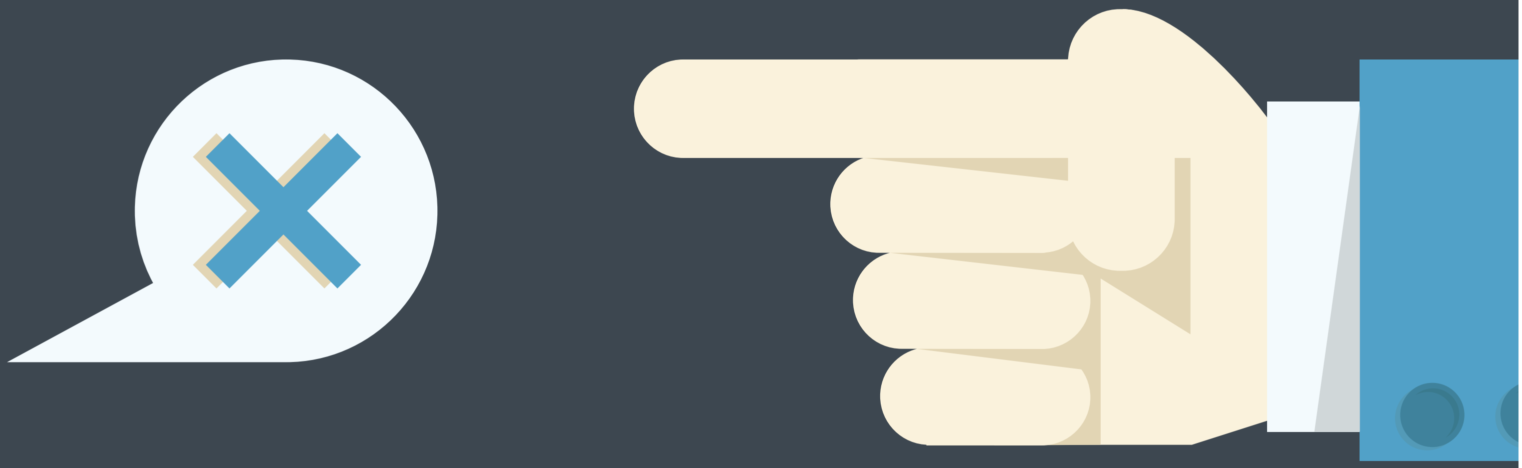
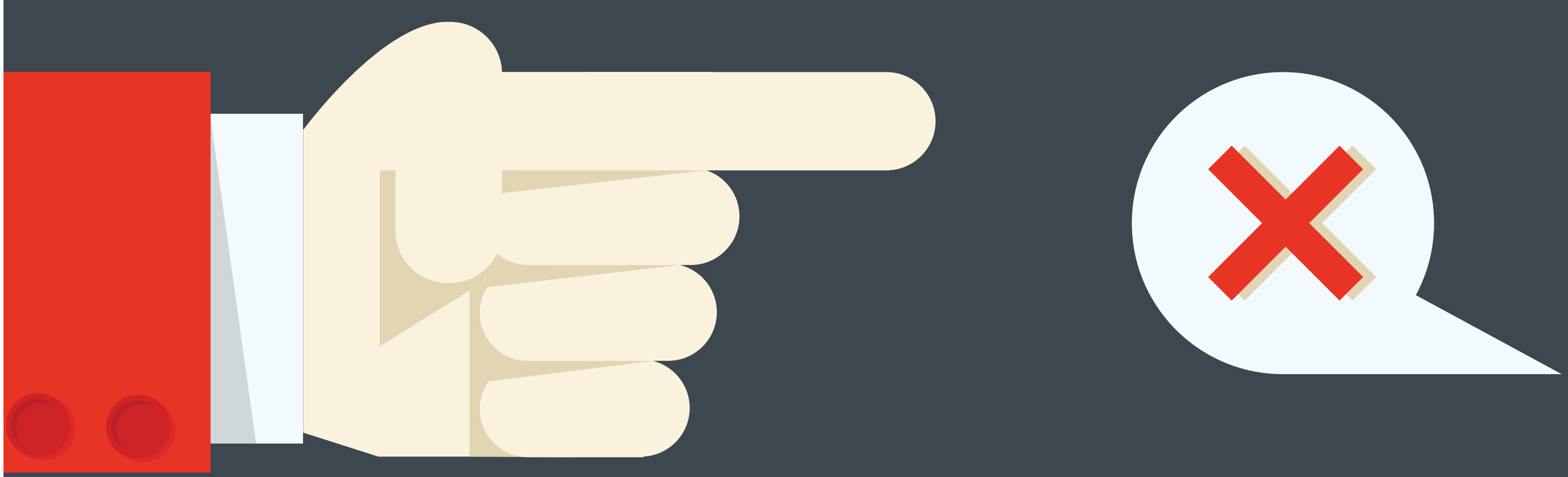


COMMON BROKER MISTAKES
THAT ARE EASILY FIXED



There are several mistakes brokers are making with their growing number of alternative lending files. The good news, according to Eclipse – MCAP's alternative lender – is so many of them are fixable.

We're just over a year into the guideline changes that required stricter underwriting on all residential mortgages offered by federally regulated lenders.

The purpose of the new rules was to ensure the Canadian mortgage industry would avoid bubbling over and having a detrimental impact on the economy. Or, to put it more bluntly, to ensure the Canadian housing market continues to steer clear of a U.S.-style implosion.

The rule changes, nonetheless, have made it more difficult for buyers to obtain mortgages.

As an example, business-for-self applicants have seen their supporting documentation around income and debt-servicing ratios take on greater importance in lender decision making. More stringent guidelines have also been placed on conventional mortgage qualification, rental program verification, cash-back options, down payments and credit beacon scores.

It's a new reality alternative lenders have been quick to pick up on.

"We've always believed in responsible lending so it's business as usual," reads one lender's analysis of the new, more-stringent underwriting. " As a critical stakeholder and trusted business partner, mortgage brokers will most likely have to provide more information for self-employed clients than in the past in order to confirm that the income being used to qualify the mortgage is both reasonable and sustainable.

"As a lender, we need to work together with our referring brokers to conduct increased due diligence in order to ensure that we both know our customers and the clients you refer have the willingness and capacity to honour their mortgage obligations."

But any corresponding increase in business for alternative lenders has come with some challenges as brokers grapple with what exactly they need to do to get those deals across the line. Here, courtesy of

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MCAP's Eclipse, is a list of easily fixable but common broker mistakes that could mean the difference between earning an underwriter approval or rejection on your next alternative deal.

1. Payout penalty on an existing mortgage not verified (end result — shortfall at funding)
2. No confirmation of who is currently on title to property.
3. No verification of line of credit or second mortgage prior to submission.
4. Broker submits deal under own name, not principal broker registered with lender
5. Failure to confirm up front if business is registered or if there is a valid licence
6. No verification of property details (condition of home, age of home, whether or not it required updates; for example, a holdback may be required)
7. Broker does not reconcile all of the liabilities against credit report
8. Broker takes the value of the property from the applicant at face value without doing any research
9. No confirmation of any liens on property that may need to be postponed or paid out
10. No verification if property taxes and/or existing mortgage are current and up to date
11. Broker has not verified details of employment such as guaranteed hours, whether contract or permanent, or on employment probation
12. Address or telephone number of applicant incorrect
13. Insufficient details to the lender as to the reasons for the current credit challenges so underwriter can understand the current situation

CMP

ECLIPSE'S DEAL RUN:

We all know that time is money! Deal Run can provide timely answers to save the broker time.

At Deal Run depending on the scenario we can provide a quick "go" or "no" answer. Example: Can Eclipse entertain a deal where there is a sole client who is a beacon reject? Unfortunately, no. We do have a minimum beacon score requirement.

HOW DEAL RUN HELPS BROKERS:

Again Deal Run will save the broker time by reviewing details up front and giving them a quick GO or NO answer. GO = submit for review by an underwriter and NO = the deal does not fit our lending guidelines.

Deal Run will save the broker frustration – if they know we can't proceed for whatever reason, then they haven't had to wait to hear back from an underwriter after submitting.

Deal Run assists with setting expectations around documentation requirements, conditions and pricing.

Deal Run assists with packaging the deal for underwriter review. For example: What details are important to include in the submission notes for underwriter review.

Avoid this mistake: Broker didn't verify property details (condition of home, age of home, whether or not it required updates; for example, a holdback may be required)

A BROKER'S DOCUMENT CHECKLIST

by Dustan Woodhouse

CHARTERED BANKS

Mandatory documents:

- Two most recent years of Notice of Assessments to confirm there are no income taxes owing and to test reasonability of reported income (in most cases stated income of over $100,000 will not be approved)
- Two most recent years of accountant-prepared T1 General Tax returns to confirm sources of income

Additional documents that may be requested:

- Business licence covering two years
- Notice of Articles, to confirm shareholder status
- Two most recent years of accountant-prepared business financial statements
- Six to 12 months corporate bank statements to demonstrate cash flow
- The maximum mortgage offered by chartered banks is $1 million, and lenders may require a 35-per-cent down from the borrower's own resources.

CREDIT UNIONS

Mandatory:

- Two most recent years of Notice of Assessment

Additional documents:

- T1 General Tax Returns covering two most recent years
- Business license covering two years
- Notice of Articles
- Accountant-prepared business financial statements covering two years
- Corporate bank statements covering 6 -12 months
- Because of increased demand since the banks tightened lending, Woodhouse says, the maximum mortgage offered by most credit unions is $500,000 and lenders typically require a minimum 35-per-cent down from the borrower's own sources.
- MBS (non-bank) lenders

Mandatory documents:

- Notice of Assessment for two most recent years
- T1 General Tax returns for two most recent years
- Business license for two years

Additional documents that may be requested

- Notice of Articles
- Accountant-prepared business financial statements for two years
- Corporate banks statements for 6-12 months

INSURED BUSINESSES

Mandatory requirements:

- Minimum 10 percent down. 5 per cent down payment from personal resources, additional 5 per cent can be gifted with one insurer, not all three.
- Notice of Assessment for the two most recent years, to confirm there are not taxes owed and to test reasonability of income exception being requested (in most cases stated income of over $100,000 will not be approved)
- T1 General Tax returns for last two years
- Business License covering two years
- Notice of Articles
- Accountant-prepared business financial statements
- Corporate bank statements for 6-12 months