CAN I STILL GET A MORTGAGE IF I HAVE BAD OR POOR CREDIT?

INFORMATION GUIDE

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MORTGAGE BROKER

You've unfortunately had a few financial setbacks when life's speed bumps tripped you up, but now you're on the right path and are ready to take the leap into home ownership. Now the only problem is you're not sure if your poor credit history is going to prevent a lender from giving you a mortgage to purchase your own home. The good news is there are options available to you, the bad news is they don't always come cheap.

Here's a quick breakdown of how you can check your credit score and if you need to get a bad credit mortgage.

Checking Your Credit Score

In Canada, your credit score is a number between 300 and 900 that is assigned to you by a credit bureau (Canada's two major credit bureaus are Equifax and TransUnion) and is used to tell lenders how you have dealt with available credit in the past. To check your credit score, you can either pay Equifax or TransUnion for a report plus your score, or you can sit down with a mortgage broker and get them to check it for free (always a great option!).

Find a Bad Credit Mortgage Lender

If you have a credit score in the 600-700 range or above, you should be able to get a mortgage loan from one of the big banks, commonly referred to as “A lenders”. If you have a credit score below 600, it’s very unlikely the big banks will approve you for a mortgage loan. Instead you will have to look for what’s called a “B lender” or “subprime lender”. These financial institutions work almost exclusively with people that have bad or poor credit. And if you’ve gone through a bankruptcy or consumer proposal recently (within the last two years), you may even need to work with a private mortgage lender. As a Mortgage Broker we have access to these “B Lenders” to help get you the mortgage you deserve.

Start Saving for a Larger Down Payment

Lenders look at a number of things when considering your mortgage application, including such things as your credit score and income and debt levels. If you have good credit, you can get a mortgage loan from most lenders with only a 5% down payment and that’s because you’re considered to a low risk. If you have bad credit, the lender is taking on a higher risk by loaning you money, so most will want a much larger down payment, often 20-25%.

Be Prepared to Pay Extra Fees

On top of having to save a larger down payment, you'll also need to have some more cash set aside for extra fees. First, lenders can charge up to 1% of the mortgage loan value for processing a bad credit application. As well, because banks typically don't compensate brokers for bringing them clients with credit issues. Your mortgage broker may also charge you an additional 1% (this varies) but they will make sure to sit with you and help you understand all the costs involved.

Unfortunately the Best Mortgage Rates Will Not Be Available

Your credit score has a direct impact on the lender you can work with, as well as the mortgage rate you can get. If you have good or excellent credit, you can work with the big banks and access the best mortgage rates the market has to offer. If you have less than stellar credit, you'll have to work a “B lender” or private lender and in turn be subject to higher interest rates. Remember, your lender looks at your credit score and report to determine how risky it would be to lend money to you.

Approval Constraints
If you want a subprime mortgage from a “B lender” the following may boost your rate or fees or disqualify you altogether.
Unmarketable Property: Non-prime lenders want easy-to-sell properties in case you default and they have to foreclose. It’s much tougher to get the best rates and terms when you live in a small or rural community, or have an unusual property.
Questionable employment: Income stability matters. If you just got hired three weeks ago or can’t document all your income, that’s a big strike against you.
High loan-to-values: In general, the less money you put down, the higher your rate.
Lender type: If you need a private lender, prepare to pay rates that are 2-4 per cent greater than a regular subprime lender.
High debt after insolvency: Racking up debt after a bankruptcy or consumer proposal is a waving red flag for lenders.
Recent insolvency: The longer it’s been since you declared bankruptcy, the more options you have as a borrower.
Missed payments: Even one late payment after insolvency can ruin your chances with lenders. Missing a mortgage payment after bankruptcy is the worst sin of all and gets you immediately declined if a lender finds out.
Repeat bankruptcies: It eliminates all prime lenders and most alternative lenders as options, leaving you with mostly high-cost private lenders.

Bad or Poor Credit? We can help you get the mortgage you deserve!

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