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Locals can have a harder time getting a mortgage

I have read dozens of articles about Chinese buyers and high real estate prices this year alone, and yet one factor which also accounts for the predominance of offshore buyers in the local market has rarely been mentioned.

Canadian credit issuers (banks) will lend to new immigrant clients if they put up a sufficient down payment (I believe 35 per cent) on a property and they could get mortgage financing without proof of income. However, a local buyer would have to meet a very stringent income test (backed by at least two years of notices of assessment from the Canada Revenue Agency) before they could qualify for any mortgage financing, regardless of how much equity (even 50 per cent) a local buyer would put down on the property. So you have a situation where a new immigrant could put down less equity and purchase a property, whereas a local resident buyer could put down more equity and not qualify for a mortgage to buy the same property. That is exactly the case when I tried to help my (adult working) son to purchase a property by helping with a very significant down payment.

I am not saying the above situation is fair or unfair. However, after the 2008 credit crisis the credit issuers' income tests on borrowing are very stringent, and that certainly is not helping local buyers to compete. Edward Chan, Vancouver

4 Comment(s)

Ricketty Rabbit
10 May 2016
06:46
"*Canadian credit issuers (banks) will lend to new immigrant clients if they put up a sufficient down payment (I believe 35 per cent) on a property and they could get mortgage financing without proof of income.* "

Perhaps, but not without proof of assets sufficient to cover the mortgage.

Nomore
10 May 2016
07:57
Is that correct RR?
The writer is saying "and they could get mortgage financing without proof of income." So RR you are saying the banks don't care if you have any income as long as you have other tangible assets that will cover the mortgage. Do the banks put a hold on those

tangible assets so that you can't sell them?

Willy P Johnson
10 May 2016
08:30
We call it collateral and indeed the bank puts a hold on the home and only lends up to a certain percentage of the value. Up to 80% I think, could be off.

George T Cunningham Library - CTZ
10 May 2016
10:56
The 35% down payment requirement is the bank's risk assessment. They believe that if prices decline and the property owner bails on them, they'd foreclose and sell but still be made "whole". That's because they believe the prices (at most) would fall around 20% +/- This gives them the balance to cover the actual indebtedness plus interest, legal costs and selling costs. Keep in mind that the property owner is really only placing a bet that prices will rise, even marginally, and he will make a handsome profit. A simplified example: say he bought a property last year for $4M, put up his $1.4M and prices rose 30% as recently reported. He sells this year for $5.2M and makes an untaxed profit of $1.2M or 85% (ignoring commissions)! Even if the price only rose 5%, he'd would earn an untaxed profit of $200,000 or 14%! Consider carefully that this is UNTAXED profit, which means he would have to earn between 1.5-2.0 times as much pretax profits to yield the same result. It's a no-brainer...