

## VACATION PROPERTY FINANCING

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Last month we talked about the pros and cons of buying revenue producing properties over vacation properties. Although the math made the idea of buying revenue properties is more appealing, it is important to note that when looking at your options, the answer as to which property is best to buy, lies in your goals. There is a segment of the reading audience who may choose to purchase their summer home now and forego buying revenue property altogether and others still, may have already come through a cycle of buying for revenue and are now looking at ways they can secure their recreation property for personal use. Regardless of which boat you are in, I'm sure many of us have fond childhood memories of Dad loading up the station wagon or van and heading out of town for a long weekend. For some, the destination was a lakeside campsite, but for many it was the summer cottage or cabin by the lake. For others, it was a winter activity that brought with it the long anticipated excitement of driving up to your favorite mountain and throwing open the doors to a modest old ski lodge that you could call home for the next week or so.

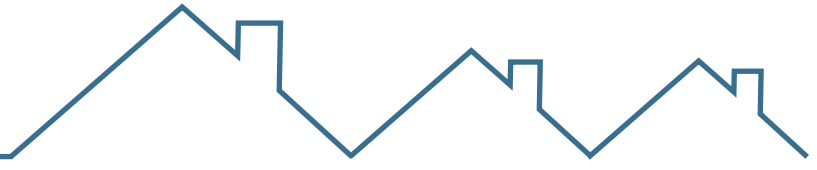
But unless you were lucky enough to inherit Dad's cabin, the thought of buying your own piece of recreational paradise can be a daunting task for most young families. With prices on the rise and demand for recreational properties still high, there is one bright light for homeowners looking to pick up a second home or vacation property. The Canadian Mortgage and Housing Corporation (CMHC) along with at least two other insurers have recently come out with a program that will provide Homeowner Mortgage Loan Insurance for borrowers with more than one residential property. This means that you can now get a CMHC-insured mortgage on a vacation property with as little as 5% down. It's called the Second-Home Mortgage program and it's available through most lenders.

Traditionally, getting a mortgage for a vacation was a challenge. Lenders typically make lending decisions based on risk and financing properties in remote areas where they might have limited resale potential was considered a higher risk. To mitigate this risk, lenders would require borrowers to put more money down – typically 35% or more. Even popular destinations such as Whistler still required a minimum of 25% down payment.

But lifestyles are changing and these changes affect decisions that Canadians make regarding how and where they live. So CMHC has made a move to put vacation properties within reach of more Canadians. With the recent increase in demand for such properties, they have now determined that the market is such that they are willing to insure lenders against potential losses. This is welcome news for those who have been longing to get a vacation property but didn't want to wait until retirement to come up with the down payment.

All CMHC products are permitted to be used with this program and most major lenders have their own vacation mortgage products, so you have the flexibility to choose the type of mortgage that's right for you. However, like most mortgage products it's important to be clear on a few key limitations. The purpose of this insurance product is to make it more feasible for Canadians to get a second home. It is important to distinguish between a second home and a rental property. This product is not intended to allow an investor to get a rental property with 5% down – although there is a way to create revenue using this tool. The guideline states that at initiation, the property that secures a CMHC insured homeowner mortgage loan must be intended for occupancy at some point during the year by the borrower; or a relative of the borrower on a rent free basis. If rental income is anticipated from the property at a future date, it will not be calculated for purposes of helping the purchaser qualify for the loan. In other words, CMHC's expectation is that the purchaser will have sufficient income to service the debt on both the mortgage on their current residence as well as the new mortgage without the aid of any rental income.

The location of the property is not restricted to major resorts or popular vacation spots, and can be located anywhere in Canada, but there are some general property requirements. It must be suitable for and available for year round occupancy. Properties that are constructed for seasonal use, or have seasonal access, are not eligible. Properties located on an island must have year-round bridge or ferry access. Time-share interests, life leases and properties in rental pools are not eligible.



So if you do come across the perfect 'second home' for you and your family, you can now purchase it for as little as 5% down. So what's the catch – well, there is one very important catch to remember; once you apply to get a loan insured by CMHC or one of the other insurers, you are playing in their sandbox. That means you have to play by their rules. And their rules say that you have to be able to verify enough income (according to their guidelines) to be able to debt service the mortgage on your current residence as well as the new one. This makes it a perfect product for anyone who still has verifiable income and little or no debt on their principle residence. If, on the other hand, you are a full time real estate investor and the three year average of line 150 on your tax return does not reflect your true potential and you have a large real estate portfolio already in place, then playing by CMHC's rules may hinder your chances of qualifying.

But hey – at least there's another option now. Next month I will show you how to really take advantage of this product and add a 4-plex to your portfolio with only 10% down.

Until then happy investing,

Peter Kinch