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Changing the conversation

Home Trust outlines how brokers can help those who have had their credit history impacted by a challenging life event

FOR MORE THAN 30 years, Home Trust has provided lending services to the alternative mortgage market. We take great pride in working with our broker partners to serve the many Canadians who fall outside the lending profile of many of the country's larger financial institutions.

We know the Alt-A market includes responsible borrowers. Self-employed individuals, including the growing number of professionals working in contract positions, as well as those who are new to Canada, typically find it difficult to qualify with many lenders. Those who have experienced past credit issues are also routinely declined, even when they can show progress in repairing their credit.

The primary means by which many lenders evaluate an individual's creditworthiness is with the applicant's Beacon score. Unfortunately, those with a Beacon score falling below an arbitrary cut-off point often find themselves unable to secure a mortgage with these lenders.

Life happens

The problem with screening new applications simply by Beacon score is that the Beacon algorithm fails to consider that life happens.

A Beacon score is a snapshot of one's current financial position, but it does not shed any light on the events that might have contributed to a low score. In addition, the Beacon score provides no insight into efforts the applicant is making to resolve past issues.

For example, did the applicant recently suffer a prolonged illness or experience an extended period of unemployment? Did they just go through a divorce or loss of a spouse? Events like these can cause great stress and financial hardship, leaving people unsure as to how best to move forward.

Lenders that decline an applicant without first taking the time to understand the facts leading to the lower score do these individuals a tremendous disservice. At Home Trust, our approach provides for a thorough review of each file so that we can truly understand the applicant's situation, notwithstanding the risks flagged by their Beacon results.

Only by understanding the events that caused the financial issue, as well as the steps the applicant is making to remedy the situation, is it possible to conduct an accurate risk assessment. Clearly, this takes considerable effort on our part, but it's the only way to manage risk and determine an approach that meets the needs of these applicants.



How brokers can help

You should never hide important details about your health from your doctor, and when it comes to preparing a new mortgage application, it's critical that clients be equally forthcoming. Only by having a full understanding of your client's circumstances can you forward a complete application to the lender. These important details, together with a well developed financial recovery plan, are required by the lender's underwriting team as they attempt to put a lower Beacon score into perspective.

At Home Trust, for instance, our underwriters carefully review each application and are committed to arriving at a positive outcome for your client whenever possible. As such, we rely on our partner brokers to ensure all relevant facts are included.



“The problem with screening new applications simply by Beacon score is that the Beacon algorithm fails to consider that life happens”

As a broker, you should expect that it will likely require a little more work on your part to complete a new application for a lower Beacon score applicant. However, this time is well spent when your efforts can secure your client with a mortgage solution tailored to meet their needs. Indeed, if these applications were straightforward and easy to underwrite, every lender would be clamouring to take them on.

Keep in mind that gathering this personal financial information could be uncomfortable for your client, as you will need to

probe into specifics that could be potentially embarrassing. This is where your professionalism and your compassion will help you build the trust necessary to have this difficult conversation.

You should also prepare your client for the prospect of a higher interest rate. Much like insurance, where clients who represent a greater risk will face higher premiums, the same principle applies when seeking a mortgage. In other words, if your client is a higher risk, they should expect a higher rate. Because of our expertise and willingness to

spend the extra time to review these applications, we will, where possible, find a solution that works for your client.

To provide the additional narrative to explain the circumstances for a lower Beacon score, we ask that you use the notes section in your application or the comments section in the Loft Broker Portal. Please be sure to also include specific details clearly demonstrating how your client is working to resolve those circumstances.

To help you determine areas you should include in your client's application, you can use the five Cs of credit as a guide:

- 1 Character:** An explanation of the circumstances that caused the poor credit history
- 2 Capacity:** Include all streams of income (employment, child care benefits, alimony, maturing investments, etc.) so we can assess the client's overall capacity to service the loan
- 3 Collateral:** An updated valuation of the property being purchased
- 4 Capital:** Include all available assets, including additional properties and other liquid assets
- 5 Conditions:** The underlying aspects of the deal, including the terms of the current mortgage and the supporting documents required to provide confirmation of the applicant's finances and the property itself

We understand that even the best-laid plans can be derailed by unexpected events. However, we also believe that with a strong understanding of your client's circumstances, we can determine a way forward that helps get them back on track.

Home Trust has been standing for Canadians for more than 30 years, and we are determined to lead the way when it comes to changing attitudes toward those with damaged credit histories. We're proud to have helped thousands of deserving Canadians with timely, expert solutions. Working together with our broker partners, we look forward to helping thousands more. **CMP**