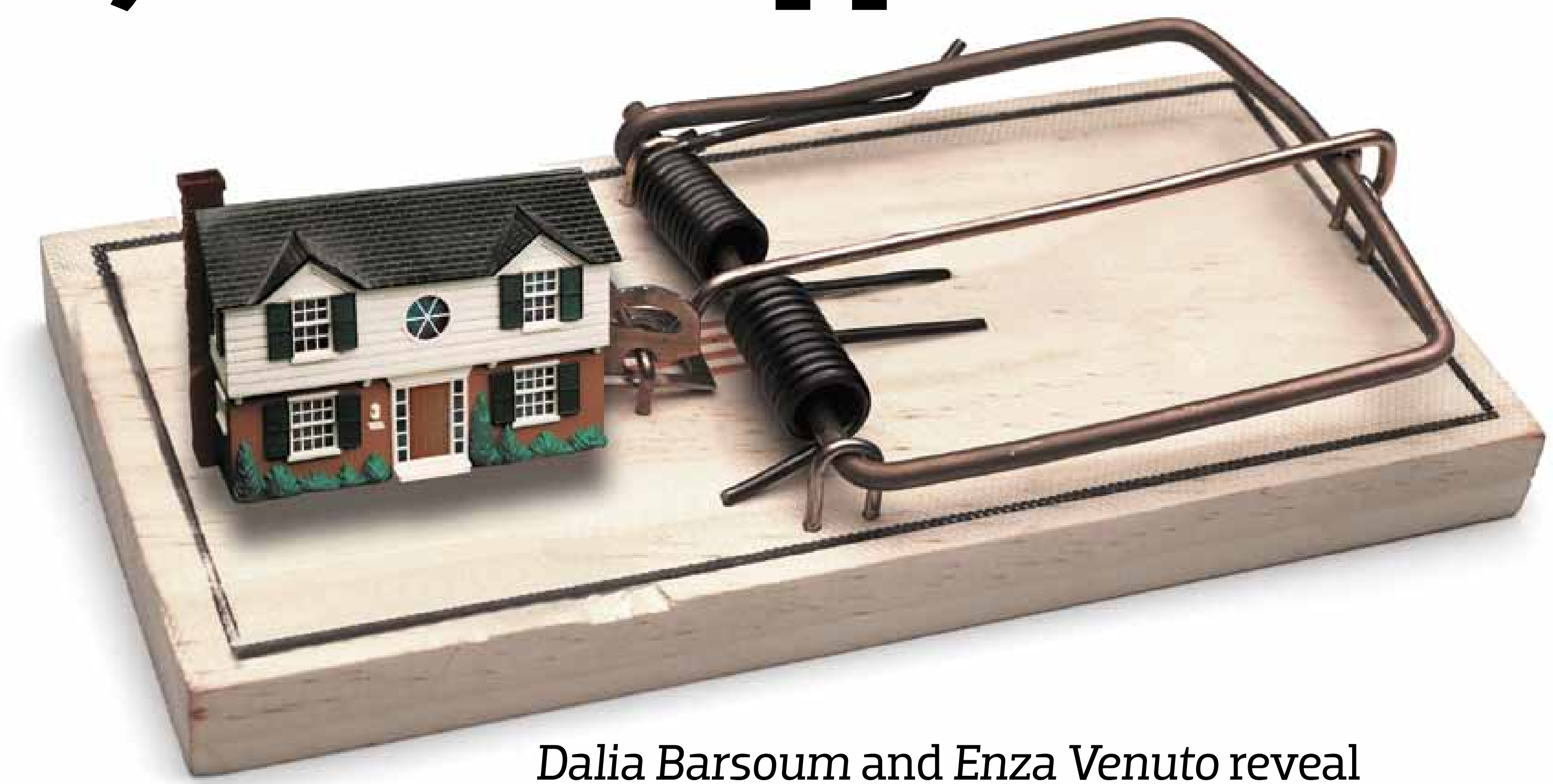
DEADLY MISTAKES when submitting your loan application



Dalia Barsoum and *Enza Venuto* reveal the three fatal mistakes that investors make when applying for a loan

Ever wondered what makes a good loan application and why some deals get approved fast while others get declined or scrutinized in terms of conditions?

The following are some of the mistakes we often come across which will adversely affect the speed or likelihood that your loan application gets approved.

Speaking with a lending advisor or a lender only at the time of purchase

Many investors speak with their lending advisors or lenders only when they have an accepted offer at hand. While this makes sense and is a common practice, it is not the preferred approach.

Getting your deal approved is largely dependent on the lender you are dealing with and whether or not they have a mortgage product suited for your particular situation, investment objectives and the type of property you are looking to purchase.

Speak with your advisor early in the game before you even purchase as it is important for him/her to assess your financial situation (income, credit, down payment, assets, and liabilities) and investment objectives ahead of time and strategize how she/he will approve not only your next purchase but also the subsequent ones.

> The worst scenario is when two brokers submit the deal to the same lender with different details

This discussion also involves providing the key support documents upfront so there are no surprises in the midst of the deal. This includes income support, credit information, down payment sources, information on any joint venture partners who will be involved as well as current property holdings.

This upfront discussion helps position your financing strategy the right way from the get-go so you can continue to grow your investment portfolio while lowering your financing costs.

The following client story demonstrates the importance of strategizing financing early in the game.

We met our clients Jennifer and Mark at an investment seminar and they told us they buy and hold for the long term, and they currently own four rental properties located in Richmond Hill. They also told us that all of their properties were financed by a bank and they are in the midst of getting their fifth property approved by the same bank – which they had a relationship with for over 15 years.

A few days later, we received a call from Jenn and Mark in panic mode indicating their lender declined the application as they have maxed out on their ability to borrow from that bank. While we were able to help Mark and Jenn get approved with another lender, it was obvious they needed to restructure the existing financing of their portfolio as it was done unintentionally in a way that hindered their further ability to grow and has put a big strain on cash flow every month.

Sitting down with Jenn and Mark, we helped them revamp their financing strategy to increase their cash flow, capacity to borrow, and likelihood of getting approved.

Take the time to educate your lending advisor about your goals and investment plan from the get-go and discuss with him/her the financing plan for any deals that come your way early on and before committing to an offer.

Shopping the deal

Let's admit it. We always have second thoughts about whether or not we are getting the best deal, so what do we do? We shop around.

While your mortgage is no different and you definitely need to reduce your borrowing costs, there are right and wrong ways on how to go about it.

a) Knocking on everyone's door
This entails submitting your application to multiple lenders at the same time or one after another or working with different mortgage brokers simultaneously, who in turn are submitting your application to various lenders – some of which may be common lenders as many brokers deal with the same group of lenders.

Doing the above will not only jeopardize your credit due to the multiple hits on your credit report but your report will also show that your deal is being shopped. Lenders will ask questions about the reasons it is shopped and why it has not been approved by other lenders appearing on the credit report.

The worst-case scenario is when two different brokers end up submitting the deal to the same lender and having inconsistent details about the same application. This immediately triggers a red flag with the lender and will result in a decline or in them scrutinizing the conditions you need to fulfill.

b) Delegating the shopping
At the risk of sounding biased, the best way to shop your deal is actually to work with a mortgage broker who specializes in working with investors and who has access to several investor-friendly lenders.

This way, the broker pulls your credit once and shares that copy with the lenders in the background. Moreover, he/she positions your application the right way from the start and sends it to the lender who has the highest chance of not only approving it but also offering the best terms and rates.

Not getting the right financial advice

Financing of investment properties in a way that correctly positions you to grow your portfolio, save on costs and achieve your goals, is a sophisticated process that requires specialized expertise and knowledge.

Do not underestimate the power of relationships to the success of your investment career. Selecting the right lending partner early in your investment plan is key to getting approved and continuing to get approved. Many times we feel tempted to work with relatives or friends because it is our comfort zone and we trust them. While we know how hard our friends and relatives work to help us out, lacking the specialization and knowledge of working with investors may result in a decline or worse, an approval structured the wrong way (ie, risking your future ability of getting approved or capping how much you can borrow).

Summary: look for

1. Advisors who are also investors themselves
2. Advisors with a track record in financing real estate portfolios
3. Access to various lenders and/or products that are tailored to your specific situation and investment strategy ■

DALIA BARSOUM MBA, FICB and **ENZA VENUTO** AMP, CMP are lending advisors with CENTUM Streetwise Mortgages #11789 and real estate investors with over 48 years of combined lending, financial and investment experience. The team provides advisory services and lending solutions tailored to real estate investors and different investment strategies (streetwisemortgages.com).