



UPDATED SOPHISTICATED INVESTOR BINDER™

‘Marketing Your Deal To Your Banker’

The New Banking Rules...

For Attendees of the
Real Estate Investment Network™ Workshops

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REIN™ Sophisticated Investor Binder Checklist™

'The New Banking Rules'

2008/ 2009 Sophisticated Investor Checklist

The times 'they are a changing'. Securing bank mortgage financing post the sub-prime loan collapse in the U.S. is proving to be more difficult than it has in the past. Due to the irresponsible lending practices in the U.S. a ripple effect has hit the financial community, even the much more conservative Canadian banks. This has led to a tightening of rules and more scrutiny on the borrower's financial information they want to see more proof of your financial strength.

The pendulum has swung the other way past regular conservatism to major tightening. It won't stay this tight forever however, as sophisticated investors we must adjust how we play the game when the rules change.

To provide you the most up-to-date systems and in response to these changing rules, we have worked with key bankers and brokers to update and expand the **REIN™ Sophisticated Investor Binder checklist™**.

There are now fewer players in this sandbox (Investment Property Mortgages) and they will be demanding more from you and your broker. Remember, don't take the change in rules personally and especially in these tighter credit times do not shoot the messenger. Qualified mortgage professionals are here to help by providing you with the proper 'rules of engagement' when dealing with the banks.

It is now more important than ever to work all steps of your investment system if you want to take advantage in this marketplace. Some may have believed that steps in the system were 'overkill' and that may be true in a hot market that covered up your mistakes. However, the system was designed to protect you in ALL market conditions – but it will only work if all the steps are followed.

This tightening by the banks can have a positive spin for REIN™ members because we understand it and know exactly what the banks are looking for simply by following all the steps in the Sophisticated Investor Binder Checklist™.

Always provide your financial institution **MORE** than they need. Answer the questions before they ask them. There are some substantial changes to the checklist (now 4 pages long), and it is divided into four key sections.

The essential documents are those base minimum documents you must prepare to send to your mortgage professional in advance of making your application. In today's market, you will find that without the

essential documents your application may be sent back to you as incomplete or turned down completely for financing. Don't set yourself up for disappointment; include all of this information right at the beginning of the process along with all of your back-up documentation. Banks will no longer chase you for documents.

What we used to provide as information to our Mortgage professional is no longer good enough for the banks. Completely follow the system and you will have a greater chance of securing your next mortgage even while others are being turned down outright.

In the Post-Credit world, banks have become more risk sensitive and are taking more time to scrutinize files on rental properties. The best way to make your file stand out is to provide the lender with the accurate information they will need up front in order to process your file in a timely and efficient manner.

Banks love to have accurate information and don't want to have to go back and forth with you to verify items, so the more information you provide in the beginning, the easier it is for the lender to approve your loan

You want your files to be considered the #1 priority of the lenders, so we have put together a checklist of documents you will require to get your next mortgage application completed

REIN™ Sophisticated Investor Checklist

Pre-Binder Information/ Decisions:

- ☐ Online application
 - To be completed by the client in addition to providing the Sophisticated Investor Binder
 - Most lenders work electronically today and the online application allows them to pull an electronic credit bureau.
 - Make sure your lender (or Broker) has access to secured online transfer of files, and a secure online application form before sending electronic documents or filling out an online Mortgage application.

- ☐ How will the Title be structured?
 - Will the purchase be in your personal name or company name?
 - If in a company name, you will be required to submit all the Articles of Incorporation verifying who the Directors of the company are.
 - Who else will be on the Title? Clarify your intentions to your Mortgage Broker of the ownership structure up front. Let the bank know as soon as possible who will be on the Title and how it will be structured
 - Changes to the structuring of the Title after receiving a mortgage approval can negate the approval and cause the entire application to be resubmitted.

- ☐ Joint Venture Partner?
 - All of the below information is required for the Joint Venture partner (if the JV partner is on the mortgage and Title, from the beginning... plus if the source of down payment is coming from the JV partner they will be required to fill-out an application and provide all the information outlined below).

NOTE:

- If you change your joint venture partner after submitting the file to the lender, your application has to be redone from the beginning. This will delay the process and may alter the results of the original approval.
- It is your responsibility to educate your joint venture partner as to the importance of this process. Lack of cooperation on their part can cause serious delays in getting you an approval.
- If you remove subjects based on the strength of your joint venture partner, do not assume that the bank approval is still applicable if you change JV partners before closing.

REIN™ Sophisticated Investor Checklist

Upfront Information:

- ☐ Personalized Cover Letter
- ☐ Objectives & Summary
- ☐ Table Of Contents

Tab #1- The Essential Documents:

☐ **Accepted Offer Of Purchase Agreement**

- Must have the name of the person who is listed on the application
- Must include all signatures – including witnesses
- If ‘And or Nominee’ is on the agreement, you need to provide an addendum showing the actual purchasers prior to closing. Note: this can cause a fraud ‘red-flag’

☐ **Income Verification:**

It is useful to provide the lender with a brief description as to how you get paid: are you a salaried employee? Base plus commission? Are you a contract employee, self-employed, or do you pay yourself dividends? What will it show on line 150 of your tax return?

A simple paragraph outlining how you earn your income and whether or not it is verifiable can save the lender hours of guesswork.

Salaried Employee:

- ☐ Letter from employer on company letterhead verifying the following:
 - a. Length of employment
 - b. Guaranteed salary and/or hourly wage
 - c. Capacity – full time, part time, contract, seasonal etc.
 - d. Contact information for employer for verbal verification

NOTE: You cannot sign your own letter if you are the owner of the company and claiming to pay yourself as an employee
- ☐ Recent Pay stub
 - a. Current pay stub
 - b. Last year, year-end pay stub- confirms previous year’s earnings
- ☐ Copy of Last Three Years’ Income Tax “Notice of Assessments” and/or T4 Statements

Self Employed and/or Commissioned Sales:

- ☐ Copy of Last Three Years’ Income Tax “Notice of Assessments” and/or T4 Statements (if less than 3 years provide what you can)

NOTE: N.O.A.’s by themselves do not provide source of income. Monies derived from Capital Gains via liquidation of assets are not considered income.

- ☐ Must be accompanied by last three years T1 Generals to verify source of income (if less than 3 years provide what you can)
- ☐ Last three years corporate financial statements if business is incorporated to provide proof of sustainability of self employment income (if applicable. if less than 3 years provide what you can)
- ☐ Analysis Letter From Accountant. Normalization letter must have an accompanying 'paper trail' to support any claims

☐ **Down payment Verification (for new purchases):**

- ☐ Cash in Bank Accounts
 - a. Cash from accounts needs 3 months proof/ official bank statements (not online printouts). All statements require proof of ownership
 - b. Need to be able to justify any large deposits on bank statements
- ☐ Liquid Assets including
 - a. RSP Statements
 - b. Mutual Funds Statements
 - c. _____
- ☐ Available Credit
 - a. Home Equity- personal residence
 - b. Equity from second mortgages
 - c. Unsecured credit

NOTE: If you are using credit as a down payment source banks view this as more risk and will add these payments to your current debt service ratios and may throw your numbers over the current thresholds
- ☐ If JV partner is providing the down payment, they must be on the mortgage or you need to be able to verify that you have the equivalent amount of capital from your own sources.

☐ **Rental Property Verification (current property owned) **Most Important****

- ☐ DCR (Debt Coverage Ratio) Worksheet up to date and accurate

NOTE: Inaccurate information on the DCR is the #1 cause of delays for investors with a portfolio of properties
- ☐ Provide back-up detailed back-up information for all properties on the DCR spreadsheet
 - a. ALL Current lease agreements
 - Or original lease agreement with 'tenant acknowledged' rental increase letter.
 - b. Letter verifying ownership and rental amount is required for all properties if lease is in the name of a Property Management company
 - c. Copies of Mortgage Statements- for verification of mortgage payments
 - d. If available/ required
 - Appraisals
 - City Assessments

Tab #2- Your General Information:

- ☐ Color Photo Of You and Your Family 8 ½ x 11”
- ☐ One Page Bio on You
- ☐ Personal Net Worth Statement (signed and dated)

Tab #3- Your Detailed Back-up Information

- ☐ Verification Documents For Items On Net Worth Statement
 - a. Stock portfolios - Mutual Funds
 - b. RRSP Statements
 - c. Business Ownership Papers
 - d. Business Bank Statements
 - e. Business Profit & Loss Statements
- ☐ Copy of your Credit Bureau Report

Tab #4- Property Information

- ☐ Color Photo Of The Property 8 ½ x 11”
- ☐ Written Description of the Property
- ☐ Copy of Listing from Realtor (if applicable)
- ☐ Approved Appraisal (if you have one)
- ☐ Property Goldmine Scorecard
- ☐ Property Analysis Form- Property Cash Flow proforma
 - o Include new property purchase in DCR sheet
- ☐ Property Planning Sheet