FEATURE Smaller investors frozen out as lending tightens for Class B commercial and residential loans

Mortgage brokers

FRANK O'BRIEN

WESTERN INVESTOR

Mortgage brokers were once the princes in the red-hot residential market in British Columbia – the gatekeepers who could massage the numbers to get virtually anyone into any deal. Bad credit but still wanting to buy a 20-unit apartment building? No problem. They would count your rental income as part of the qualifying income and prove to the lender that the 1:1.1 ratio was as solid as gold. (This refers to the rental income of an investment property being 1.1 dollars for every 1 dollar in lending.) Need to float a bridge loan for a new subdivision? Give a mom 'n' pop broker a minute and they would have five lenders and a private source bidding for the loan.

Those were the days.

"Things are a lot tougher today, especially for the smaller mortgage brokers," said **Kyle Green**, a broker with **Mortgage Alliance, Meridien Mortgage Services Inc**., Vancouver. "Some of these can't even get funding. They are cut off."

Mortgage Alliance doesn't have that problem. Rated number 6 in Canada by volume, it continues to deal with every major lender in the country. Most of the big banks will only deal with brokers ranked in their own list of 50 preferred brokers.

The change has rippled right through the mortgage market, forcing less-than-sterling buyers chasing speculative deals to pay much higher rates to stay in the game.

As Green explains, the Class B deals are often being bypassed in the general lending market and going straight to private sources, who can be charging interest rates of 9 per cent, or even much higher

Class B deals can relate to the potential borrower having a poor credit rating, or property that is deemed to be harder to sell.

"I recently had a client with a good personal credit history, but the vacation property he wanted to buy was in the midst of extensive renovations and was located in a small town in the B.C. interior. The best rate he could get from private lenders was 14 per cent, with a 10 per cent fee" Green said.

Commercial loans

The commercial real estate sector has taken the worst hit.

Since last year, Green added, a lot of the major banks have centralized underwriting, mostly in Toronto, and risk management has taken over. "We found deals were being declined right, front and centre. The rates are good, though, if you can get the money."

An especially hard sell is development loans for such projects as spec-built, mixed-use residential and retail, Green said.

Consumers are also seeing problems with lines of credit, either being forced to pay higher rates, or having a cap put on the amount of credit available.

Basically, lenders are looking now for more liquid assets, higher debt coverage ratios and better credit scores, brokers confirm.

Solid mortgage brokers can still help borrowers, Green said, because they can access 30 or perhaps 40 potential lenders to get the best possible deal.

The 1:1.1 rule still works in today's market, Green said, but the criteria is tighter. "Now some lenders want a 25-year amortization, not 35 years, and higher liquid assets, such as savings or stocks that they can go after if they have to foreclose."

Refinancing homes

With interest rates at an all time low, mortgage brokers are being inundated with calls from homeowners looking to refinance at lower rates. Unfortunately a 10 to 15 per cent plunge in B.C.'s real estate market over the past year means refinancing to take advantage of lower interest rates is impossible for some. A recent study by independent broker firm **Averbach Mortgages** of Vancouver found only two out of 10 clients actually qualified for refinancing.

"If you purchased your property with 10 per cent down or less in the last couple of years, you're out of luck," said **Mike Averbach** with Averbach Mortgages. "Every day we are contacted by homeowners who want to take advantage of the lower rates. What they need to consider is how much they owe on their mortgage and what is their current home value?"

A combination of decreasing home values and overfinancing has left many homeowners in a position of negative equity, making them ineligible for lower interest rates. Homeowners who purchased with 15 per cent down or more could still be eligible for the lower rates, but Averbach cautions them to look into the cost benefit. Legal fees and penalties for breaking mortgage agreements can outweigh the benefit of switching to a lower interest rate.

"There's no point in getting our clients all excited about greater savings when in fact it can cost them more to break their current terms," he explained. "A good broker should be able to suggest what is the most equitable in each situation."

Vancouver homeowners interested in refinancing, should contact their current lender to find out if they are eligible for the lower rates and if refinancing will result in savings.

Rate cuts

Several of Canada's big banks are lowering some of their long-term mortgage rates to slow the refinancing trend.

Scotiabank cut its 10-year fixed-rate mortgage to 5.25 per cent recently, nearly two percentage points below its previously posted rate of 7.15 per cent.

TD Canada Trust cut its two-year mortgage rate, which falls to 5 per cent from 5.75 per cent. Its one-year, three-year and four-year rates are also reduced.

CIBC cut its 10-year rate by seven-tenths to 6.6 per cent in early March. The bank also cut the rates for its one-year, three-year and four-year mortgages.

There has been a downward trend in rates, but the decrease has been no more than one-quarter of a percentage point, according to **Callum Ross**, a mortgage broker with the **Mortgage Centre**.

"They're trying to attract people to that [long term] product and it's timely, because we're rolling into the spring mortgage market," said Ross. But he added, "there's a lot of uncertainty in the economy today, and so we're seeing consumers going into longer-term fixed products."But he said a consumer "should never forget that banks make more money based on longer-term products."

That's true even though short-term variable rates isn't as profitable as it was when banks charged below-prime rates, rather than above prime rates as they do now, Ross said.◆

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