

Credit Restoration



By Brian Madigan LL.B.

If you have experienced some credit issues in the past, or even declared personal bankruptcy, you may find this to be of some interest to you.

Probably just about everyone has paid a payment a little late. The issue for lenders becomes “how late” and “how frequently”. If a lender cannot really be entirely sure that you will (for whatever reason) make your payment on time, then, they will need to have a little reserve established, so they will be able to pay their bills on time. They will have to provide you with a “float”. They know that you will in time pay, but perhaps not right on the payment date.

In order to provide you with a float, they will assess the risk and charge their “late payment customers” a higher rate of interest. If you pay on time, then you will be rewarded with a lower rate of interest.

Banks provide the bulk of mortgage financing today. They fall under the provisions of the *Bank Act* and there are several matters that you should know:

- Banks can only lend up to 75% of the value of a property on a first mortgage
- Banks may exceed 75% if the mortgage is insured
- Insured mortgages can go to 95% of the value
- CMHC and Genworth both provide insurance

So, it's quite possible to secure good financing at relatively good rates from a bank. But, why wait? Maybe the market will go up this year and you won't be in any better position to buy next year. Why not revisit your credit issues and see whether you qualify this year? Maybe not with a bank, but perhaps with some other lender.

I would suggest securing the services of a reputable mortgage broker and having them canvass the mortgage market on your behalf. They will need to perform a credit check and this is a lot better than you going to 10 different institutions and having each of them conduct a check. Each check lowers your credit score and if you are close to the mark then this is not going to help, in fact, just that process itself may preclude you from qualifying for the very mortgage that you are seeking.

This clearly isn't fair, and the law should be changed, but until it is, you should know and play by the rules.

So, rule #1, get a mortgage broker or credit restoration specialist working for you!

How does a lender view “bruised” credit histories?

Explainable Isolated Causes:

- Business failure
- Job loss
- Divorce/marital problems
- Financial mismanagement
- Poor advice

In the cases noted above, there are many lenders that recognize that bad things do happen to good people, and they are willing to provide mortgage financing, often with no downpayment.

Habitual Poor Repayment of Credit

Mortgage financing for clients who exhibit an extended history of poor repayment is more difficult to obtain, and will often require a substantial downpayment.

Lenders Assisting Consumers with Poor Credit (previous issues)

Banks, Trust Companies

- Both banks and trust companies will consider applicants with minimal past credit problems
- Mortgage brokers have access to a vast range of lenders
- You may have been declined at your own bank, but a mortgage broker may find an approval for you at another bank

Non-Conforming Mortgage Lenders

Similar to automobile insurance carriers, non-conforming lenders review your credit history to determine the interest rate (policy cost), and the level of financing available (up to zero downpayment)

The further you are away from credit problems (accidents), and the less severe those problems were, the better the mortgage you can receive

The better your re-established credit, the better the rate and the higher the loan to value you can obtain

Equity Lenders

Equity lenders are primarily concerned with the amount of the downpayment a borrower can provide

The higher the downpayment the more interested the equity lender is in the mortgage

What does a Lender review?

Credit history/re-established credit history

- If you have had credit problems in the past, leave them there
- Ensure that any current credit is paid promptly
- If you have not re-established credit, then do so asap

Employment: Type, Stability and Income Level

- Most lenders require a 3 year employment history
- You don't have to be at the same job for 3 years
- Lenders will require varying forms of confirmation depending on whether you are salaried, self-employed, receiving commission

Property Quality

- Lenders review property appraisals to ensure that the property you are purchasing is adequate security for the mortgage being approved
- Generally, non-conforming lenders like to lend upon good quality standard properties
- They don't like to lend upon "fixer-uppers", or "unique properties"

Downpayment

Amount
Source

Beacon Score – What is a Beacon Score?

- A three digit number (Beacon Score) provided to lenders by a credit agency, usually Equifax Canada or Trans Union
- Beacon scores range from 400 (considered fairly low) to 800 plus
- Beacon score indicates the likelihood of future delinquent payments
- Beacon score can change daily based on many factors
- Level of outstanding balances compared to limits
 1. Age of credit
 2. Payment history
 3. Time since slow payments
- No credit history = no beacon score
- Often more difficult to obtain financing as most lenders use beacon score to establish credit risk

Beacon Score – Establishing Credit

- Open a credit account with a credit grantor that reports to the credit bureau
- Initially you may have to obtain “secured” credit
- Consider RRSP loans, or secured credit cards
- Pay every payment on time- many people pay lump sums to their credit cards and believe that will cover the next 2 or 3 payments- generally this is not the case
- Keep balances below 75% of the balance, but do carry a balance
- Work at getting your credit limits to \$ 5,000
- Once you have established your credit, refrain from making credit applications as inquiries to your credit report can negatively affect your score

Mortgage Financing

What types of mortgages are available for clients with a bankruptcy in their history?

The level of financing and downpayment required depends on the length of time since discharge, and the quality of re-established credit.

- 2 years from discharge – zero downpayment mortgages are available
- 1 year from discharge – mortgages with a 5% downpayment are available
- 1 day from discharge – mortgages with a 15% downpayment are available

Re-established Credit required

Typically, no-conforming lenders require re-established credit (payments made to a loan or credit card) reporting to a credit bureau for 12 months

Re-established credit can include repayment on debt that was not included in a bankruptcy

\$1,500 is the minimum acceptable amount of re-established credit

No Downpayment Mortgages

No downpayment mortgages are available to applicants with beacon scores above 580

Available to applicants who have been discharged from bankruptcy for a minimum of 2 years

You can purchase a home today without the need to save for a downpayment

No downpayment does not mean zero costs- closing costs, including solicitor's fees, title insurance, appraisal fees, and land transfer taxes are required to be funded.

Brian Madigan LL.B., Realtor is an author and commentator on real estate matters, Coldwell Banker Innovators Realty Brokerage, 905-796-8888, www.OntarioRealEstateSource.com