TALES FROM THE TRENCHES™
BY BARRY C. MCGUIRE

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Financing Facts: Current Realities.

Let's get real, folks. The hard reality is that lending is a dynamic part of investing. Here are three current aspects of financing you must pay attention to. Remember, lending policy changes from day to day.

1. **Beneficial interest.**

   More and more lenders are asking you on your mortgage application or requiring us at RMLO Law LLP as your lawyer to confirm that there are no what they call, "Third party beneficial interests." For us as real estate investors, this typically refers to a joint venture partner who is not on title. If you own part of the property, but aren't on title, then you have what is described as a 'beneficial interest.'

   If, when making your mortgage application, the lender asks, "Are there any third party beneficial interests?" ask them what they mean. Whatever your interest, disclose it fully to the lender. Ask the lender, "Do you mean my joint venture partner who is putting up all the money but isn't going on title?" "Do you mean me? I'm not going on title but I have a joint venture interest." Find out whether the third-party beneficial interest is permitted or not. If such an interest is permitted, confirm in writing with the lender, (not the mortgage broker). If your lender does not permit third-party beneficial interests, say goodbye and move onto the next lender. Ask this question early.

2. **Restrictions on borrowing.**

   With the collapse of the real estate boom in 2007, lending rules have tightened up considerably. Maximum amortization periods for CMHC loans went from 40 years to 35 years to 30 years. Hundred percent financing disappeared. The governor of the Bank of Canada and Federal finance minister, along with other economic prognosticators, have been preaching over indebtedness, stop using your house as an ATM, and, generally, taking a negative attitude.

   Line of credit loan to value ratios have been reduced. Some second-tier lenders are calling in their chips. Imagine our member's surprise at mortgage renewal time when instead of the usual renewal notice you get a notice that says, "Your mortgage is due, pay up." CIBC had a subsidiary called First Line Mortgages for mortgages originated by mortgage brokers. First Line, at one point, did over 30% of all the mortgage business in Canada; that's billions of dollars' worth of mortgages. Billions!! With lower interest rates and tighter margins, CIBC decided that they would do their mortgages in-house instead of through brokers. So, they put First Line up for sale. A billion-dollar company and no one made an offer. First Line is now shut down. It's not as bad as the media makes out, but the lending rules have definitely tightened up.

3. **Policies change.**

   Here is a story I've heard from a number of members. You go in to see a lender with your Sophisticated Investor Binder in hand. The lender is impressed; they like your plan and they're very willing to help you reach your investment goals. The lender takes a lot of detail for your first loan but then, subsequent loans are very easy to obtain. This extremely helpful lender attitude is often accompanied by words like, "Buy all the properties you want, we'll give you the money." Everything goes along fine until the loans officer gets transferred or the manager changes and interprets policies differently or the lender's head office tightens credit or change lending policies. You'll be shocked that a warm, friendly accommodating lender turned instantly into an unhelpful, cold-hearted roadblock.

For all these reasons, you must stay current with lending policy.

I suggest a regular review with your mortgage broker or lender of your investment goals, progress to date, and current lending conditions. Don't get caught assuming everything is the same in the lending business as it was in last month let alone last year or perhaps five years ago when you last bought property. Keep your lending knowledge up-to-date.

HAVE QUESTIONS? WE HAVE ANSWERS!
EMAIL B.MCGUIRE@RMLO.COM

AND BE SURE TO VISIT WWW.BARRYMCGUIRE.CA
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RMLO Law LLP
MacCosham Building
Suite 101, 10301-109 ST Edmonton, AB T5J 1N4
Phone: 780.431.1444 Fax: 780.431.1499