Leading Mortgage Broker Discusses How People May Pursue A Mortgage With Bad Credit

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Scarborough, ON based Licensed Insolvency Trustee Richard Killen recently explored the avenues through which homebuyers may seek a mortgage despite being weighed down by bad credit. This exploration took place in the latest instalment of Killen?s podcast ?The Glass Is Half Full.? Keeping in tune with the premise of the podcast and its name, Killen seeks to show his audience that financial setbacks need not necessarily keep them from seeking the home they desire.

In the new episode, Killen sat down with David Grossman, a mortgage broker from Rock Your Mortgage who wields more than 15 years of experience in the field, to discuss how people can get a mortgage even if they have bad credit?and why they should be careful borrowing in such situations. Grossman began his contribution to the episode by going over the factors that conventional lenders look for in a first-time homebuyer who wants to take out a mortgage. ?There are several things that lenders are looking for,? he explains, when people approach them with the desire to purchase a home. ?Presumably, people would need a mortgage. Most people don?t pay cash.?

In order to qualify for a mortgage, they would need to put down a down payment that is a certain percentage

of the house?s total price. This means that they would need to have savings of at least 5% on the first $500,000 of the purchase price (which amounts to a $25,000 down payment). This number rises to 10% on the amount between $500,000 and a million if the house is worth more than $500,000, and then 20% down if the home is over $1,000,000. Therefore, they need to make a $75,000 minimum downpayment if they wish to buy a million-dollar house.

Lenders take the applicant?s credit and income into account in these cases, in addition to the type of property that they are purchasing. While there are alternatives for prospective homebuyers who have bad credit, Grossman advises that they take every measure they can to establish and maintain good credit ahead of time. During the interview, he states, ?For a first-time homebuyer, lenders want to see that they have a history of at least a couple of years. The assumption is that people want to get mortgages from the bank or places like a bank. Therefore, for those types of borrowers, they need to have about 5-10% down payment.?

Similarly, first-time borrowers need to show a lender proof of income, as this will be used to judge whether an applicant has a high enough likelihood of being able to make payments in the future. Grossman explains, ? If they are salaried, lenders want to see their job letters and pay stubs. If they?ve been in the job for less than one year, lenders would want to see some history of income. Moreover, people need to build up some credit.?

However, Grossman also clarifies that there are generally three distinct types of lenders that people can approach if they wish to buy a home. The A-lender describes the sort of institution that most people think of when they want to apply for a mortgage, such as a bank or a credit union (this category more often than not requires good credit to make use of). B-lenders fulfil a similar role as their counterparts in the A category, but are generally more flexible in how they consider income and credit, according to Grossman.

He clarifies that, ?people who have credit issues might still be able to get a mortgage from a B-lender. B-lenders will charge a percentage point more or less premium over what the bank is charging.? If at all possible, Grossman advises that homebuyers seek mortgages here, especially since institutions in these categories offer better rates and better terms.

However, there does exist a third option: the C-lender, otherwise known as a private lender. According to Grossman, these lenders tend to be private individuals who primarily work with high-risk cases, such as borrowers who have poor credit histories. As a result, this category of lender often has higher rates than their counterparts, as well as a slew of terms that borrowers may find less favourable.

Grossman notes that, ?The other thing about private loans or the C-mortgages is that they?re usually short-term loans. Therefore, lenders will want to know how are you going to repay the loan. That?s an important question.? He clarifies that borrowers should consider such lenders if they need a short-term boost

to their finances. However, they should be wary of seeking long-term relationships with C-lenders, given the fact that they do not generally renew the repayment term once it is concluded (or if they do, they renew with increased fees).

Interested parties are invited to listen to the full podcast on the Richard Killen & Associates website to learn more about mortgages and other areas of financial interest. They may also contact Richard Killen directly to follow up on any further inquiries.

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Richard Killen & Associates

Since 1992, Richard Killen & Associates, a Licensed Insolvency Trustee, have helped thousands of people seek debt relief solutions. Debt relief options could include personal bankruptcy, consumer proposals, consolidation loans, and creditor negotiation.

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