MULTIPLE COLLATERALS

Making up for a shortfall of funds, sometimes the only way to close a deal is through collaterals.

by Rebecca Lamarche

The days of looking exclusively to type A Financial Institutions for a client's mortgage needs are long gone. Good thing. With tighter restrictions on A Financial Institutions, clients with a shortfall of money will be turned away by the banks. Sometimes the only way to close a deal, and help the client secure his mortgage, is by seeking out an alternative lender who utilizes multiple collaterals.

"Our approach to our business has always been 'how do we get the deal done', if there's a way we will do it," says Peter Galli, president of PENTOR Finance, Quebec's leading private lender.

With this frame of mind and PENTOR Finance's reputation for custom mortgage solutions, they deal quite often with multiple collaterals.

"Some people, for example, are cash poor but equity rich. To realize their needs we'll put forward the option of multiple collaterals," Galli says.

This is where brokers, and in turn their clients, get lost. A collateral guarantee is when the client pledges another, or multiple, of his properties against the mortgage. Often the client won't have another property to pledge and a family member or friend steps in and gives their property as collateral. This family member then becomes a co-borrower and, as the title suggests, is now equally responsible for the mortgage.

"From a risk perspective it provides more skin in the game and additional coverage where it is needed," Galli says, "Most often it's a family member that pledges their home as collateral and that extends itself beyond the physical guarantee because an emotional factor comes into play. In our experience, 9 times out of 10, the co-borrower won't let the deal go bad."

What properties qualify?

The first thing to note is that, though it is ideal, the collateral property doesn't have to be free and clear. Some alternative lenders, such as PENTOR Finance, will take a second mortgage after a positive risk assessment. Another feature PENTOR Finance offers is multiple collaterals, giving the client the opportunity to secure the mortgage with multiple properties.

There are different ways to structure collaterals. PENTOR Finance favors a blanket mortgage stretched across the primary property and all collaterals. This doesn't increase the cost of the mortgage itself but stretches the client's use of equity and provides more room to lend against.

Fees associated when implementing collaterals.

"Private lenders shouldn't charge more to structure a mortgage to incorporate collaterals," Galli says, but there are additional costs involved. Often times the client will have to pay for a secondary evaluation of the collateral property and any notary services required for the primary property will likewise be needed, in addition, for that of the collateral. That's not to say that the notary fees double, they go up incrementally.

"While the fees may be more expensive, clients need to understand that it's a small premium to pay in order to realize their dream and preserve their equity in order to get the deal done," Galli says.

The broker needs to be able to explain the mechanisms and structure of this type of transaction to his client.

"If you can explain it, you can position it, and you can get the deal done," Galli says.

Galli is adamant that collaterals should be offered as a financing option for clients beyond the realm of credit issues.

A mortgage solution with collateral provides many possibilities, whether it is about getting the client back on track, realizing a special project or saving their home in order to preserve their equity.

At the end of the day its about finding a solution, where others have not been able to. If you are able to get the deal done it's a win for everyone.

__Peter Galli__ is the president of PENTOR Finance. He has worked almost 30 years in the mortgage industry, the last ten years of which have been dedicated to alternative mortgages. You can reach Mr. Galli at (514) 918-7426 or pgalli@pentor.com

__Rebecca Lamarche__ is a freelance multimedia journalist with national and international publications of original content. You can contact Miss Lamarche at rajlamarche@gmail.com or @RebeccaLamarche