Live Chat Q&A Recap

1. Are lenders continuing to fund deals?

Yes, lenders are continuing to fund deals but have changed specific requirements. In most cases, they are requesting documents upfront and have decreased the loan to value ratio. And, right now, they are increasing interest rates. This is because lenders are protecting themselves against the risk of default payments given the circumstances.

2. How are lending rates determined?

Rates are determined by the Bank of Canada's prime rate. The prime rate currently sits at 2.45%. Typically, lenders offer a discount based on the stated prime rate, for example 2.45% - 1%. Now, they are reducing that discount as their own security measure amidst a shaky financial market.

3. In your expert opinion, do you believe this is a short-term pricing strategy?

This is a short-term measure based on the current situation and will depend on how long the crisis lasts. Once we get back to some level of normalcy, the banks will revert to more attractive pricing and rates. For anyone who is looking to get a new mortgage or refinance right now, we suggest a variable rate mortgage as it allows for more flexibility during times of uncertainty.

4. How are the banks qualifying and assessing buyers' risk right now?

Typically, we would obtain all information from our clients, and send in the application virtually and then, upon approval the lender would issue a conditional approval where they would check income, down payment, etc. Now, they require the income and down payment documents upfront.

5. Has lending to self-employed and small businesses owners changed?

Firstly, there are 3 types of lenders:

- A Lenders – (i.e. major banks) who offer prime rates.
- B Lenders – (i.e. alternative lenders) who specialize in low credit, self-employed or small business borrowers and;
- Private Lenders who fund based on the property itself not the income.

One thing lenders are looking at is the list of essential services. They want to know the likelihood for you to lose your employment right now. Funding is based on their comfort level and do have the right to decline an application if they feel uncomfortable. But it's based on a deal-by-deal basis. For example, an applicant who is been in the industry for 10 years vs. someone who just started a job will have different weights.

Self-employed individuals will fit into the alternative lending bucket where lenders will look at your cash flow. If you can prove you have cash flow coming in via bank statements, the lenders will lend. They may reduce the loan to value ratio (i.e. ask for a 25%-30% down payment). They may ask you to prove that you do have enough savings to cover your mortgage payments in the event you lose your employment. If you do not have any cash flow, then as a short-term solution you can utilize a private lender as they look at the property rather than income.

6. How are banks appraising properties now with social distancing? How is your funding amount calculated?

Appraisers are not entering properties right now. To appraise the value of a property they are doing drive-by appraisals and obtaining photos of the inside from the owner and preparing the report for the underwriter in that way. If it is a preconstruction purchase, they will do a drive-by of the construction area and ask the builder to send photos of the inside of the unit. The appraisals are also dependent on recent sales in that neighborhood. In some cases, they're giving a value from low to high based on recent sales, but the lender will always use the lowest range as the property value.

7. What is the process for mortgage deferrals?

Mortgage deferrals are on a case-by-case basis but most of the time they will be accepted. Banks will defer up to 6 months of mortgage payments, but you will still be accruing interest on those missed payments. And, it will be worked into your principal amount, either by extending the term or the bank will add into your monthly payments going forward.

8. If you have already arranged for a new mortgage, can that be deferred?

If you just closed a mortgage and you lost your employment then yes, you would still qualify for the mortgage deferral program. Just make sure you contact your individual lender. You can find a list of their contact information here.

9. Does the mortgage deferral program impact your credit score?

No, there is no impact on your credit rating. However, if you do call your lender about a mortgage deferral, write down as many particulars as you can about the conversation (employee name, ID number, time, etc.) because sometimes the credit reporting company like Equifax will log it as a missed payment if the bank had not updated the record in time. In which case, make sure you report this error.

10. Do private mortgage lenders offer flexible terms or are you tied to one term?

Typically, they like a minimum term of 6 months and majority of lenders would prefer 6 months. But, private lenders are flexible so when we're able to get the borrower's full story, we can negotiate on your behalf and try to work out an arrangement with the lender.

11. Is now a good time to buy a house or should I wait at least 6-8 months?

We suggest holding off until at least May. This is because there is not enough data about the latest financial and real estate markets to predict which type of market we're in. In April, the number of houses on the market was down but, prices haven't changed much so it's hard to say.

12. For individuals investing through their business, is it more difficult for them?

As of right now, nothing has changed regarding rental properties. Typically, the rates are slightly higher for rental properties regardless of the situation. If you are thinking of buying a property through a corporation and provide proof of income then you can still get a mortgage.

13. Has anything changed for funding properties valued over $1 million?

Before this situation, you could put as little as 20% down on a $1 million purchase but now, they may require 25%-30% down payment given the circumstances. But, it's based on your situation and we may be able to get you what you want, depending on the lender.

14. How do you think real estate pricing will be impacted?

The lender is your partner in your real estate transaction and although the appraisals may impact the value of the property there isn't a large variation in terms of pricing at this time.

15. How has the lending situation changed for non-residents?

Currently, there are no changes in non-resident lending. Alternative lenders will allow for as little as 25% down compared to the 30% that Prime A lenders require, provided you have stable income.

16. If you have a pre-construction closing and you recently lost your employment what can you do?

One suggestion is to contact the builder and lender to see if they could push your closing date until the situation subsides. We can still get you a mortgage from a private lender on 3 month or 6-month term until you reclaim your full-time employment at which point you can get a better rate from an A Lender (or major bank).

17. What can you do now to get ready to enter the real estate market?

The first thing lenders look at is employment, employment history and the essential services list. It's important to consult your broker and real estate agent before making a purchase to determine if and how you would be impacted by the new mortgage lending rules. If your employment is deemed stable, then everything is business as usual with the typical 5% down payment. If not, then we would need to explore other options. Now is actually a good time for first time and move-up buyers to get into the real estate market.

18. Can you get a mortgage as a retiree?

As a retiree, you still need to prove your income. If you can show a hefty savings, Prime A lenders will typically give you a mortgage with anywhere from 35%-50% down payment. Pension income can also use to qualify a retiree borrower.

19. Are there private lenders who will finance out of province properties?

There are private lenders across the country so yes, you can, unless it's in a remote area. Typically, private lenders prefer urban areas and may not do the deal if it's not. Private lenders always look at the worst-case scenario as in, if my client were to stop making payments how easy is it for me to flip it? If it's located in an urban area, it's more likely to get their investment back.

20. For elders who have equity in their home and want to pull some out to live on during this time, is it a good idea?

A refinancing option that is popular is a reverse mortgage. Income is not required and if you have equity in your house you can withdraw that and not many any payments only if, and when you sell your house. The other refinancing option is one where you do have to qualify your income. You can contact us to discuss your options in more detail.

Conclusion

What is going on right now is a short-term shock and there are short term solutions to help homebuyers during this time as to not lose out on an opportunity or a great property. If you have any questions regarding your real estate or mortgage, do not hesitate to contact us!

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