Homeowners! Your Bonus Material Is Below!

THE ULTIMATE HOME TRANSITION BLUEPRINT —CHECKLIST

The Ultimate Home Transition Blueprint—BONUS

INCOME FOR MORTGAGE QUALIFYING

For Homeowners Planning To Transition
6, 12, or 18+ Months From Now!

MEET THE TEAM

YOUR HOME TRANSITION SPECIALIST

Chad Moore

Chad has been helping Calgary homeowners transition between homes since 2014. Chad will help you plan, execute and bring your Real Estate dreams to life.

Once your Mortgage is in place, Chad will help manage your Mortgage—seeking opportunities for you to save, where your bank will make less.

This Ultimate Home Transition Blueprint Checklist is designed to help you, before we are in touch working together!

CANADA MORTGAGE DIRECT

MESSAGE FROM CHAD MOORE

I went into rather great detail discussing income within the Ultimate Home Transition Blueprint Checklist—but still thought including this bonus material would be helpful!

Why?

Because income has the largest influence on Mortgage affordability. I also find that income earned in reality, versus income that is eligible for Mortgage qualifying are often very different.

I think the more you know and understand about your income, the sooner in your home transition planning, the better.

Please, reach out so we can help plan your income for your next home transition!

Cheers,
Chad Moore

"My Outcome Is Determined By My Set Up".

Let's Get You Set Up!

THE ULTIMATE HOME TRANISTION BLUEPRINT—BONUS MATERIAL!

Income For Mortgage Qualifying—The Biggest Influence To Home Affordability!

Hey homeowners! As part of the Ultimate Home Transition Blueprint—Checklist document I created for you; I'm also giving you this additional bonus content!

Why?

Because I thought this information was important enough on it's own to be a stand-alone document. Also, if I included all this information in the original checklist, that document would have been even longer. I think chunking down information like this is better for the reader.

Often in my meetings with clients we discuss your Mortgage approval. And I reference your approval like a big puzzle we are putting together. The eligible income for Mortgage qualifying is big piece of that puzzle.

Other pieces of the Mortgage approval puzzle are covered in the Ultimate Home Transition Blueprint, and additional bonus downloads (qualifying ratios, credit, down payment etc)!

The material below is helpful in understanding your eligible income for Mortgage qualifying.

The income within your Mortgage application is the most influential number to your home affordability—*by far*!

If you're reading this bonus material, as part of planning your home sale and purchase—I recommend we personally connect right away.

You're here, online, and reading this material, which tells me you're serious about planning your smooth home transition. And I think that makes us a great fit to begin planning your next Mortgage approval! If you're 6, 12 or even 18 months from your planned home transition date—let's connect!

I look forward to hearing from you, by email or phone call!

403-809-5447
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INCOME FOR MORTGAGE QUALIFYING

BONUS: ELIGIBLE MORTGAGE INCOME

There are two employment categories, and you'll fall into one. They are:

1. **You are an employee**. The company or business you work for is not yours. Note: If you own your own company, and pay yourself as if you are an employee, I recommend you read from the business-for-self category too (below).
2. **You are business for yourself (BFS)**. You own the company and derive your income, in various ways, from yourself.

Note: all income figures for Mortgage qualifying are based on income before tax (gross income). Please plan to verify your personal income taxes are paid to $0.

1. Employees

There are three distinctions to be aware of as an employee:

A. Salaried employee.
B. Hourly employee.
C. Variable income

In either case, Mortgage lenders like to see a history of earnings, with anticipated consistency of future income, so I can repay my Mortgage without much problem.

That said, who can honestly know what their income will be in 6, 12, 18 or 24 months from now? We can THINK our income will be $X with a high degree of certainty. The truth is layoffs happen, economics change, businesses are bought, jobs are lost to technology and employees are let go. Fact.

In Mortgage qualifying everyone does their best to map out future earnings based on "what's so" with today's income information.

Let's break down the subtle differences between salaried and hourly employee income verification:

A. Salaried Employees:

If I am a salaried employee, the Mortgage lenders make my income verification quite simple. They are looking to verify linear and consistent income I earn (base salary).

Mortgage lenders use my income information, at today's verifiable level, to make a reasonable assumption of my future earning potential as a gauge of my capacity to repay my Mortgage on time.

Here are the documents Mortgage lenders will typically request for income verification:

BONUS: ELIGIBLE MORTGAGE INCOME

[Side note: Each Mortgage application is unique, with special income documentation requests. This list below is generic in nature. Your Mortgage application may require more or less documentation.]

- **Two most recent pay stubs**. Recent meaning within the submission of your Mortgage application. You might submit pay stubs as part of your pre-approval too.
- **Letter of employment (LOE)**. This confirms your employment income, time with company, job title and payment type (salary or hourly). This letter is also on company letterhead, dated and signed by an authorized person at your company. Lenders will phone and verify employment details too.
- **Notice of Assessments (NOA) OR T4 Slips.** Your NOA is the document you receive back from the Canada Revenue Agency (CRA) confirming your income and income tax balance of zero dollars (in some cases the past income on the NOA is irrelevant. Sometimes the primary focus of this documentation request is to confirm zero tax balance). Your T4 slip is your annual pre-tax earnings from your company as an employee. One or both of these documents might be requested.

B. <u>Hourly Employee</u>:

Mortgage lenders look for a minimum number of guaranteed hours for each pay period. Like a salaried employee, this creates a nice linear line of income, which is used for Mortgage qualifying.

Note the word guaranteed. This might mean full time guaranteed hours. Or part time guaranteed hours. Their needs to be a base minimum of guaranteed hours worked, and reflected within income documents.

To find the base annual income used to qualify for a Mortgage, we use the base hourly wage multiplied by the annual guaranteed hours worked each year.

If overtime hours are worked, and we decide to use that income for Mortgage qualifying, a two-year average of income is available to consider (similar to using bonus or commission income for a salaried employee).

If an employee is paid hourly WITHOUT a guaranteed minimum number of hours, a two-year average of income is required. A two year average of income is required if either full time or part time hourly income earned is NOT guaranteed.

BONUS: ELIGIBLE MORTGAGE INCOME

Here are some of the documents hourly employees need to anticipate providing:

- **Two most recent pay stubs**. Recent meaning within the submission of your Mortgage application. You might submit pay stubs as part of your pre-approval too.
- **Letter of employment (LOE)**. This confirms your employment income, time with company, job title and payment type (salary or hourly). This letter is also on company letterhead, dated and signed by an authorized person at your company. Lenders will phone and verify employment details too.
- **Notice of Assessments (NOA) OR T4 Slips.** Your NOA is the document you receive back from the Canada Revenue Agency (CRA) confirming your income and income tax balance of zero dollars (in some cases the past income on the NOA is irrelevant. Sometimes the primary focus of this documentation request is to confirm zero tax balance). Your T4 slip is your annual pre-tax earnings from your company as an employee. One or both of these documents might be requested.

C. <u>Variable Income For Employee</u>:

If you are paid a commission, bonus, work overtime hours, are paid seasonally, or have any sort of variable income that is not "guaranteed", the Mortgage lenders use a two-year average of this income.

This average is typically derived from the most previous two years T4 slips and corresponding Notice of Assessment (NOA) income.

Your NOA is the document you get back from Canada Revenue Agency (CRA) when you have filed your taxes. We are looking for the income line 15000 at the top of your NOA and to verify your personal income taxes are a zero dollar balance.

Here's a real life example …

A client of mine is working his way up through the ranks at Enterprise Rent A Car.

Enterprise pays him a modest salary of about $50,000. However, he primarily makes more money from commissions on rented vehicles. His commission income is variable.

So despite the fact that my client earns a salary, the Mortgage lender still requested to see his two most recent T4's and NOA's to average his salaried and commission income.

IF your Line 15000 NOA income is increasing over the past two years, Mortgage lenders use the average income for Mortgage qualifying.

BONUS: ELIGIBLE MORTGAGE INCOME

If your Line 15000 NOA income is decreasing over the past two years, Mortgage lenders use the most recent years income for Mortgage qualifying.

Mortgage lenders like to see year over year positive income growth. If they do not, lenders like to conservatively use your most recent income for qualifying.

When meeting with my clients I ensure they understand their Mortgage affordability based on their base income FIRST.

If the home affordability numbers we discuss do not meet their home purchase price expectations AND OR my clients are comfortable and confident assuming their variable income will remain consistent, for the purpose of Mortgage qualifying, we explore their Mortgage affordability with their higher income (salary plus variable income).

To be clear, the conservative approach to home affordability is to use my base salary. There is additional Mortgage qualifying tools to increase home affordability, such as using variable income for Mortgage qualifying.

Income Tip (1 of 2):
Employment Probation

Employment probation is quite a common problem in Mortgage qualifying.

Here's why:

Purchase demand increases when my income earning prospects increase. This is why many people contact me when they have a new job (they now want to purchase a home).

However, many new employers place new hires on probation (kind of like a "try out" period). The catch is, Mortgage lenders need to know I am past my probationary period at my new job to approve the applicants income.

During my probationary period, my employer may release my services without much accountability or reasoning. Because of this, a probationary employee creates uncertainty of future income for Mortgage qualifying.

This is why a letter of employment is required – to confirm tenure with the employer (among other things).

If the Mortgage applicant is a probationary employee, the Mortgage lender will not fund the Mortgage until non-probationary employment is confirmed.

There are exceptions to employee probationary periods, so please reach out! However, I think conservatively planning to be a non-probationary Mortgage applicant is best.

BONUS: ELIGIBLE MORTGAGE INCOME

Income Tip (2 of 2):
Bonus Income & New Employment

We established earlier, it is possible to use bonus or overtime income for Mortgage qualifying. In most cases, we require a two-year T4 and Notice of Assessment average of line 15000 income.

I think it is important to let you know the potential implications of changing jobs, in a similar career vertical, and how it relates to eligible bonus income for Mortgage qualifying.

Remember how we started? There is my income is reality and income eligible for Mortgage qualifying.

I was working with a young couple that was purchasing their first home together. Mike, the husband and second time homebuyer, was an engineer for the past 5 years. Very sharp guy.

He just changed jobs to a different employer because he wanted a different compensation structure. He was willing to take less salary in lieu of higher potential bonus income.

At his previous employer, Mike was paid salary plus bonus. However, because he changed employers the two-year average of his salary plus bonus we could have used for Mortgage qualifying became highly scrutinized.

When changing employers, even in the exact same employment vertical, the two-year average of income eligible for Mortgage qualifying is now in question.

Please consider this information when planning your future home purchase for the purpose of Mortgage qualifying! A new employer could restart the clock of eligible variable income for Mortgage qualifying.

As always, there are possible exceptions to this rule. I encourage you to connect with me sooner than later to discuss your eligible Mortgage qualifying income and complete a comprehensive Mortgage qualifying plan.

2. Business For Self (BFS)

There are two types of set up in BFS income streams:

1. Incorporation.
2. Sole Proprietor.

Each of these options offers different tax structures for income. Neither one is better or worse than the other, simply different. If you're at the beginning stages of entering BFS employment, consider speaking with an accountant about which corporate set up might be best for you.

Mortgage lenders approve applications of each type of BFS set up, so there is nothing to worry about if you are either a sole proprietor or incorporated.

BONUS: ELIGIBLE MORTGAGE INCOME

I think it is important to note the following ...

Purchasing a home is primarily accomplished using a two-year average of the applicant's personal income. This specifically means I qualify for a Mortgage based on my average personal income submitted to the Canada Revenue Agency (CRA) for tax purposes.

If my previous two-year personal income tax is increasing, Mortgage lenders are happy to take an average of this income for Mortgage qualifying.

If my two-year personal income is decreasing, Mortgage lenders use the most recent income year for Mortgage qualifying.

Of course there are exceptions to using the two-year average personal income. There are a multitude of angles to approach BFS income; some of which we will explore below. Other situations will need custom advising so please call me directly for income coaching: 403-809-5447.

Incorporation & Sole Proprietor Income Documents:

When I am incorporated my company revenues are debited into my corporate bank account. At the conclusion of each tax year my accountant creates an income statement, balance sheet, and retained earnings statement (these are "notice to reader' documents).

My accountant also sends my corporate tax returns, and more, for processing by the Canada Revenue Agency (CRA).

Some simple benefits of being incorporated are my ability to pay for business related expenses with "before tax income". These are commonly knows as "write-offs".

Another benefit to a corporation is retaining more of the company earnings within my corporation versus withdrawing the money as personal income. I might do this because of a lower corporate income tax rate compared to a personal income tax rate.

Because of this, my corporation may have solid income and financial statements BUT my personal income might be much lower. I may have trouble personally qualifying to purchase a home in this scenario.

Mortgage lenders, and in particular Canada Revenue Agency, does not want Canadians to "suck-and-blow". Meaning, I cannot dodge paying higher personal income tax AND use my corporation's revenue to qualify to purchase a home for a traditional Mortgage.

If you are incorporated, please keep this point in mind. It may take two or three years of tax planning to prep the proper personal income tax paperwork

BONUS: ELIGIBLE MORTGAGE INCOME

necessary to purchase the home you want (with a traditional Mortgage lender).

Remember, all documents requested from Mortgage lenders are file specific. The list below, for incorporated business for self (BFS) Mortgage applicants is subject to change and generic in nature.

- **Two most recent years of T1 General Income Tax & Benefit Return (T1 General).** All pages, and schedules. Lenders are interested in seeing where my corporate income is derived from. Is my income from dividends? Investments? Or am I categorizing myself as a corporate employee, paying myself a base salary? Lenders are interested to see the break down of my income leading up to my total taxable income, found on my line 15000 of my Notice of Assessment.
- **Two most recent years Notice of Assessment (NOA).** If lenders see my T1 General, they have a break down at how I arrive at my annual personal income. In this case, my Notice of Assessment verifies my line 15000 income AND that I have paid outstanding personal income taxes.
- **Corporate financials.** Mortgage lenders are requesting to see company financials. They like to see more of the details of the corporation's income, expenses, retained earnings and more.
- **For Sole Proprietors**, we will look at your Statement of Business Activity in your T1 General. This outlines your income and expenses.

Important Side Note Of Having Your Personal Income Taxes Paid Up To Date:

Proving personal income tax is paid up to date, as a business-for-self Mortgage applicant, is critical.

In most cases, Governments collect income tax from employees at the time of income payment (taxes are automatically debited from their pay cheques).

Business-for-self people need to pay their personal income tax on their own, and that <u>needs</u> to be verified.

Here's why ...

The Federal or Provincial Governments may supersede a Mortgage lender to access equity in the home of the business-for-self person for the payment of taxes (any level of Government).

For example, say I own my own home and have a Mortgage. My Mortgage lender is on the title of this property in first position. Being in first position on the title of my home gives the Mortgage lender first access, or first repayment rights to proceeds from the sale of my home.

BONUS: ELIGIBLE MORTGAGE INCOME

If I foreclose on my property (I am unable to make Mortgage payments any longer), the Bank is in first position to recover their money they lent for my Mortgage.

If this scenario happens (foreclosure) AND I have taxes owing (to any level of Government) the Government may access equity in my home to receive payment BEFORE the Mortgage lender.

The Government may take money FIRST before the Mortgage lender. This is why, when first beginning a relationship with a new Mortgage applicant, it is important the Mortgage lender know the applicant's taxes are current and paid up to date.

Qualifying for a Mortgage as a BFS applicant requires verification of personal income tax with a zero balance. Now you know why.

How To Use Corporate Income For Mortgage Qualifying?

I just detailed the distinction between corporate and personal income. I thought I'd throw that in a blender and mix everything up for you now. Up to this point I have been explaining "traditional income Mortgage qualifying".

We are entering the murky waters of Mortgage income qualifying. And I think it is important to simply understand there are options to Mortgage qualifying and I am introducing these options – not recommending them.

Listen up ...

If a corporate Mortgage applicant has 20% down payment, or more, I have access to Mortgage lenders who will use corporate revenue as income for Mortgage qualifying. This is verified by totaling income deposits and expenses with corporate bank statements for a period of time (3 or 6 months, or longer).

I think it is also important to note, there is a higher level of risk for the Mortgage lender with this kind of applicant. And for the lender to compensate themselves for this risk, they charge higher interest rates and fees.

STOP HERE.

This is where I lose many people. Here's why …

Think about this. I can use my corporate revenue for Mortgage qualifying. This means I can retain more of my earnings within my corporation, sheltering them from high personal income tax. Corporate tax rates in Alberta are 12%. Personal income tax brackets range to 30%+. Mortgage lenders who offer this type of Mortgage income qualifying charge 1% - 2% higher Mortgage interest rates.

In lieu of exposure to higher personal income tax, the applicant is exposed to higher than normal market Mortgage interest rates. This tradeoff is something to consider, for some applicants.

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My point here is this: with larger portions of down payment there are creative income qualifying options for business-for-self Mortgage applicants. This does not mean the Mortgage application is approvable – it just means there are opportunities for creative income options.

How To State Your Income Higher?

Here is yet another income nuance for incorporated Mortgage applicants.

Stating a clients income is a way to make a reasonable presentation of boosting an applicants income to the Mortgage underwriter.

For example, if a client's corporate gross revenue is $200,000 with a net corporate income of $125,000.

If the client is personally claiming $60,000 of dividend income, we can begin to make a case to the lender the client could pay themselves $75,000.

We make the business case of stating the clients income higher that what they are personally claiming from their business.

Again, this is based on the strength of the overall file (industry, past corporate financials, credit, net worth etc). A minimum of 10% down payment is also required.

In Conclusion ...

I hope this information has been helpful for you. In many cases, the applicants income is the most important input into Mortgage approval. Please read the Ultimate Home Transition Blueprint Checklist for more content on various types of income to help with qualifying (CCB, pensions, and more).

I'd like to acknowledge you for a moment because you've taken the time to educate yourself to plan your home transition. And that's why I think you would be a great fit to learn even more about my Mortgage strategies and ongoing Mortgage management to help save you money, protect your Mortgage from inflation and higher interest rates.

Reach out to connect with me soon!

Chad Moore

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WHAT TO DO NEXT?

The key is planning your home transition well in advance. Why? Because there are going to be opportunities to improve your file, assist in decision making, and reduce regret. This is a big move for your family. A bit of time invested up front to plan your transition will save you stress, time and energy.

No. 01 – **Let's Connect!**

Reach out via email, phone or get your Mortgage application started.

No. 02 – **Let's Make A Plan!**

The sooner we plan your home transition, the better. I don't see a downside to how early we start planning.

No. 03 – **Execute The Plan!**

The home transition plan we create for you will be unique and customized! I'll make this clear so you know exactly what to do next.

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QUALIFICATIONS

The Ultimate Home Transition Blueprint and bonus material is focused on helping plan your home transition—but that's not all I can help you with! Below is a list of other areas you might have a need for that I am professionally qualified to assist you with (no particular order):

- Mortgage renewal & refinancing.
- Rental or second home purchases.
- Debt consolidation, credit repair, HELOC's.
- First time home purchases.
- Alternative lending solutions.
- Divorce/separation financing.

Thank you again for reading this content. I look forward to speaking with you soon!

Contact

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