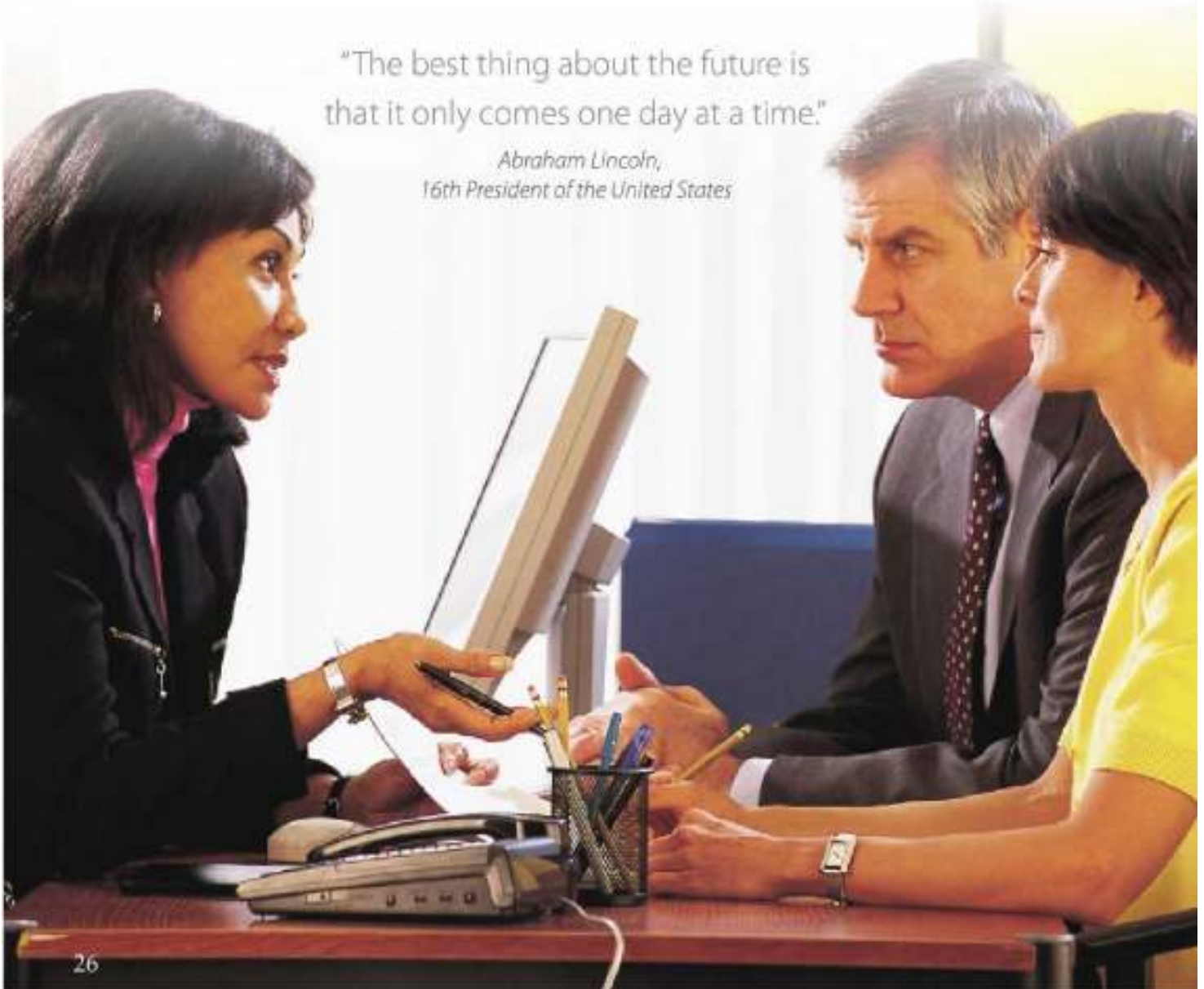


Adjust Your Mortgage Expectations

THE REALITIES OF A NEW FINANCIAL ERA
By William Charlton

"The best thing about the future is
that it only comes one day at a time."

*Abraham Lincoln,
16th President of the United States*



The days of walking into a bank and being approved for a mortgage without a down-payment, proof of income, poor credit history, and no questions asked are history. Likewise, walking across the street to that 'sub-prime' lender and expecting a mortgage is no longer an option since they are unlikely to have any money for you, and in fact, the sign on the door may now say **CLOSED..... permanently.**

So where do you go now? What has happened?

You can't escape the buzz about the economy and stock market these days. Many of you may be unsure about what it means and nervous as to how it will all play out.

In the lending industry, confidence is a large contributing factor as to why the banks have 'frozen' the funds available for mortgages. Confidence has exited through the front door, prompting many to follow through the same door! Recent rate cuts by central banks around the world were aimed to make money cheaper and get it flowing again, but the problem is that this move does not eliminate the toxic assets, nor does it instill confidence in the banks.

Banks and other financial institutions do not trust each other, and do not have confidence in the assets on each other's balance sheets – assets that may potentially destroy these institutions if one lends to the other. And with many prominent and once thought to be invincible companies going under, consumer confidence has rapidly dwindled.

This rise in uncertainty in the economy has translated into higher borrowing costs and financial institutions holding back the amount of funds they are willing to lend. These pressures have intensified going into the third quarter, prompting aggressive actions by numerous central banks.

In the United States, the government has passed a sizeable US\$700 billion rescue package that will fund the purchase of various toxic assets of these financial institutions with significant operations in the United States.

Locally, in Canada, the government has announced similar packages (albeit on a smaller scale) in the hope of encouraging the banks to lend again.

As the markets respond and adjust to those events, consumers are left on the sidelines wondering how this will affect them. It is very

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- Private lenders, not 'sub-prime' lenders, will be the alternative to the big banks
- Government backlash against the financial sector may result in new regulatory measures

Yes, these could be the realities of a new Financial Era. Gone are the days of cheap money, easy mortgage approvals, and double digit home appreciation.

However, this isn't new to those who have been in the real estate industry during recent decades. It wasn't all that long ago that

tough to predict certainty in uncertain times, however, here are a few of the more likely scenarios that may occur in the coming months:

- Canadian big banks will continue to cut back on lending
- Mortgages will require larger down-payments, proof of income, and good credit rating
- Variable mortgage rates will no longer be discounted below prime
- Fixed rates will be on a steady rise over the next few years
- Inability to obtain mortgages or refinancing may worsen the decline in housing demand, leading to further price declines

buying a home required a down-payment, income to support your lifestyle, paying over a 6% interest rate, and your bank performing appropriate underwriting procedures.

With the rapid change in the mortgage industry it is now, more than ever, important to seek a qualified mortgage professional.. These professionals can assist in finding the elusive funds available to mortgage consumers.

Mortgage consumers who in recent years have been serviced by the 'sub-prime' lenders will now need to bring their mortgage applications to the private lenders.

Private lenders continue to be an alternative to the big banks.

In summary, don't assume that you can leave your mortgage application until the last minute and just send it off to the same place you always have. In this environment, you might find your 'go to' lender bought out, out of business, out of funds, or all of the above.

This will require that you be educated on which lenders are open for business, what the alternatives are and what the new regulations are.

It will require you to adjust your expectations on your next mortgage application or refinance: expect higher borrowing costs, dedicate more of your savings towards the down-payment and expect that you may need to be innovative (using private lenders) to complete your real estate transactions if you're not being serviced by your previous 'go to' lender. In this uncertain mortgage environment, you should seek qualified mortgage professionals to assist you as banks and private lenders are adjusting daily to the uncertain times.

Mortgage approvals won't be impossible, but they will require you to adjust your

expectations and seek different alternatives. Stand tall, get educated, be patient, and prepare for the opportunities our market will produce in this economic storm 🌐



William Charlton is an underwriter and real estate analyst with Calvert Home Mortgage Investment Corporation, and a recent guest speaker at a Home-run Investment Mentoring meeting. Calvert has catered its lending to the investor market for over 30 years. For more information or questions please contact him at (403) 278-0249 or william@chmic.ca

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