

# YOUR REAL ESTATE INVESTMENT FINANCING PLAN



Your **OTTAWA**  
**MORTGAGE**

The Wilson Team *Committed to being Canada's Best Broker*



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# YOUR REAL ESTATE INVESTMENT FINANCING PLAN

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### **IMPORTANT NOTICE TO READER**

There are many risks associated with purchasing real estate, some of which may impact your ability to successfully obtain financing to purchase or refinance properties in the future.

These risks may include, but not limited to, changes in lending guidelines and mortgage qualifying, economic factors that impact the future value of the property and changes in your personal situation such as loss of income, debt obligations, credit rating etc.

Such changes may result in your financing options being limited, terms adjusted such as higher interest rates, more down payment etc., or the need to restructure the financing completely.

## WHY REAL ESTATE INVESTORS USE MORTGAGE BROKERS

- **Licensed Expert in Real Estate Investor Financing.** *Knowing exactly which lenders to utilize, what their guidelines are, negotiate the best terms and options and most importantly align your financing with your investment strategy... both acquisition and exit strategies. Having an expert on your side that understands this, as well as access to many lenders in Canada that finance investment properties, is key to your continued portfolio growth and success*
- **Large range of products & knowledge.** *I know which lenders will allow credits on closing, vendor take backs, corporate borrowers (one to multiple tier), finance up to six plexes under residential guidelines, second mortgages on closing, self-directed RRSPs, asset based lending, tax benefits (dividend sprinkling) etc. and more*
- **Step By Step:** *I'll walk you thru the process of getting a mortgage, step by step, especially if you are a first time investor – it can be daunting and its important your mortgage is in line with your investment strategy*
  - **Access to the interest rates the banks don't want you to know are available saving you thousands of \$\$\$\$ and increasing your cash flow!** *Since I send lenders millions of dollars of new business each month, they always offer us the deepest discounts which are passed on to you IMMEDIATELY!*
  - **I shop the market saving you time –** *Calling me is like calling over 50 different lenders including Banks, Credit Unions and Trust Companies – I have access to all of them and so will save you time and I know who to go to first for your particular investment needs.*
  - **I don't work for any one bank, I work for you!** *Simple*
  - **Isn't it time the Banks compete for your mortgage business?** *I'll provide you with some options so you can compare the two – what your bank is offering you and what I am able to offer you then ultimately you decide which you feel most comfortable with. It never hurts to get a second opinion on the biggest financial obligation you will probably ever have*
  - **I'm available on your terms and I appreciate your business** - *day, some evening and weekend. I want to do an exceptional job for you because I want to earn the privilege of having all your family, friends and fellow investors business in the future too!*
  - **I take one credit bureau only but can forward your file to many lenders!** *Many people inadvertently disqualify themselves from getting the best options when they are shopping for a mortgage. When multiple banks pull a credit bureau, your credit rating drops every time, sometimes eliminating the chance for the best mortgage or a mortgage at all!*
  - **Rate Protection.** *If the rates drop before you close you automatically get the lower rate and if rates go up you have the lower rate locked in*
  - **Follow Up** *including Annual Mortgage Check-Ups, Variable Rate Updates and the planning of your Mortgage Burning Party on your principal residence while maximising your leverage and tax benefits on your investment portfolio!!*



*I look forward to assisting you with your dreams of expanding your real estate portfolio... our focus is to provide you with all your financing needs and we ask that you consider referring us to your friends, family and colleagues!*

## BUYING REAL ESTATE – THE RISKS

Like any investment, there is risk and it is possible to lose money in real estate, albeit relatively low.

Real estate has shown to appreciate steadily over the long term, and has for the past 25 years, so the chances of someone losing money on a purchase are pretty slim. However, keep in mind that doing your due diligence before an actual purchase is key... you must take into consideration certain factors when choosing a property, such as desirability of location and stability of the market in that area to name a few.

From the lender, buyer, seller and of course managing tenants, you will be responsible for ensuring the risk is minimized and all parties involved are in a win win situation.

As your financing expert, I will be available to advise you accordingly to mitigate these risks and ensure your real estate portfolio meets your desired goals.

From the lenders perspective, from major banks to joint venture partners, they are going to be looking at the overall risk of lending you their funds, and obviously getting it back with interest.

Major factors are taken into consideration as you can see in this chart.

The terms of the loan will depend on the overall perceived risk from the lenders standpoint.

Firstly, we are going to review the different types of financing and then customize your Plan so you can see which financing options are available to you and then map out your portfolio acquisition plans.



## 1. BUYING REAL ESTATE – THE REWARDS

Diversification is key to anyone's investment portfolio whether you are talking about mutual funds, TFSA's, stocks, bonds, RESP's, RRSP's etc. Diversification helps balance risk and provides a level of confidence that your investments are still going to be there when you are ready to liquidate them, such as at retirement etc. At this point you have considered adding real estate, other than your principal home, to your portfolio to ensure full diversification.

A real estate investor can still use a relatively small amount of down payment or capital to purchase a property, and this can provide an attractive Return on Investment (or ROI). This return is generated from a combination of;

- 1) Monthly income known as Cash Flow; and/or
- 2) Property value increases known as Capital Appreciation.

It is important to understand, with each property in your portfolio, what is the primary goal – cash flow or capital appreciate, or both! As your financing expert, I will be aligning your financing options with this primary goal.

**Cash Flow:** The monthly income is generated by taking the rent collected from the tenant and then deducting all the expenses including financing costs.

To ensure that there is a positive cash flow, it is important to align your financing to ensure positive cash flow exists. This might refer to a longer amortization, as much as 35 to 40 years in some cases to reduce the monthly mortgage payments, but in turn increase the cash flow.

**Capital Appreciation:** This refers to the equity that is built in the property by way of appreciation of value over time as well as with each mortgage payment pay down.

With mortgage interest rates at record lows and an abundance of potential tenants in many areas, there is a high demand for real estate investors to take the plunge.

Here's another way to look at it as well... real estate investment is also beneficial for those who have a hard time saving money, as it can act as a sort of forced savings account. Essentially, as you pay down the principal of a mortgage, you're reducing debt and building equity. Then, when you go to sell the property, the money you receive back from the sale is considered your "forced savings".

## 2. QUALIFYING FOR RESIDENTIAL FINANCING

Residential financing refers to the purchase of regular residential homes with no commercial component from a single family home, to duplexes, triplexes and four plexes.

In some circumstances a five and six plex can be financed using residential guidelines but there are only a few lenders that do that so we tend to place them under commercial guidelines as detailed below.

You might be purchasing these types of properties with the following investment strategies in mind:

- ✓ Buy, Rent and Hold Single Family Properties up to a 4 to 6 Plex
- ✓ Buy for Rent to Own (short term hold)
- ✓ Sandwich Lease Options with Investors
- ✓ Buy, Renovate, Refinance and Hold
- ✓ Buy, Renovate, Flip
- ✓ Wholesale and/or Assign Deals
- ✓ Joint Venture Partners

So almost all lenders, with the exception of private, joint venture or hard money lenders, review two key areas in priority order below:

### Firstly, you the borrower:

Is there sufficient income to pay your own existing financial obligations (mortgage, credit card balances, car payments etc.), good credit, and income to qualify.

Is it a corporation or personal?

Do you have liquid assets and a net worth?

### Secondly, the Rental Property:

Does the property have a positive cash flow? (rental income less mortgage, taxes and expenses result in excess cash).

Is the property marketable?

The lenders are always thinking about what will happen when you default and they are left holding and/or selling the property?

Most lenders do **NOT** want to own property... they are in the business of loaning money not property acquisition or management.



### 3. QUALIFYING FOR COMMERCIAL FINANCING

Commercial financing refers to the purchase of commercially zoned properties that typically fit into one of the following Asset Classes:

- **Multi Family:** Residential apartment buildings or complexes of more than 4 units
- **Office:** Buildings that contain primarily offices such as medical buildings etc.
- **Retail:** Store front, high street properties that can range from smaller strip malls to large community oriented shopping centres, big box developments and even regional malls
- **Industrial:** Small bay warehouses, big bay distribution, fabrication, show rooms etc.

So almost all lenders, with the exception of private, joint venture or hard money lenders, review two key areas in priority order below:

#### **Firstly, the Commercial Property:**

Does the property have a positive cash flow? (rental income less mortgage, taxes and expenses result in excess cash) Is the property marketable?

The lenders are always thinking about what will happen when you default and they are left holding and/or selling the property? Most lenders do **NOT** want to own property... they are in the business of loaning money not property acquisition or management.

In commercial, the value of the property is determined by the cash flow, known as the Income Approach, so despite your purchase price the lender may determine the value on which they will base their financing on which can sometimes be lower.

#### **Secondly, you the borrower:**

Is there sufficient income to pay your own existing financial obligations (mortgage, credit card balances, car payments etc.), good credit, and income to qualify.

Is it a corporation or personal?

Do you have sufficient liquid assets and a high net worth to carry this property if there are delinquent tenants or lengthy vacancies?

Do you have experience managing commercial properties and tenants?

#### 4. TYPES OF LENDERS AND FINANCING OPTIONS

Below is a breakdown, in order of preference, the financing options available for Residential properties as outlined earlier.

Every financing option and category above will have a different focus on underwriting your file and deciding to provide you with the funds that you require.

They are also going to have different options such as rate, fees, terms, flexibility on documentation, size of portfolio etc.

Our goal is to strategically select the right lender in order of acquisition that aligns with your portfolio growth plans.

Below is a brief overview of each category of lenders qualifying criteria as each will have a different focus or emphasis when considering offering financing.

### Major Banks & Financial Institutions

These are of course the major banks and financial institutions such as credit unions etc., which will provide you with the best rates and terms.

They are focused on both you the borrower **and** the property equally.

You will be required to have good credit, excellent provable income, debt service ratios well in line, down payment from your own resources and purchase a property in a major centre in good condition.

Your down payment can come from borrowing against a secured line of credit on an exception basis and if it means your debt service ratios are still in line.

Some major banks and financial institutions will start to “cap” the amount of properties in your portfolio that they are willing to finance to 4 or 5.

Many will also not allow the property to be in a corporate name unless it is a commercial property.

### Alternative Mortgage Lenders

These are financial institutions such as smaller credit union, trust company and monoline lenders that offer mortgages that will provide you with the best rates and terms. However, they may add a default insurance premium (CMHC, Genworth or Canada Guaranty) to the mortgage or require a larger down payment.

Just like the major banks above, they are focused on both you the borrower **and** the property equally.

You will be required to have good credit, excellent provable income, debt service ratios well in line, down payment from your own resources and purchase a property in a major centre in good condition.

Your down payment can come from borrowing against a secured line of credit on an exception basis and if it means your debt service ratios are still in line.

Some of these lenders have no limits to the amount of properties you can purchase or have in your portfolio.

These lenders are often very flexible with the property being in a corporate name.

## Non-Traditional Lenders (Sub Prime/Equity)

These are alternative trust companies and other approved lenders that offer mortgages that are much more flexible in qualifying but in turn may have higher interest rates, lender fees and not as many terms available.

These lenders have no problem with financing investors with large portfolios and are flexible in overall qualifying.

Such areas as those with weaker credit ratings, self-employed borrowers with very low “taxable or provable” income, corporate names, borrowed down payment, etc. In most cases they do require that the property be located in a desirable area and major centre but there is some flexibility although they may decrease the amount of funds they will offer you.

## Private Lenders / Joint Venture Partners

These can range from an individual that has funds to lend to large companies that have billions in funds that they manage and wish to lend to real estate investors. These could even be your friends and family that you have asked if they want to be a “money” partner in your real estate portfolio.

Private lenders and joint venture partners are usually extremely flexible and focused on mostly the property and their fees & interest rate return.

The acquisition strategy is going to be key along with how and when are they going to get their money back: the exit strategy.

These types of lenders are extremely flexible on their terms and qualifying but in return are taking a much higher risk, so demand a much higher return on their money.

For example, in a buy, rehab and sell scenario, it might not be just about an interest rate return, but also a percentage of the profit when the property is sold. Each deal is analysed on its own merits and so the range of financing options, terms, rates, fees etc., can differ greatly and negotiated.

The private lenders will be registering a lien and/or mortgage charge on the property to be used as collateral. Joint venture partners may or may not register a lien and/or mortgage charge on title, however they may also require a General Securities Agreement to be signed by you personally. Often joint venture partners are used for their capital injection into the property or your company.

## Hard Money Lenders

There is sometimes some overlap between joint venture partners and hard money lenders because they can also range from an individual that has funds to lend to a larger group that has millions in funds.

Again, these could even be your friends and family that you have asked if they want to be a “money” partner in your real estate portfolio.

Hard money lenders are the **most** flexible and are often used for short term flips and may be financing not just the property acquisition but also the rehab and renovations costs as well. Their fees, interest rate return and portion of the profit will differ with each deal but they will expect a much higher return on their money for the higher risk.

They are often financing more than 100% of the current value of a property. They will expect to see a very clear plan on how they are going to get their funds and profit back.

Hard money lenders may or may not register a lien and/or mortgage charge on title, however they will most likely require a General Securities Agreement to be signed by you personally. They may also require shares in your corporation.

Which applies to you?

Knowing which type of financing you qualify for now, and in what order, before you are under contract with a property is key. I will review your application and prepare a detailed financing analysis for you. With fees outlined.

## 5. YOUR ASSETS & DOWN PAYMENT

Lenders want to see you have your own down payment and have “skin in the game yourself” as that way you are less likely to default which is what the lender is primarily trying to avoid after all!

Remember, that to comply with the Anti-Money Laundering Act and Finance for Terrorism Act we do have to show three months bank statements or investment statements to prove your down payment... it can't suddenly appear in your bank account as a lump sum otherwise we have to show the source which involves more paperwork and usually a lot of explaining.

You can use a line of credit if it is secured against real estate as down payment and again we can prove it by way of statements etc. We have to show you have the resources yourself for the down payment even if you don't actually use the funds we show you have at closing.



For example, you may have \$80,000 in an investment account in stocks and bonds and you can show us that you have those as liquid assets with a three month history (they aren't locked in or vested). This is fine for us to use to prove you have the down payment even if you then end up using other investor's funds, a different account or borrowing it elsewhere.

Are these assets liquid and could you provide proof of them with three months history?

We can use of course vendor take backs, joint venture funds, second mortgages etc., as part of the down payment BUT the lender will want to see you have at least 10% down payment of the purchase price of your own. Do you have other assets or funds in your name that may have

been missed?

## 6. HOW MANY PROPERTIES CAN YOU PURCHASE

If you should change your income level or increase your debts beyond the standard ratios mentioned below, then you would need to consider financing options with higher interest rates etc. and jumping directly to the Private Lenders/Joint Venture Partners and Hard Money Lenders.

If a down payment or cash is not available, you can consider wholesaling, joint venture partnerships and sandwich lease options.

## 7. YOUR CREDIT

### **About Credit Scores:**

Your credit score is also referred to as a FICO Score and is a mathematical formulae created by Fair Isaac and Company.

The credit score is used by most companies to see if you are a good credit risk or not. Equifax and Trans Union will crunch the numbers from the credit report, and spit out a number somewhere between 300 and 900, or even no number or R for Reject.

Even though more than 50% of the population have a credit score of over 750, from a lender's prospective, a **score over 680+ is considered excellent**. A score of over 620 is considered good. Below 620 and creditors become selective on the amount of credit they will extend and of course the interest rate they will charge.

Scores are calculated based on five key areas. Here is a chart for your reference and the areas that may need to be addressed based on a current credit bureau;

FACTOR	WEIGHT	POINTS
<b>Payment History</b> Bankruptcies, late payments, past due accounts and wage attachments, collections, judgments	35%	315
<b>Amounts Owed</b> Amount owed on accounts, proportion of balance to total credit limit	30%	270
<b>Length of Credit History</b> Time since accounts opened, time since account activity	15%	135
<b>New Credit</b> Number of recent inquiries, number of recently opened accounts	10%	90
<b>Types of Credit</b> Number of various types of accounts (credit cards, retail cards, mortgage, line of credit, loans etc.)	10%	90
<b>POTENTIAL TOTALS</b>	<b>100%</b>	<b>900</b>

## 8. NEXT STEPS & DISCUSSION POINTS

I hope that this gives you something to think about, give me a call or email when you get five minutes to chat about what you think and I can also answer any other questions you might have.

Below is also a list of additional documentation you will need to provide at some point, so you might like to collect these together now so that when we find you your next real estate investment opportunity, you are ready to go:

1. Current income verification if applicable (recent pay stub if you are an employee or the last two years complete T1 Generals Tax Returns if you are self employed)
2. Proof of your assets so bank statements, RRSP statements, investment statements etc.
3. Recent mortgage statements for any mortgages and secured lines of credit you currently have
4. Recent property tax statement for any properties that you currently own
5. Copies of leases for any other rental properties that you might already own
6. Article of Incorporation if applicable
7. Void Cheque for your future mortgage payments
8. Name of the lawyer you would like to use
9. Contact information for any other Power Team Members that currently assist you with your real estate acquisitions such as your real estate lawyer, accountant, real estate agent, etc.

Remember, that no matter what you decide the ultimate choice is yours, my job is to provide you with choice and not extra pressure!! I prefer to make the purchase of your rental property as stress free as possible.

I hope that this gives you something to think about, and I look forward to working with you to grow your portfolio.

Yours truly,

Kelly – Your Ottawa Mortgage- The Wilson Team



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