



QUALIFYING A MORTGAGE BROKER

An experienced mortgage broker can provide the following services for your real estate business:

- Mortgage financing
- Access to multiple lending products from multiple lending types/sources
- Refinancing
- Financing for multiple property types including primary residences, and a variety of investment properties
- Guidance on the advantages and disadvantages of different financing products including HELOCS, LOCS, secondary financing, construction loans, etc.

General Business Questions

Use these questions to help you qualify a mortgage broker to ensure your financing options are maximized to align with your Investor Profile.

1. Which areas of mortgages and financing do you specialize in?

Investment-savvy mortgage brokers should specialize in a variety of financing products and they should be able to confidently outline their access to primary and secondary lenders and alternative financing products.

2. Can you tell me about your educational background and experience in the industry?

Experience and longevity in the industry is key, it means your mortgage broker isn't learning for the first time with you. In Canada, mortgage brokers are licensed at the provincial level and most provinces have online searchable registries. Ask for the broker's license number, credentials, and how many properties they have financed in the past year.

3. What is your client ratio of primary homebuyers versus real estate investors?

Ideally, investors would make up the majority of your mortgage broker's clientele but if not, look for a broker who has experience with numerous investors who own multiple properties. Homeowner financing is more basic and those without investor experience will not know how to set up your financing to obtain the most properties possible.

4. How many properties do your top 3 real estate investment clients own? Have you financed all their properties?

Ideally, your mortgage broker will have experience working with large portfolio holders who have complex structures and a variety of investment situations. Knowing that they have financed most of those transactions helps you understand whether the broker can obtain portfolio-level financing, not just one or two loans.

5. How many lenders do you have access to? Do you have access to both Schedule I and Schedule II banks? Do you also have access to private lenders or other lending sources? Are you affiliated with one specific bank?

A full-service mortgage broker should have access to multiple Schedule I banks (the Big Banks) and Schedule II banks (smaller banks). There are 85 federally regulated banks in Canada not including Credit Unions. The more your broker has access to, the more options you will have for financing. Also consider whether your broker has access to private lenders in addition to conventional financing sources.

6. Do you provide first, second, and third position mortgages? Do you have experience with vendor financing, joint ventures, or cash back at closing?

As you grow as an investor, having access to multiple financing types including second or third mortgages may be useful to help finance renovations. Ideally, your broker is also familiar with other common strategies such as joint ventures, so you can leverage their expertise as you negotiate and close on properties.

7. Can you provide financing options if I invest through a corporation?

Financing real estate through a corporation is not the same as financing personally. If you plan to incorporate now or want to have the option in the future, you will want to choose a broker who can continue to work with you as you grow.

8. Can you provide financing options for properties with less than 4 units? Multi-family properties over 4 units? Commercial or mixed-use properties? Distressed properties? Purchase plus improvements?

Some mortgage brokers will focus on financing specific property types, while others have a more flexible business model. Choose a broker whose business aligns with your target property types.

9. Can you explain to me the difference between a mortgage pre-approval and a mortgage pre-qualification?

A mortgage pre-qualification is not the same as a mortgage pre-approval and your broker should be able to clearly explain the difference. A pre-qualification is an approximation, not a promise, based only on the information you provide to the broker or lender. A pre-approval is a written statement from a lender qualifying you for a mortgage amount as per the terms of your current financial situation contingent on the property and terms of the contract.

10. Do you have a checklist of documents you will require from me to complete a mortgage pre-approval? Considering the type of properties I plan to invest in, what other documentation may be required?

Obtaining financing can be a long and complicated process. Your broker should be able to help streamline the process through guiding you each step of the way.

11. If I don't qualify for traditional, big bank financing, can you outline some other financing options that may be open to me as an investor through your business?

Not everyone qualifies for traditional, "Big Bank" financing. Look for a broker that can provide guidance and alternative options such as access to secondary lending institutions, private lending, joint ventures, or debt consolidation plans. An experienced broker should be able to explain next steps you can take to finance your next transaction.

12. How many provinces are you licensed to transact mortgages in?

Working with a mortgage broker that is qualified in multiple provinces across the country means you can Invest Where Returns are Best™ without needing to switch service providers for financing.

13. Would you be completing these services personally, or would it be someone else in your office?

Ideally you want to speak with and develop a relationship with the person who will be working on your file. This ensures clearer communication channels. If multiple people will be working on your file, clarify what the communication process is and how different individuals will work together to provide you with seamless service.

14. Can you provide me with references to some of your real estate investor clients?

Be wary of businesses that don't want to share references. When checking references ask questions such as: Are you satisfied with their level of service? How many mortgages have you financed with them? How have they helped you in your business? Is there anything you don't like about their service? Would you recommend them to your family, friends, and other real estate investors?

15. Is there anything else I should know about you or working with your company if we decide to proceed with this relationship?

This is the mortgage broker's opportunity to add value to you, explain more about their services, and outline next steps for you to confirm the business relationship. Look for answers that appear genuine, are informative, aren't a heavy sales pitch, and don't appear scripted.



Qualifying a Mortgage Broker

General Mortgage Financing Questions

Ask these questions when obtaining financing on your next investment property.

1. Is this a pre-approval? If so, what conditions must be met to obtain the financing outlined in this pre-approval?

A mortgage pre-approval is a written statement from a lender qualifying you for a mortgage amount contingent on the property and terms of the contract. Normally the lender will list certain terms that must be met before financing is approved such as a property appraisal or copies of existing tenant lease agreements. Be sure to understand these conditions clearly and meet them according to the lender's terms or you may lose your financing.

2. How long is the rate in my pre-approval guaranteed?

Most pre-approvals include an interest rate lock for a certain period of days (i.e. 90 days). If you do not purchase a property within this timeframe, you would be exposed to changes in interest rates.

3. If interest rates go down, will I automatically get the lower rate? Can my pre-approval be extended?

Don't assume your rate will go down if interest rates decrease; not all lenders will automatically lower your rate lock. Pre-approvals also normally have an expiry date, but some lenders may be willing to extend if your financial situation remains the same and interest rates haven't increased. It never hurts to ask if it means you can avoid going through the process all over again.

4. What loan to value (LTV) have I been pre-approved for? Is mortgage insurance a condition of my pre-approval?

While primary homebuyers may be pre-approved to put down as little as 5% for a down payment, investment, non-owner-occupied properties typically require a minimum down payment of 20% or more depending on your individual situation and the property type. Mortgages considered high-ratio typically require mortgage insurance through traditional lenders which will add to the overall cost of borrowing but may allow you to pay a smaller down payment. Evaluate your options and ensure you have the required down payment to complete the loan.

5. Is an appraisal required as a condition of the pre-approval? When is the appraisal scheduled?

Appraisals are common conditions of pre-approvals. If you have a conditionally accepted offer, strive to have the appraisal completed before the end of the conditional period. If the appraised amount is less than your purchase price, the lender will likely require you to pay the difference.

6. Can you provide me with a loan estimate of all the fees I may need to pay during the financing process?

When borrowing money, there are fees you should expect to pay as part of your closing costs. These fees may include but are not limited to an appraisal fee, land transfer tax, lawyer and notary fees, and property inspection. If you are using private money, you may also be subject to lender fees and broker fees. The mortgage broker and lender are required to give you a written loan estimate if requested.

7. Is this a variable or fixed rate mortgage?

With a fixed rate mortgage, the mortgage rate and payment you make each month will stay constant for the term of your mortgage. With a variable rate mortgage, the mortgage rate will change with the prime lending rate as set by your lender. Generally, a variable rate will be quoted as prime rate +/- a specified amount.

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8. What is the term and amortization of the mortgage?

Choose a mortgage term that works best with your investing strategy. Long-term buy and hold investors may choose a longer term (i.e. 5 years), while those choosing to renovate or invest in lease to own will choose a shorter term that allows for earlier pre-payment. Generally, investors will choose the longest amortization term available to maximize cash flow and minimize payment amounts.

9. What are the pre-payment terms of this mortgage product? What are the fees or penalties associated with breaking the mortgage or refinancing the mortgage?

Understanding pre-payment terms and fees associated with breaking a mortgage is key for investors. Clearly read all terms. Most lenders limit how much and how often a borrower can pre-pay a mortgage. Fees for breaking a mortgage can be a flat fee or an Interest Rate Differential (IRD) fee which can quickly add up and be quite expensive. If there is a chance you will pre-pay or break the mortgage by refinancing or selling before the end of the term, choose a mortgage product with the lowest penalty possible.

10. Is this a re-advanceable mortgage product? If so, what are the terms of this product?

A re-advanceable mortgage allows the borrower to re-borrow the principal amount of the original mortgage that has been paid down. This type of mortgage product consists of a mortgage and a line of credit (LOC) packaged together. Each month when a mortgage payment is made, the principal is reduced by a certain amount while the limit on the LOC goes up proportionately. The borrower can then use the LOC for other investing.

11. Can I choose the date when my mortgage payments will be withdrawn monthly?

Often a lender will choose the date of your closing to withdraw mortgage payments by default, but often you can specify your preferred date of the month. If your property is a buy and hold, consider choosing a date later in the month so all of your rent cheques will have cleared before the mortgage is withdrawn. This, plus having a reserve account, ensures you have a buffer and aren't left with a NSF mortgage fee if you have tenants pay late.