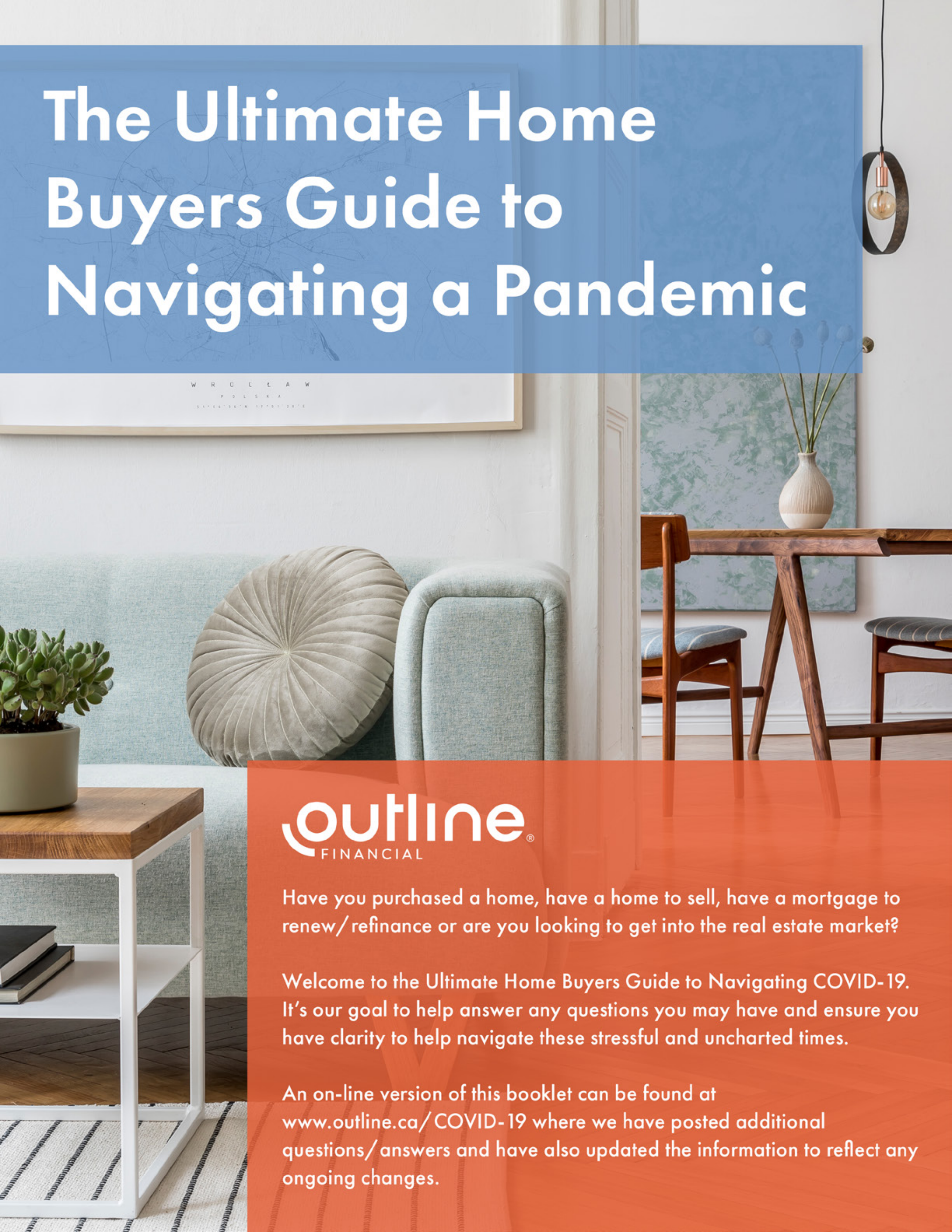

The Ultimate Home Buyers Guide to Navigating a Pandemic

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Have you purchased a home, have a home to sell, have a mortgage to renew/refinance or are you looking to get into the real estate market?

Welcome to the Ultimate Home Buyers Guide to Navigating COVID-19. It's our goal to help answer any questions you may have and ensure you have clarity to help navigate these stressful and uncharted times.

An on-line version of this booklet can be found at www.outline.ca/COVID-19 where we have posted additional questions/answers and have also updated the information to reflect any ongoing changes.

What if I have a home purchase that is closing, but I can't sell my current home?

Toronto has been one of the most resilient real estate markets over the past 15+ years. It is rare we are faced with this type of situation (i.e., think 2007/2008 credit crisis or April 2017 market slow down), however, the impact of COVID-19 has pushed us into unprecedented times.

In general, it is important to remember that a purchase agreement is a legally binding contract. Unless you have a condition that makes the purchase contingent on the sale of your existing home (which is not typical in Toronto/GTA) you will likely be on the hook for closing your new purchase, regardless of your situation. Backing out of a firm purchase agreement could potentially result in a lost deposit, or worse, being sued by the seller for any damages in excess of the deposit.

Possible Solutions?

- **Extend the Closing Date:** The first (and best) option would be to try and extend your closing date. This may require you to increase your deposit to send a message to the seller that you are still committed to closing the transaction.

- **Refinance Your Existing Home to Cover the Down Payment of Your New Home:** Another option could be to refinance your existing home to pull out sufficient funds to cover the down payment of your new purchase. While this sounds straightforward, it can come with three main challenges:

  - Do you have enough borrowing capacity to qualify for both homes simultaneously?
  - Are you willing to take your current home off the market? That will be required if you are looking to refinance your current home.
  - Is there enough equity available in your existing home to cover the down payment plus closing costs of your new home?

- **Family Help for a Gift/Loan:** A major challenge of closing on a purchase in the absence of sale proceeds, is coming up with the down payment. In some cases, we have prompted clients speak with family members which has resulted in a gift of funds and/or arrangements where the family member will lend funds at much better terms than an independent private/3rd party lender. Family funds will often come from existing cash or investments or can also come from accessing equity in owned property(s).

- **3rd Party/Private Lending:** The most expensive (last resort) option would involve looking at alternative or private lenders who put more emphasis on the equity available in your properties versus the stringent income qualification rules used by traditional lenders. This solution can be very costly but is often still less expensive than the alternative of backing out of the purchase and potentially losing the deposit and/or being sued.

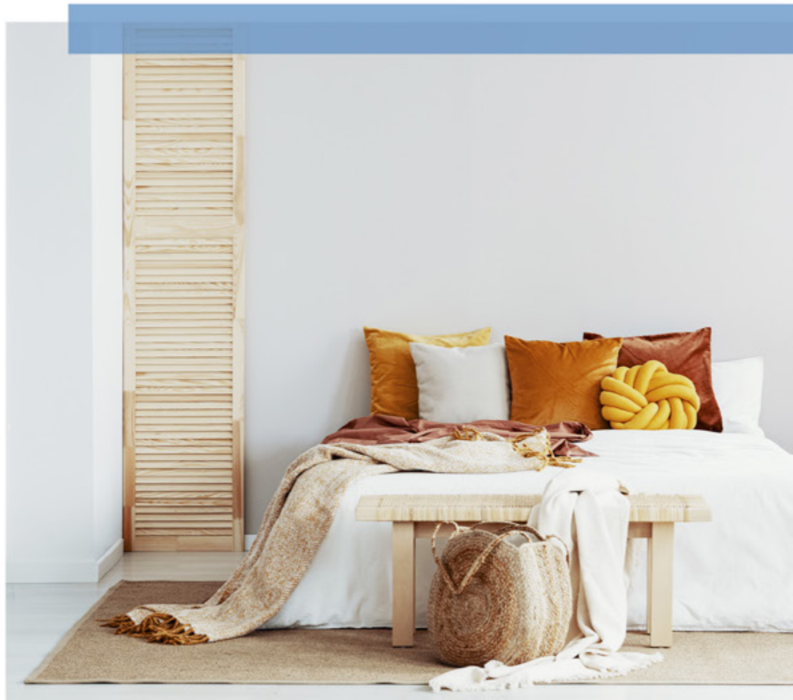
As with any alternative solution, the goal would be to have this solution in place for as short a time as possible.

As one of the top mortgage brokerages in Canada, we have direct access to over 30 lenders including banks, credit unions, mono-line lenders as well as a host of private lender solutions. The goal with any proposed solution is to ensure that we complete a thorough analysis of your circumstances (often in collaboration with your realtor, accountant, and/or wealth manager, etc.) to determine the best course of action now, and in the future, to try and minimize any negative impact.

My new home purchase is pending closing and I've lost my job. Do I still qualify for my mortgage?

This is a big "it depends".

While it will depend on the specific circumstances and lender, generally, if a client has a firm purchase prior to March 25th and they lost their job after the deal went firm, many lenders may still proceed with the mortgage on a case by case basis. As there may be exceptions to this rule, please reach out to discuss your specific circumstances.



What's happening to underwriting guidelines? Are the banks making it easier or harder to qualify for a mortgage?

Over the course of late March and into April 2020, we have noticed a shift to more conservative mortgage qualification guidelines for the banks/lenders.

One such area is how lenders are approaching loan-to-value for higher priced properties (the loan-to-value is size of the mortgage vs purchase price). In the $1,500,000+ purchase price segment, borrowers are often required to provide a down payment in excess of 20%. Historically, this would be a condition that lenders may waive on an exception basis and allow the qualified buyer to move forward with the minimum 20% down. Currently, these types of exceptions are becoming very rare as lenders re-evaluate their appetite for risk.

In general, any underwriting exceptions involving income and qualifying ratios are becoming much more difficult to approve through traditional banks/lenders as they are worried about the negative effects that the pandemic will have on the economy. We expect the banks to remain cautious (rightfully so) until this pandemic shows signs of easing or when a treatment/vaccine is found. The possibility of mass defaults and deep economic recession are influencing the bank and lenders' decision to become more conservative in their lending approach.

Why did we see mortgage rates going up when Prime rate was going down? And where do we go from here?

We wrote about this in our previous blog here. Please feel free to read through.

In summary, the uncertainty of COVID-19 initially resulted in an increased cost of funds to the banks/lenders which were passed along to consumers. While Prime Rate decreased from 3.95% on March 4th to 2.45% on March 27th, 5-year fixed mortgage rates actually increased over the same period, and the variable rate mortgage discounts offered diminished greatly given the "risk premium" in the market.

We are slowly starting to see an unwinding of this "risk premium" as the Canadian government has taken significant steps to ensure the credit/lending market remains liquid. This includes several initiatives:

- Government of Canada Bond Purchase Program
- Canada Mortgage Bond Purchase Program (supporting liquidity in the mortgage market)
- Bankers' Acceptant Purchase Facility (supporting the market for bankers' acceptances, which is a key source of financing for small and medium-sized corporate borrowers, as well as a benchmark for a banks cost of variable rate mortgages)
- Balance Sheet Expansion (providing flexibility for banks to increase their lending capacity and provide more liquidity to the market).
- For more information about these initiatives and more, please click here.

At the same time, we are also starting to see bond yields subside as a recession is becoming very likely, which would mean future Bank of Canada Rate increases are becoming less likely. In fact, at the time of writing this article, the 5-year Bank of Canada bond yields have dropped from 0.93% on March 18th down to 0.45% and we are starting to see some lenders reduce their 5-year fixed mortgage rates accordingly. That said, it will be a slow and steady process given the amount of uncertainty/risk that remains in the market given the pandemic.

From an interest rate outlook perspective, we have included a quote from the April 2020 BMO Capital Markets "Weekly Financial Digest" written by Chief Economist Douglas Porter below (someone we follow closely)

"The outlook for interest rates is straightforward, with rates now essentially at the lower boundary for both the Fed and the Bank of Canada. We expect no further rate moves right out to the end of 2021, and also no move to negative rates by either bank. But while it will now be quiet on the rate front, central banks remain extremely active on the liquidity and QE fronts—as seen by the Fed's sweeping $2.3 trillion program"

Overall, this should mean we will not see any major changes to interest rates over the course of the next year. We could see a return to more attractive discounts on variable rates towards the later part of this year and hopefully a continued decrease in fixed rates as banks reduce their spreads if/when volatility subsides.

What is happening to the appraisal process and property values?

The appraisal process is significantly different from what we are used to in a pre COVID-19 environment, and if fact, it continues to change.

As most appraisers will no longer go into properties to conduct interior inspections because of social-distancing practice, the industry has been very innovative by coming up with Modified Full-Inspection (ModFI) reports in order to provide timely appraisals.

While most lenders are fine with the new method, it is important that clients and realtors understand that appraisers are now often relying on pictures, videos and conversations with them to help determine the property's value. In some cases, the appraiser may also ask for additional information such as room dimensions.

To best prepare for this scenario (especially when concerned with the valuation), it would be best to pull together relevant documentation in advance, and allot about 30 to 60 minutes of talking time with the appraiser after sending the documentation.

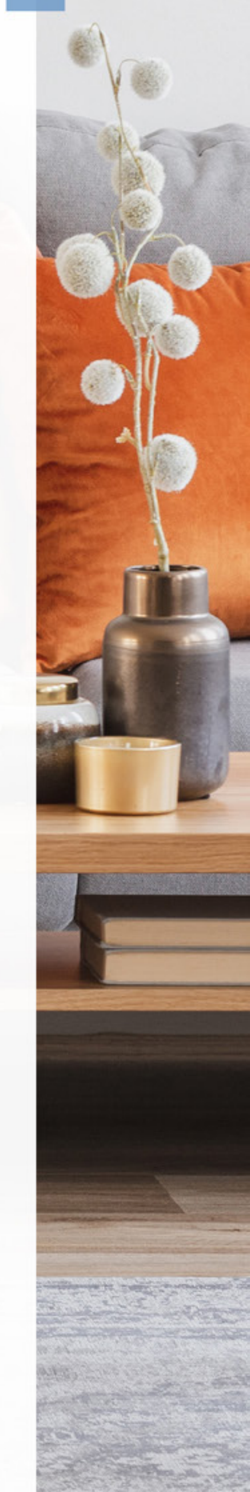
Some of the most common questions/answer regarding this topic are as follows:

Q: Can I still get a Full appraisal report where the appraiser goes into the house?
A: Potentially, but it is a rare occurrence. If there is a special circumstance that warrants someone going into the property, a request can be made to the appraisal firm(s) to see if it can be accommodated, although there are very few appraisers going into properties these days.

Q: What is the typical turnaround time for a ModFi (Modified Full-Inspection) Report?
A: Typically, 3-5 days, depending on the region and how quickly appraisers receive information from borrowers/listing agents.

Q: What's happening with home values?
A: Supply has shrunk at relatively the same pace as demand leaving prices slightly depressed, but still in the same ranges as several weeks ago. It is too early to tell what the full impact of COVID-19 will be on the real estate market, and appraiser are making a note of this in their appraisal reports.

Q: I've purchases a new property or I am looking to refinance my existing property, should I wait to do the appraisal or try to do it sooner than later?
A: In-line with the above answer, it is too early to tell the full impact of COVID-19 on the real estate market. As supply and demand have both decreased, prices have thus far remained relatively resilient, although it is anyone's guess whether this will continue. Our suggestion would be to work with your realtor to look for comparable properties that have sold over the past 30 to 60 days, and if there is are relevant comps, then you should move forward with the appraisal as soon as possible to avoid potential future risk.



While the market is changing constantly, please contact us at any time as we are always available to discuss current market conditions or to analyze your particular circumstances.
We are here to help.

If you would like to discuss any of the above, or have any additional questions that were not addressed, please call or email us at any time as we are always available to help. Please also be sure to check our dedicated COVID-19 resource page for any updates – www.outline.ca/COVID-19

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