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Securing a mortgage is more complex when self-employed

Securing a great mortgage deal can take a bit of work and planning, but if you are a salaried employee then you will be taking a well-trodden path. Experts and friends and family alike will all be there to offer advice and tell you about their experiences.

However, if you are self-employed, the process can be more complex.

The most straightforward way to qualify for a mortgage as a self-employed individual is for the lender to look at the income on your Canada Revenue Agency notice of assessment for the past two years and see if you qualify for a loan in much the same way as an employee would.

"The first thing I make sure is that the tax filings and financial statements are in order so we can see the track record of their earnings," says Rob Regan-Pollock, senior consultant at Invis mortgage brokerage in Vancouver. "If the last two years of earnings are sufficient to qualify for the mortgage that they're looking to take out, then they are a regular-income-qualified file and can put as little as five per cent down."

Insurers such as the Canada Mortgage and Housing Corp. (CMHC) will allow self-employed individuals to increase the income on their notice of assessment by 15 per cent for the purposes of mortgage qualification. This is a generally accepted increase to compensate for non-cash items such as business use of the home.

Their website gives a full rundown of the requirements for self-employed borrowers (cmhc-schl.gc.ca/en/hoficlincl/moloin/hopr/upload/CMHC-Self-Employed.pdf).

"Consistency in income is your best bet (in order to secure a mortgage)," says Carol Bezaire, vice-president, tax and estate planning, at Mackenzie Financial. "If you are thinking about going for a mortgage, make sure that over the last two or three years you are consistent in how much income you are bringing in."

In order to determine your income, CMHC will average your income from the past two years, but if your income has been rising each year for the past four years or more, they will use the most recent year for their calculations.

However, in order to take advantage of certain tax strategies, many self-employed individuals may keep money in their business rather than generating income. If you are unable to qualify based on your verifiable income you can still obtain insured mortgage finance, but CMHC will charge you a higher premium. Since April this year, CMHC only permits you to state your own income if you have been in business for less than three years.

Ranjit Dhaliwal, a mortgage broker with Mortgage Intelligence in Brampton, Ont., encourages clients to register their business, as the licence or article of incorporation can show if they have been in operation for less than three years.

Dhaliwal says to get the best rates when stating your own income, many lenders will be looking for mortgage loan insurance unless you can put down a deposit of more than 35 per cent.

The insurers also recommend that lenders demand higher minimum credit scores from borrowers stating their own incomes.

"It's absolutely essential that they have a good credit score," says Dhaliwal. "Self-employed individuals tend to have higher balances on their credit cards, lines of credit and so on because they are using that for their business. If they're planning on purchasing a house or refinancing a house, maybe bring these balances down a few months before going to see a mortgage broker."

The early years of self-employment can be a time of financial uncertainty while you establish your business and build up a reputation with customers.

Financial advisers say look before you leap into anymore debt at this time.

"Once you've checked your finances and you've looked at your credit score and everything else, it may not be the time to buy," says Bezaire. "Maybe it's the time to rent for a little bit, until you get firmer ground under your feet."