, such as Air BnB income, commission income, tips and contributory income from spouses not even on title. Most are also more relaxed in their approach to self-employed borrowers.

Know Your Lender pt.3



Reasons clients typically require alternate lending include one or more of the following:

CAN'T PASS THE MORTGAGE STRESS TEST

Inability to meet maximum debt-service ratios.

LOW CREDIT SCORE

Could be too many late payments, balances too high on credit facilities, collections, and liens, or even a consumer proposal or bankruptcy.

NON-TRADITIONAL INCOME

They could be commissioned or rely on tips and work in a cash-based business. May even be irregular part-time income. Or perhaps they rent out rooms or portions of their home, or have Air BnB income, foster care income, disability income, child tax benefits, clients who buy, renovate and sell houses, and the capital gains are their only income, clients who own “too many properties”.

SELF-EMPLOYED

Perhaps they could be a business owner with lots of expense deductions and low reported taxable income. Or maybe they have been self-employed only a short time—fewer than the two years A-lenders prefer to see.

Q: How long will it take to graduate back to A-lending?

- The length of time a client remains in an alternative lending product will vary based on their unique situation; most alternative mortgages are offer one- or two-year terms. There are some lenders who offer three- and even five-year terms, but this is much rarer.
- There are some borrowers who remain in this space for the long haul. It is unlikely they will ever qualify for a mortgage with an A-lender because of credit and/or income issues, and that's ok. They are grateful there is a reasonable alternative.

Added Costs Of Alternative Lending

INTEREST RATE

The interest rate will be a bit higher than those offered by an A-lender. These days, they mostly range from 3.99% to 5.99%. A large percentage of these are in the narrower range of 4.24% to 5.24%. The lowest rates are typically for a one-year term, with the two-year term coming in a touch higher.

Here are some sample payments to illustrate the impact of different mortgage rates; the difference is not as much as people expect:

- \$300,000 at 2.99% with a 30-year amortization = monthly payments of \$1,260
- \$300,000 at 3.99% with a 30-year amortization = monthly payments of \$1,425
- \$300,000 at 4.99% with a 30-year amortization = monthly payments of \$1,600

LENDER FEES

Most of the time, B-lenders will charge a one-time fee of 1% of the loan amount.

BROKERAGE FEES

With mortgages arranged with A-lenders, the mortgage broker is paid by the lender at no extra cost to the client. This is less the case with alternative mortgages, mainly because the shorter the mortgage term, the less the compensation, yet the workload is at least the same and often more intense.

Therefore, when sourcing an alternative mortgage for your client, mortgage brokers will often charge a brokerage fee. You should be upfront about this exact charge early on in the process. The amount varies from broker to broker and from loan to loan. Factors to consider are:

- The complexity and level of effort you anticipate will be involved to fund the mortgage.
- The size of the mortgage. The smaller the mortgage, the larger the fee may seem like as a percentage of the loan amount, and the larger the mortgage, potentially the smaller the fee may seem like as a percentage of the loan amount.

If the client is purchasing a property, the lender and brokerage fees will be paid by the client. If the client is refinancing, the fees are deducted from the mortgage advance, if there is enough equity to do so. All fees and costs must be disclosed properly to the client according to the provincial regulator's rules. Lender and broker fees are paid on the funding date.

OTHER FEES

As with most mortgages, clients can expect to pay for an appraisal, solicitor, and title insurance. Some lenders charge annual administration or "maintenance" fees of a few hundred dollars, and they typically charge a renewal fee if the client accepts one of their renewal offers. There is not a one-size-fits-all formula applied when calculating renewal fees. Monthly property tax administration fees can also be charged with costs ranging anywhere from \$5 per month to \$50.

Alternative Lenders: A Safe Route

2019 Q1 broker lender market share figures, alternative lenders Home Trust Company and Equitable Bank together held more than 13% of broker market share.

Alternative lenders are not to be feared or disparaged. They serve a very useful role in the mortgage industry and are a terrific midpoint between a bank-issued mortgage and a private lender solution. Mortgage borrowers who do not fit into the world of alternative lenders will require a mortgage broker to source a MIC or private mortgage solution for them.



Client Case Study #1

A LITTLE BIT ABOUT MORGAN

Along with three rental properties located in Toronto, Morgan owns her own home and a successful music school, which she started 17 years ago. She has excellent established credit with a Beacon score of 879.

ABOUT THE PROPERTY:

A fourth newly renovated and fully rented duplex located in downtown Toronto.



What did Morgan's broker uncover after asking her the full story?

Morgan has been running her own music school in Toronto for almost 20 years. Due to its success, in addition to her home, Morgan has been able to previously purchase three rental properties. Her latest acquisition is a duplex located in an upcoming neighborhood in downtown Toronto she purchased 9 months ago.

The property, however, was in poor condition and needed a lot of work. Seeing the potential in this duplex and the opportunity to obtain market rent once

renovated, Morgan used her HELOC registered against her owner-occupied property to purchase and renovate the new rental along with some savings she had accumulated.

Now that all the necessary updates have been completed, Morgan has been able to rent all the units at a much higher price, which more than covers the HELOC payment. The property is now worth \$1M, and Morgan is looking to refinance the property so that she can paydown her HELOC of \$650K and reimburse her savings back to finance the expansion of her music school as she wishes to offer recording studio time.

WHAT ARE THE CHALLENGES OF THIS DEAL?

- Multiple properties
- Looking to refinance within a year

WHAT ARE THE STRENGTHS OF THIS DEAL?

- Established BFS owner
- Excellent credit history
- The client's rental properties have a positive cash flow and substantial equity.

SOLUTIONS:

- **Option 1** 65% Refinance (of new realized evaluation after renovation) to pay down HELOC
- **Option 2** 50% LTV with a LOC to 75% for business expansion?
- **Option 3** 65% LTV with a LOC to 75% for business expansion?

The right solution for Morgan was option 3.

With this option, she was able to refinance the rental property as well as have access to funds that will allow her to replenish her savings and build her recording studio.

Client Case Study #2

A LITTLE BIT ABOUT SALLY

Sally is a salaried health care worker who has been on the job for 25 years and has a Beacon score of 502.

ABOUT THE PROPERTY:

She's owned her property for 14 years, and it is located in Mississauga, Ontario.



What did Sally's broker uncover after having an honest conversation with her?

Sally has a gap in her income history because her elderly mother fell ill and passed away last year. Sally took time off work to care for her mother during her illness and shouldered the funeral expenses, both of which caused her to miss mortgage payments along

with her car and personal loan to go into arrears and negatively affect her Beacon score. The bank refused to extend any more money to her even though her mortgage and personal debt has since been brought up to date, and Sally has returned to work. Sally's mortgage is maturing in six months; however, she needs to address her financial situation sooner than that.

WHAT ARE THE CHALLENGES OF THIS DEAL?

- The high unsecured debt load
- Recent arrears on her current mortgage and personal loans
- Low beacon score

WHAT ARE THE STRENGTHS OF THIS DEAL?

- 25-year job tenure
- 14-year home ownership
- The mortgage is now up to date
- Sally is back to work

SOLUTIONS:

- **Option 1** A mortgage with: 60% LTV paying out the existing mortgage and all the debt.
- **Option 2** A new 1st mortgage along with a secured visa to re-establish credit history once all the debts are paid off.
- **Option 3** A new 2nd LOC or secured Visa to re-establish credit and pay off high interest debt.

Sally could consider taking Options 2 or Option 3.

Both give her the flexibility to access a revolving line of credit while also allowing her to re-establish her credit. But keep in mind the bank had just refused her request to extend her more credit, and with her mortgage maturing in 6 months and recent arrears, there is the chance the bank could request her to pay out her mortgage in full at maturity. So, depending on the penalty, she may want to consider arranging financing for both at this time.

Client Case Study #3

A LITTLE BIT ABOUT VICTOR

He's a dentist who has been in the field for 20 years. He's been at his current practice for 14 years and is a highly educated individual with a beacon score of 650.

ABOUT THE PROPERTY:

He's owned his property for ten years, and it is located in a marketable urban/suburban area.



What did Victor reveal to his broker after having an honest conversation?

Victor owns a high-end home that was recently renovated in a marketable urban/suburban area. His principal residence recently appraised for \$1M and currently has a 1st mortgage with a major bank that is coming up for maturity, along with a private 2nd mortgage. With his bank tightening up on lending rules, he is unable to qualify under the stress test

and get any additional funds through a refinance even though Victor has been able to accumulate \$800K in RRSP with the bank.

He requires a refinance to pay out his existing debts as his tradelines are all maxed out. Victor needs to pay off his 1st of \$400,000, 2nd mortgage of \$150,000, and an equity take-out of approximately \$250,000 to pay off some unsecured debt, finish landscaping and invest in his business.

WHAT ARE THE CHALLENGES OF THIS DEAL?

- Qualifying for the total amount of money needed
- Needs to take out a large amount of equity, up to 80% LTV

WHAT ARE THE STRENGTHS OF THIS DEAL?

- Marketable real estate and property location
- Highly qualified professional with business tenure
- Strong net worth via liquid assets

SOLUTIONS:

- **Option 1** A new first mortgage at 55% LTV with an equity line Visa to 80%
- **Option 2** A new first mortgage of 70% with an equity line visa to 80%
- **Option 3** An 80% first mortgage only

The right solution for Victor was option 1.

Option 1 is the right solution for Victor's specific needs. This option gives him the flexibility of accessing a line of credit to pay off his unsecured debt, as well as complete the landscaping and invest in his business when he is ready.

MIC'S (Mortgage Investment Corporation)

Initially, MICs were created as an alternative source of mortgage financing for rural communities and non-conventional borrowers who were not being served by mainstream lending institutions, and to make it easier for the average Canadian to invest in mortgages. MIC lenders have provided billions of dollars of this private alternative mortgage financing.

MIC's are generally referred to by the mortgage industry as a 'private' lender, but there is very little that is genuinely private about them. MIC's are generally provincially registered and licensed, with the management of the mortgage fund under the direction of provincially licensed mortgage brokers and real estate agents.

- MICs are generally short-term lenders (up to a one-year term in most cases)
- MICs are generally equity lenders
- MICs generally source mortgage investment via the mortgage broker channel

A MIC mortgage portfolio can include everything from 1st, 2nd and even 3rd mortgages to commercial and development mortgages for residential land, new home construction, and large multi-family projects. Every mortgage investment decision is based on how the requested mortgage and its salient facts meet the individual MICs lending guidelines.

Being provincially regulated, MICs do not have to follow the mortgage underwriting guidelines prescribed by OSFI (currently B20) and create their own lending/underwriting guidelines based on their investors risk appetite, careful investigation of the markets/lending areas they lend in and implementation of niche products not available from conventional lenders.

Borrower choice and the success of mortgage brokers is tied to the availability of a wide variety of mortgage funds. Apart from conventional insured and uninsured mortgages, there numerous other mortgage products through MICs and the private mortgage market.

The MIC's management is responsible for all aspects of the company's operations, including the sourcing of suitable mortgage investments, the analysis of mortgage applications, the negotiation of applicable interest rates, terms and conditions, instruction of solicitors, mortgage portfolio and general administration.



A lower rate can sometimes cost your client more money when you add up all the fees and admin costs associated with that MIC. Always ensure you read the fine print, and you should always ask the questions below;

Q: Do you renew?

No could mean; all the broker/lender fees, admin costs, legal fees, and an updated appraisal would have to be paid again to another MIC

Q: If you renew, what is the cost? (% of balance, flat fee?)

Although you won't be quoted a rate, you should at least be informed of any fees.

Q: Are you the direct lender?

Always try and deal directly with the lender to cut out additional costs.

Q: If you're not the direct lender, do you have to co-broker?

If so, what are the added broker fees to the client? You want to ensure that you are aware of who is charging what.

Q: What are the lender fees?

Knowing this allows you and to advise your client regarding the total amount of borrowing costs. A lower rate does not mean a better deal.

Q: What are the setup costs (*applicable fee, admin fee, late payment, missed payment, early payout penalties, reinvestment fees, etc.?*)

Ensure you obtain a fee schedule upfront and that all fees and costs are transparent.



Q: What term do you offer (6month, 1yr, 2yr?)

Not all MIC's offer a two-year term or renew.

Q: Is your product open or closed?

Knowing whether the loan is closed, fully open, or open to payout with penalty is essential for future options should the client's situation change.

Q: Are your payments interest only?

Most MIC's are interest-only payments

Q: What do you pay your investors?

This question will give you an accurate picture of what the MIC is charging your client. This will allow you to calculate the difference between what the investor is being paid and the cost of borrowing to the client

With this type of lending, your client will need independent legal advice, never use the same lawyer as your lender.

[illegible]

MODULE 04: COMPLETE

