Private lending solutions for AAA borrowers

Alternative lending may be an option for borrowers with good credit as rising rates take a bite

A CLIENT has good credit, but onerous rules mean they are still having trouble securing a mortgage.

It may be time to think beyond the bank on the corner.

"In the past, there was a perception that if you're getting private money, it's because you're in desperate need or something is drastically wrong. But that's not the case," says Todd Poberznick, vice president national sales for CMI Canadian Mortgages Inc. "Private lenders often help people with good credit."

Tight rules and qualifying requirements, including the mortgage stress test, mean that even low-risk borrowers are now struggling to qualify for a mortgage at all, or to get the amounts they need for the homes they want.

One very particular reality of the 2023 mortgage market is the impact of variable rate mortgages meeting rising interest rates.

Where a monthly payment may have been $1,500 a month, say, last year, "now, all of a sudden, that payment is $2,500." With credit card and other debt to be paid down, along with regular bills, "there's no room for that extra $1,000. The borrower can look at taking a second mortgage to tap into their equity for some cash flow relief and stay in that variable rate mortgage because it could go back down," he says.

Non-traditional mortgages

The evidence is more than anecdotal. One in three Canadian homebuyers are increasingly seeking out non-traditional mortgage solutions and renewing their mortgages in the alternative lending space, according to the Canada Mortgage and Housing Corporation (CMHC).

"If you are locked into a mortgage and you're looking at refinancing, you're refinancing out of a lower rate into a higher rate," explains Poberznick. "A second mortgage can be a valuable option to give you access to the funds you need today while you wait for rates to come down. When they do, you can then blend the first and the second mortgage and roll them together into one mortgage," with a lower rate.

Private lenders like CMI are more interested in the story behind the numbers and, unlike banks, can look beyond a borrower's debt-to-income (DTI) and other ratios to find creative financing solutions.

Going private for AAA borrowers can also mean faster approvals and funding, flexible underwriting, custom loan terms, a willingness to finance non-traditional properties, as well as fewer documentation requirements. Also, while banks may have programs for self-employed clients, borrowers need near-perfect credit as well as a history of business tax returns that can prove income.

"Looking at bank statements or audited financial statements gives us an ability to gauge cash flow and liquidity," he says. "We look at money in and money out – and the explanation behind those flows. We can be more flexible than other lenders who rely more on strict ratios and require specific documentation."

Short-term funding is also available for bridge financing when there is a gap between selling an existing home and purchasing a new place.

"We title properties for up to 60 days," he says. The borrower moves into their new home, and once the old place sells, "they pay us out."

Bridge financing can also be used to help adult children with a down payment on their first home to lift them out of a tight rental market. Banks do provide shorter-term loans, but it is much harder to qualify for these and can even be at a higher rate compared to a private lender.

"We deal with everyday people that have situations that arise, like a temporary layoff or problems with their home that need to be dealt with," he says. "We look at each one individually and do our best to find a solution to help them. We're not governed as strictly as the banks. We can allow for flexibility and customize terms to the borrower's situation, and that's a real difference-maker."

The relationship between borrower and lender is important, but so too is the relationship that CMI has with brokers.

"Every deal is different," he says. "What we do best is partner with brokers exclusively across Canada and help them put customized deals together for their borrowers. We pride ourselves on that collaborative approach."

Pre-construction homes

Higher interest rates have cooled the market, creating challenges for many on the mortgage front. New construction was seen as a lucrative investment by many – but some realtors are reporting serious concern from some homebuyers who purchased pre-construction homes at the peak of the real estate boom. A group of Ontario homebuyers reported that, due to elevated borrowing costs and lower home values, they no longer qualify for the mortgages they need for pre-construction homes that they purchased at the start of 2022.

Some of those that still qualify are being offered a much lower mortgage amount, and, with the significant climb in mortgage rates since contracts were inked, monthly payments are potentially unaffordable.

"We've obviously dealt with a bit of a downturn in the marketplace," says Poberznick. "Values have dropped, so, if you bought a property a year ago, or eight months ago, and you have a contract purchase price at a million dollars, that's the amount you need to close at, even if the market value has fallen. The challenge is that financing is going to be tied to the lower market value at completion time. You're going to have to make up the difference to close on the purchase contract. It's a very frustrating and difficult situation for homebuyers in this position."

For those of you who "don't have enough financing in place, it doesn't mean we are going to step in and cover the full shortfall necessarily. But if the buyer has put down a big deposit, they don't want to lose it, and they're going to go ahead with the deal. That's where we will step in and offer some help to close the financing gap." This gets the client into the property and ensures they do not lose their deposit.

Another option is using equity from another property the client may own and "taking the security of both properties. We would register against both properties and provide a mortgage based on that combined equity position."

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Go short?

While the limbo song may ask, "How low can you go?" with mortgages, the question may be, "How short can you go?"

"The majority of borrowers will go into a one-year term," compared to a two-year, he says. "When rates were lower, people tended to lock in at lower rates for longer terms."

"No matter the term, we look for an exit strategy when we structure the deal. We look to understand why the borrower needs the funds and for how long, and we help build a plan to move them back to a traditional lender at a lower rate at the end of that term."

CMI prioritizes a collaborative relationship with brokers to structure the optimal deal. Even before you submit a deal with them, you can reach out for advice, discuss scenarios and get help with structuring a deal.

Visit canadianlending.ca, or pick up the phone to discuss your borrower's unique situation today. CMP

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