Your monthly home & mortgage newsletter

MORTGAGEARCHITECTS | August 2021 e-Newsletter

MORTGAGES WITH GARY.COM

Things are starting to heat up as we move into August! This month, I have some exciting details for you on what to know if you're considering a rental property! Plus, what do you do if you cannot qualify for an A-lender mortgage? Lastly, I have put together some simple tips to create the perfect summer social. Let's go!

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MORTGAGE ARCHITECTS

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Get the Scoop on Rental Properties

You might be surprised to learn that you don't need to be one of the uber rich or make six figures to have a second property. You just need to have knowledge, determination and financial planning!

If you are purchasing a secondary property with the intention to rent, here are a few extra things to know:

- The minimum down payment required is 20% of the purchase price, and the funds must come from your own savings; you cannot use a gift from someone else.
- Only a portion of the rental income can be used for qualifying and determining how much you can afford to borrow. Some lenders will only allow you to use 50% of the income added to yours, while other lenders may allow up to 80% of the rental income while subtracting your expenses. This can have a much higher impact on how much you can afford.
- Interest rates typically have a premium on them when the mortgage is for a rental property versus a mortgage for a home someone intends on living in. The premium can be anywhere from 0.10% to 0.20% on a regular 5-year fixed rate.
- If you do eventually want to sell this property, do note that it will be subject to capital gains tax. Your accountant will be able to help you with that aspect if you do decide to sell in the future.

Prior to taking on a secondary property, you will need to have your down payment in order (whether from savings or home equity) based on the minimum requirements, and also have sufficient credit score to qualify. In addition to the down payment, you will also need to pass the stress-test and prove that you can financially carry your existing mortgage and the new application.

If you are looking to purchase a rental property, give me a call before you start. I would love to help review your financial situation, current mortgage and equity, and help you make a plan. The keys to success are right around the corner with a little bit of expert advice!

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Alternative Financing and What You Should Know

When conventional lenders (such as banks or credit unions) deny mortgage financing, it can be easy to feel discouraged. However, it is important to remember that there is always an alternative!

If you're seeking a mortgage, but your credit score is damaged in some way and big institutions won’t lend you the money, you’ll find yourself in what’s commonly referred to in the industry as the “Alternative-A” or “B” lending space.

Much like the A Lender space (big banks, credit unions, etc.), there are various companies which operate in the B lending space. Alternative lenders cater to individuals that lack a strong credit history, or a guaranteed income (recent immigrants, or the self employed, for instance). As a result, these lenders generally have lower entry qualifications, which are offset by higher interest rates.

Why is alternative lending necessary?

- CRA arrears
- Income issues such as non-traditional income as with self-employed borrowers
- Credit issues such as low credit score, credit arrears, current mortgage or even bankruptcies
- Unexpected liens on title
- Foreclosure situations
- Unique financing needs/opportunities

Beyond B-lenders are another alternative, which are known as Private or Unregulated lenders. These could just be individuals with money who are looking to invest. They are not regulated by any agency, and their rates and fees could be quite high.

These lenders are not required to stress test mortgage applicants, but many will abide by lower qualification rates. As a result, getting approved for a loan through an alternative or uninsured lender can be much easier than going through a traditional bank or credit union. Again, it is vital to pay close attention to the deal an unregulated lender offers. Lower qualification rates tend to come with baggage in the form of high interest rates or penalties.

Considerations for Alternative Mortgages

Due to the “B” Lender space, it is important to take a good look at the conditions for these mortgage products to ensure that you won’t get trapped with rates you can’t afford.

Before considering an alternative mortgage, there are a few things you should ask yourself:

- What issue is keeping me from qualifying for a mortgage today?

- How long will it take me to correct this issue and qualify for a A mortgage?
- How much do I currently have available as a down payment?
- Am I willing to wait until I can qualify for a regular mortgage, or do I want/need to get into a certain home today?

If you are someone who is ready to go ahead with an alternative mortgage due to a bruised credit score, or you don't want to wait until you're able to qualify with a traditional lender, these are five questions you should ask when reviewing any alternative mortgage product:

- How high is the interest rate?
- What is the penalty for missed mortgage payments? How are they calculated? What is the cost to get out of the mortgage altogether?
- Is there a prepayment privilege? For example, are you able to avoid penalties if you give the lender a higher mortgage payment once a month?
- What is the cost of each monthly mortgage payment?
- What does it look like when it comes to renew?

When it comes to the alternative lending space, things can get a bit murky. If you are struggling to obtain an A-Lender mortgage, I would be happy to discuss your options with you and help you source an alternative.

8 Steps to the Perfect Summer Social!

There's something magical about summer and no matter where you live in Canada, backyard BBQ season is the perfect opportunity to spend a little time with family and friends. Nothing says party vibes more than food on the grill and summer drinks flowing. Whether you live in a country house, a suburban townhome or a city condo, gather your crew and these few essentials:

- **Good Eats:** To have the most success with your backyard party, you must pre-plan! Take a few hours the night before and meal prep. This includes planning an easy menu with bite size snacks, easy salads and flavour packed options to keep your guests satisfied. And don't forget to make sure the barbecue has plenty of propane!
- **Cold Drinks:** Depending on your guests, you can either have a cooler full of pop and water. If it is a more adult affair, add a little alcohol to the mix! Boozy lemonades or spiked ice teas are pretty easy to make and very fun to drink. Craft beer, ciders or chilled white wine are other fun options for a hot day!
- **Did Someone Say Dessert?** If you're planning an all-day affair, you might want to keep some quick and easy desserts or snacks on hand for the evening. Homemade ice cream bars, fruit kabobs or a veggie platter, or even a couple bags of kettle chips can make great options for any peckish guests. And as the sun sets, you can break out the marshmallows and get your S'mores on in front of the fire!
- **Decor & Ambiance:** For suburban hosts, your backyard party would include a sitting area, maybe umbrellas to offer some shady spots and some water fun! But, if you find yourself in smaller city digs, that doesn't mean your party still can't be one for the ages. Consider throw pillows, paper patio lanterns and plastic glassware which are all affordable and easy to find to help create that perfect party space!
- **Choosing Your Tunes:** While music can set the ambiance, you need to know your guests. It's not easy to pick a playlist that will appease all ears, but streaming services like Spotify and Apple iTunes have plenty of mixed playlists that should do the trick.
- **Entertainment:** Backyard games such as a bocce ball set, Frisbee and even a football can keep the fun and competition going for hours! If you're looking for a more chill hang, consider setting up a card table or some board games for those who want to partake.
- **For the Kids:** If your party involves kids, you'll want to keep the food simple and easy to eat with hands, so burgers, hot dogs, chips and some watermelon are the way to go. You'll also want to keep them occupied with simple games or more active options such as a soccer ball, mini trampoline or a sprinkler to run through and keep them cool. When daylight starts to fade, you can set up a backyard movie or camp-out with some tents to settle the night down. It never hurts to tire

the young ones out so the grownups can have some chill time for themselves!

- **Other Considerations:** Depending on the temperature and time of day for your party, you might want to remind guests to bring sunscreen, hats and/or bug spray to make sure their visit is as comfortable as possible!

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