FEATURE More flexible lenders make the purchase of vacation real estate easier than ever this season

Financing rec property

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From a lending perspective, a recreational property is a secondary home that is not rented out. For most purchasers, however, a recreational property is a vacation home, used on weekends and holidays.

Financing this real estate can be a challenge in Canada. Up until only a few years ago, people wanting to purchase a beachfront cottage or a ski chalet were forced to come up with as much as 50 per cent down before a lender would consider the application. But things have changed.

The recent introduction of **Genworth** and **CMHC** programs are a reflection of growth in the Canadian mortgage market. New entrants from both the U.S. and Canada have dictated that lenders must become more aggressive in their mortgage offerings and underwriting criteria.

Looking for the opportunities to capitalize on the boomer market, both American and Canadian lenders have stepped into the recreational arena.

Five per cent down

CHMC and Genworth's programs allow purchasers to buy residential recreational property with as little as five per cent down.

The properties need to be "marketable," which generally means that there is nothing unusual about the property that would deter purchasers. The property must be accessible year-round and have running water. The applicant's credit must be clean, and his or her income verifiable. With 10 per cent down and a maximum loan of $350,000, Genworth will also consider properties that do not have a heating source, but the property must have running water. The property can be accessible by seasonal road or even by boat only.

Self-employed

While these programs represent a strong opportunity to the millions of Canadians whose income is verifiable, they leave a gap for the 2.5 million self-employed Canadians who aren't issued a T4.

GMAC, a relatively new lender to the Canadian mortgage scene, is offering a unique vacation product through mortgage brokers. Cleverly branded i-relax, this mortgage product allows purchasers to buy a recreational property with as little as 15 per cent down, with none of the traditional income verification required for self-employed applicants. There are minimum credit requirements, and the interest rate is a little higher than you would obtain through a traditional lender.

For investors with income derived outside of Canada (traditionally a difficult segment to finance), **Accredited Home Lenders** offers financing up to 85 per cent of the value of the home, with some restrictions. Accredited Home Lenders, based in the U.S., is only accessible through mortgage brokers.


Photo: Niho Land and Cattle Company

Dreaming of vacation property? It is now possible to buy with less money down. Photo is at Queen Charlottes, where oceanfront lots are now available.

Some recreational properties have characteristics that make them difficult to finance. For example, many lenders are unwilling to lend on properties that are fractional interests, a form of ownership growing in popularity in recreational areas such as Whistler. They are also restrictive in lending on the hotel condos that have been made popular by developers such as **Intrawest**.

Many rural recreation properties are on well and septic systems, which can be a challenge for some lenders. When the property you are considering does not have a municipal water or sewer system, allow extra time for the financing to be arranged. You will need the time to have testing done, such as for water potability.

Home Equity

Many people who purchase a recreational property have a primary residence with dormant equity. There are a couple of ways you can access this. One way is to use a blanket, or as it's called in B.C., interalia mortgage. A blanket mortgage is simply one mortgage secured by more than one property. It allows you to use the equity in your residence to purchase a second home. A blanket mortgage may be less expensive and/or more convenient than having two or more separate mortgages, particularly when one of those mortgages would be high ratio with an insurance premium required.

Not all lenders are able to approve blanket mortgages, but usually local lenders are the best to approach, such as credit unions or regional financial institutions. These lenders can offer more flexible underwriting guidelines. Note that if you do choose a blanket mortgage, and want to sell one of the properties used as security in the future, the change will affect both properties. If one property is sold, the blanket mortgage must be paid down to a level where the remaining property is adequate security for the loan.

Another option for taking equity out of your home is to place a second mortgage on your principal residence. This allows you to purchase your recreation property with 25 per cent down, the preferred amount to access lower rates and a better mortgage.◆

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