Dalia Barsoum - Media Interview

What are some of the forces that might be affecting real estate investors right now?

Some investors are facing a multitude of challenges / Risks, including:

1. Risk of one or more tenants not paying rent due to job loss / layoffs for one or more properties in the investor's portfolio

2. Risk of job loss for the investor

3. Pressure on rents that can be charged in some markets, due to the increase in supply in long-term rental units that were previously rented as Airb&b

4. Likelihood of lower valuations for refinances for equity take outs

5. Risk of changing lender guidelines as lenders are taking a cautious view of the world

6. Shortage of liquid funds to weather the storm

7. Risk of not being able to exit a private mortgage deal as initially planned due to the changing lending landscape and softening values

8. Risk of a committed property purchase not closing due to borrower's inability to get a mortgage or another property not selling in time or selling for less due to a slowing market

9. Risk of renovations taking longer and therefore higher holding costs

How can those investors stabilize and increase liquidity?

As every investor's circumstances are different, it is important to assess the degree of each of these risks on a case by case basis through a detailed assessment of the client's finances and develop an action plan to:

1. whether the storm
2. position the investor's finances for a solid come back

Some of the tools we are currently using to help investors, include:

1. Setting up liquidity reserves through strategic refinances and lines of credit to help create a cushion. It is important not to turn property cash flow upside down or add a drain on someone's monthly budget during this process

2. Helping clients with their personal balance sheet reviews and identifying opportunities to reduce monthly payments, create capacity and extra monthly cash flow through consolidation of expensive debt and restructuring the amortizations on select loans like car loans, mortgages, RRSP loans and/or unsecured debt

3. Selectively utilizing the mortgage deferral programs – depending on the risk and the client's short and long term plans –

4. Locking in appraisals on properties early in the approval process as time is of the essence

5. Selectively investing in private mortgage opportunities for extra cash flow

6. Utilizing private funds where possible to help bridge finance properties that must close in time but are running into a road block due to dependence on another property that has not sold

Mortgage deferrals sound nice, what do investors need to know about them? What are the pitfalls?

We look at mortgage deferrals as a last resort tool for investors to utilize to help ease financial destress. For a couple of reasons:

1. **Cost**: There is a cost to each mortgage deferral. Interest will continue to accrue on the deferred amount for the duration of the period. Most importantly, each lender has their own methodology on how the repayment of the accrued payments will take place after the deferral period is over. So it is important for clients to know what they are stepping into upfront

2. **Increased future payments & impact on future financing:** depending on the mythology the lender uses for the repayment plan; the future monthly payments could increase. The extend of the increase will vary based on the mortgage size, interest, duration of the deferral. An increased payment across multiple properties will have a direct impact on the client's ability to qualify for future financing as their debt load would be higher

3. **Potential implications to credit:** while a deferral is not a default and theoretically it should not negatively impact the client's credit. For this to happen operationally, the lenders have to report properly to the credit bureau. The question is whether or not the lenders will be able to adjust their systems and

processes to account for these deferrals and report them the right way. The sheer volume of deferral requests in my view, increase the risk of system and reporting errors. My suggestion is : if you are considering a deferral and can wait on it another month , then please do to allow time for the first round of deferrals to go through the systems and see how that turns out . Further, if you have chosen to defer by now, then please monitor your credit report for the next 3 months.

4. **Impact to current financing:**

   I anticipate that clients who have an active deferred payment with a particular lender, would have challenges obtaining new financing (refinance / purchase) at this time with that lender. My reasoning is simple: the client is either telling the lender they CAN or CANT afford the payment. There is no answer in between.

My suggestion is to first examine your finances, challenges and plans with your current mortgage advisor and come up with an action plan before jumping on mortgage deferrals as the first line of support because of panic , fear of the unknowns or fear of missing out on this support tool.

What are some other tools an investor can use to cover cash-flow deficits?

1. Debt payments restructuring, this includes restructuring of amortizations on select loans, including mortgages

2. Utilizing product features such as:

   a. Advancable lines of credit: With an advancable line, a client can make a payment say towards the mortgage connected to the line , while 1. Getting ½ of that payment back in their LOC account (due to the advancable feature) and 2. Reducing their actual out of pocket payment from a Principal and Interest to an Interest only payment

   b. Skip a payment option

3. Turning cheap debt into immediate cash flow through using lines of credit to lend towards private mortgages - that make sense given the new environment- and earning 12-14% return.

Can you tell me about one situation a client of yours has found themselves in and how you've helped them increase liquidity?

Andrew and Jennifer own a primary residence and two rental properties in Toronto.
They reached out to us as they were faced with a couple of challenges and needed direction on

the financing strategies / tools they can utilize to help ease up some financial pressure, plan for the future as they would like to eventually invest again and as they were contemplating deferring the mortgage on their Toronto property.

Jenn was temporarily laid off and one of the tenants at their Toronto property did not make the April rent payment.

We conducted a comprehensive review of Andrew and Jenn's finances and saw several restructuring opportunities that helped them enhance their cash flow and increase liquidity. Including:

1. Taking out funds from their primary residence at a low interest rate to help them consolidate several expensive debts (including a car loan monthly payment of $600 , a payment on an RRSP loan of $400 and an unsecured line of credit) . Restructuring these payments alone, gave the client an extra $1200 breathing room in their monthly cash flow
2. Re-amortize their home mortgage from 22 years to 30 years at a lower rate than what they had, resulting in another $350 of additional monthly cash flow through a reduction of their mortgage payment. We also talked about alternative pre-payment strategies to help reduce the effective amortization on the mortgage
3. Setup an advancable secured line of credit on their primary residence for $150,000. This gives them a cushion without an extra drain on their monthly budget. The line will also continue to grow automatically as they continue to make the principal mortgage payments on their home
4. With this extra cash flow, the clients can now cover the shortfall on their rental property until the situation improves. They also have the LOC if needed as a supplement and we have also guided the clients to through a partial payment arrangement with their tenant

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