



**"Orderly Sale"**

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# THE **BEST** OF THE **WORST** CASE SCENARIOS

There's so much more than 'good luck' for a savvy broker to offer a client headed toward a forced sale, writes **Rebecca Lamarche**. Why not a private mortgage to win them an 'orderly sale'?

## It's the ugly file.

The client approaches his broker in crisis mode: he's going to lose his property.

This client has defaulted on mortgage payments and is on the precipice, or in the midst, of a legal process.

Often, he has sacrificed various forms of credit (car payments, credit cards, phone bills, etc.) In a desperate attempt to save his home. The trigger point of this financial deterioration varies as much as the files. He was laid off work, is in the middle of a nasty divorce, pays child support, has unexpected or chronic medical expenses. The list goes on.

The client was likely caught in the trap of waiting for a miracle that never materializes. He has a cash flow problem but equity in his property.

The client needs money. And he needs it fast.

There are two options most commonly presented to a client with this profile. In the first option, he loses his home. In the second, he sells it in a fire sale. Both options leave the broker with a closed file and the client with catastrophic repercussions.

The majority of clients in this position will lose the roof over their head along with the equity in their home. Those who manage to sell in a fire sale are forced to channel the proceeds towards their mortgage, penalties, arrears and legal fees. Clients who come out of a fire sale are often left with little-to-no funds.

The ramifications continue. Without the financial support to restart, any remaining funds go towards immediate living expenses instead of building a future. The client's most pressing hurdle is to provide a roof over their family's head. The stress on the family unit grows exponentially.

The broker loses too.

The broker has failed to find a solution for his or her client. As a result the file closes and does not fund. The client has no incentive to provide referrals; by losing the equity in his home the client is not in a position



Peter Galli

that will foreseeably generate future files. Ultimately, the broker has failed to differentiate him or herself from the competition.

Let's return to what the client needs: time and money.

This is where a third, and often overlooked, strategy can come into play. The broker can present an alternative option: the orderly sale. A handful of private lenders, most notably the Quebec-based PENTOR Finance, have innovated varying versions of a short-term mortgage engineered specifically to maximize the preservation of equity in the property during just such a crisis.

This unique repayment program buys the client time to sell his property at a marketable price, and is structured to work with the client's cash flow problems. The orderly sale is designed to leave the client in a position to restart and rebuild.

The first stage of this orderly sale model is to evaluate the client's financial needs associated with the property, says Peter Galli, president of PENTOR Finance. This includes the client's debt to the financial institution, associated arrears and fees, closing costs, and the lender's finance fees and interest payments for the term of the mortgage. These numbers are crunched into a sum that determines the loan needed to sell the property over the next six months. This is the client's new mortgage, which is then funded by the private.

In stage two, lenders such as PENTOR direct a portion of these funds to pay off the capital, arrears and legal fees tied to the property. The client's debt to the original financial institution is now cleared and PENTOR Finance is the first mortgage holder. This is a huge advantage because interest payments to service the debt have already been structured into the loan. The client is relieved from the burden of monthly interest payments during these six months; alleviating cash flow problems and providing peace of mind.

Stage three of the orderly sale is the sale itself. PENTOR's model, for example, gives the client six months to sell his property at a competitive price. This price is not the client's "emotional price," listing the property at or above top market value, cautions Galli, who has originated over 2,500 alternative mortgages worth over \$700 million. Setting the bar at that level means it could take months or even years to realize a sale. Still, that price isn't the liquidated price of a fire sale, either. In an orderly sale, the property sits just below market

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value. It sells faster than it would at an emotional price and for a significantly greater amount than in a fire sale. The orderly sale is structured to maximize the preservation of equity in the home.

"We work with the client's real estate agent to see that an aggressive marketing plan is constructed and executed," says PENTOR head Galli. "Throughout the term of the mortgage, our team has weekly check-ins with the agent to ensure that the property is being properly marketed. PENTOR Finance has no financial stake in property sales, receiving no commissions or cash bonus."

PENTOR Finance's orderly sale model is a win for the client and the broker.

The client has gained the opportunity to start over. By having the time to sell his home just below market value the client now has the opportunity to preserve more equity in his home than he would have in a fire sale, or worse, if he lost the property. By choosing the orderly sale strategy the client reduces his short-term cash flow problems, has greater peace of mind and can pursue his next steps: professional development, first and last month's rent on housing, child care. Legal tags and the financial ruin of losing his home have been avoided. Ultimately the client is empowered to rebuild his future.

"The orderly sale is a tool the broker can use to build a specialist's profile, branding him or herself as one of the mortgage industry's top performing brokers," says Galli, an industry leader with 26 years of experience behind him. "By providing a solution for the client, the broker has differentiated him or herself from the competition. The broker has generated compensation from the file, a client for life and referrals."

The thinking is the broker utilizes the unique services offered by private lenders, earning the reputation as the go-to-person. This tool can be used to diversify product offerings and portfolio. It opens a possible floodway of leads from other brokers.

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