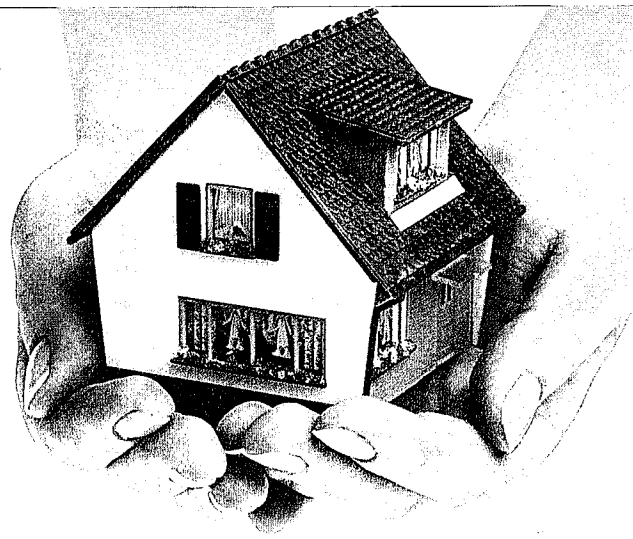




Something for everyone



Are you ready to buy a property but your credit rating is less than stellar? Don't despair; there are mortgage products that could be your ticket to realizing the dream of home ownership

The term 'non-conforming market' is used to describe people outside the credit norm; people who, for whatever reason, can't get a mortgage through the most prevalent channels. This includes people who are self-employed, new to Canada or have a blip on their credit history.

How it works

'Sub-prime' refers to the risk associated with a borrower, not to the mortgage interest rate. Typically, these mortgages are offered at interest rates above prime to customers with below-average credit ratings or who can't prove income, eg the self-employed.

The rate is determined by a system of 'risk-based pricing' and, according to Laura Forester of GE Money, every lender has a slightly different way of determining risk. "We do it based on three key criteria: credit score, LTV and documentation to support income," she says. Forester adds that the rate you pay will go up depending on the risk matrix, although there is an upper limit.

"For a private mortgage you can expect up to 5% higher, and even institutionally as well," says Della Dwyer of Invis. "Also, the sub-prime lenders aren't offering the higher ratio mortgages they used to, so everything has tightened up. It's a shame, because we don't lend like the US but we're being painted with the same brush."

The 'S' word

It's important to differentiate between the sub-prime situation in the US and the sub-prime market here at home.

"It's a very different animal here," says Janet Martin, CEO of PMI Canada. "We didn't get into the type of lending in Canada where you have multiple layers of risk and where you're lending to people who have no chance of achieving sustainable home ownership."

According to Jim Rawson, regional manager for Invis, Canadians didn't really buy into the same sub-prime market that the US did. Although the sub-prime market here is under some pressure right now, with many of the lenders who used to offer this kind of product closing doors or tightening purse strings, he doesn't think the US situation has made it any harder for Canadians to get sub-prime products.

"I think the only thing [the sub-prime fallout] may have done is it may have given us less options on the sub-prime market. I don't hear any of my brokers say that they can't find a sub-prime person to do these mortgages."

And even if the big institutions can't help you, Rawson assures us that there are always private lenders that will offer the sub-prime product. "There really are lenders for every person; it just depends on rates and fees and what you're willing to pay," he says. (Read more about the ins and outs of private lenders on p86.)

What you'll pay

Risk-based pricing makes it impossible to generalize about sub-prime rates. They're higher, but how much higher depends on factors such as credit score, the size of downpayment, and what types of delinquencies the borrower has had in the recent past.

Everyone is different

Below is a list of the most common non-traditional situations. However, please note that not all situations are listed and each is looked at on a case-by-case basis to fit with the appropriate lender.

Situation	Criteria
Employment	• Self-employed
	• Recent job start/change
	• Work experience outside Canada
	• Lack of work history
Income	• Part-time
	• Non-verifiable
	• Salary + commission
	• Seasonal
Credit	• Commission
	• Salary + OT and/or bonus
	• Spotty/bad credit
	• No credit
Property	• Good, but a lot of credit
	• Previously bankrupt
	• Rental
	• Construction
	• Cottages/vacation homes
	• Multiplex
	• Investment
Status	• Rural/acreage
	• Mobile homes
Financial	• Non-resident
	• New immigrant
	• Zero-down
	• Purchase plus improvement

According to Peter Edwards, a mortgage consultant with Crescent Mortgage Corp in Oakville, Ontario, it's tough to nail down an interest rate for sub-prime borrowers and try to relate it to prime.

"One of the main reasons is that there are few sub-prime lenders that offer a variable product and, even if it's variable, the spread depends on the LTV of the mortgage to the house," he explains. The best way to describe it, he says, is that a sub-prime borrower is going to be paying more than a financial institution's posted rates for mortgages.

Is it worth it?

The main drawback for most people is they'll pay a higher rate and sometimes fees. For many, the higher interest rate is a small price to pay to get into the housing market. For example, someone who has just established their career, and may not have enough income to show that they can afford a home, can keep growing in their job or increasing their income. A sub-prime mortgage allows them to get into the market now with very little downpayment, or even no downpayment, and start building equity.

Navigating the sub-prime maze

"It's really important that you sit down with a mortgage professional," cautions Rawson, who says that you need to find someone who can understand your specific needs and tell you what the right product is for you. You'll need to provide either proof of income and/or an employment history.

"There are so many institutions with so many products that you really do have to have someone who'll be on your side and will sit down with you to go over all of your options," he says. ▶

Where do you fit in?

There are two types of non-conforming mortgages:

Alt-A/near prime

Alt-A is an alternative mortgage product for people who:

- Have good credit history
- Have good downpayment (30-35%)/low loan to value (LTV)
- Don't have proof of income or job security (mostly because they're self-employed and don't show all of the income to the tax man)

Big banks are lending to this type of client now, because they're able to get insurance from the Canada Mortgage and Housing Corporation or Genworth. If you're buying a home and are borrowing more than 80% of the home's value, the mortgage must be insured. This insurance protects the lender against borrower default, and enables it to give you mortgage financing for the purchase of a home having as little as no money down.

Mortgage default insurance can make a big difference in how quickly your mortgage loan is approved. Usually the interest rate you get is as good as a prime mortgage product. More and more lenders are competing in this segment of the market.

Sub-prime (or B mortgages)

A sub-prime mortgage is for borrowers who have:

- Bad credit history
- Low asset base
- Not enough savings for downpayment/high LTV

A sub-prime client would generally pay a higher interest rate. This rate is based on the risk involved in the deal. People with high debt load, new Canadians, single parents and people entering the expensive housing market usually take advantage of sub-prime mortgage products.

Insurance premium comparison*

Mortgage type	LTV	Premium rate
Prime	Up to 65%	0.50%
Alt-A	Up to 65%	0.80%
Sub-prime	Up to 65%	1.90%

*Based on single advance for products and rates offered by Genworth Financial Canada

Check the numbers

Loan type	Mortgage amount	Rate	Term	Interest paid
Prime	\$250,000	5.35%	5-year closed	\$201,325
Non-prime	\$250,000	8.25%	5-year closed	\$334,606

*Source: Unisource Mortgage Canada; calculations based on monthly payments at the Unisource rate current as of 24 April 2008 for a 25-year amortization.

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