

Rental Financing – The Bad, Ugly and the Good

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Thinking of buying a rental property these days?

Here are a few things to keep in mind as it is certainly harder to obtain rental financing than it once was. It is no longer about rate but about the lender. Each lender has their own take on rental financing with many no longer providing this financing at all.

- 1) Down payment – this can vary from 20% to 35% depending on the lender. At one time, CMHC used to insure rentals with less than 20% down – but not anymore.
- 2) Rental income calculation - Each lender has their own unique way of calculating how much rental income they will allow to be used to qualify. Many lenders have one set of rules about the use of rents if buying a rental (subject property) and a second set of rules where you already own rental properties (portfolio properties). How the lender calculates this will have a huge impact on how much you qualify for.
- 3) Debt ratio limits – when calculating what you can afford to pay, different lenders have varying limits on this. Some lenders will go as high as 42% for their total debt ratios and others limit it to 40%. Two percent might not seem much but it can be.
- 4) Rates can be higher – some lenders will charge a rate premium for rentals versus what they offer for principal home purchases.
- 5) Use of market rents - In situations where a client will need to use rental income to qualify, but no tenancy agreement exists (for a number of reasons), we typically hire an appraiser to determine what the rents would be based on in today's market conditions. Many lenders will no longer accept these reports or if they do, will scale back to maximum loan to value ratio that they will finance.
- 6) Rentals in company names – Only a few lenders will do these.
- 7) Pre-approvals – Only a few lenders left that will provide a pre-approval for a rental property
- 8) Appraisals – requirement on all rental purchases

- 9) Net Worth – many lenders will now require an investor to have a minimum net worth and prove it!

The importance of a Mortgage Broker for rental financing cannot be overstated. Their knowledge of their client, the market as well as the idiosyncrasies of each lender is immeasurable.