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# FINANCING FOR RURAL PROPERTIES

~ CHEAT SHEET ~

## Acreage size:

- The insurers will allow up to ? acres for valuation (? = the “residential” portion of the land size)
- Lenders have their own criteria insured or conventional, and generally will allow 1-5, < 10, < 15, ≤ 1/4 section (conventional only)

## Eligible properties:

- Owner occupied principal residence, secondary residences, and rental properties (1-4 units)
- Country residential, rural, or agricultural zoning
- Properties located within 50km to a major urban centre, all other areas case by case and/or may require CMHC insurance

## For a rural/acreage property, lenders have these conditions:

- Standard qualifying & debt-servicing ratios apply for all borrowers
- Property is fully serviced with well, water co-op or cistern and septic tank/field and has year-round access
- Confirmation of potable water and possibly a septic certificate and/or MD compliance
- Maximum mortgage amount is based on purchase price or appraised market value, whichever is lower
- A full appraisal is required;
  - \* The report may only include the value of the house, garage, and [-] acres
  - \* Appraisal reports for residential lending purposes does not include outbuildings, riding arenas, fencing, etc
  - \* Highest and best use is confirmed & there are no environmental concerns (i.e. asbestos, grow-op, etc.)
  - \* Property must be properly designed and in adequate physical condition to be liveable for the duration of the mortgage; has a reasonable ground floor area and concrete foundation (wood foundations may be either insured or proven stable via an Engineer’s report)
  - \* Appraisals “ownership” is to whomever paid for the report and are single use; and the Lender must be indicated (or a Letter of Transmittal is required)
  - \* Must show comparable sales within a 90 day history (some leeway is allowed)

## General rural/acreage mortgage programs:

- Mortgages available in any amount (maximum \$950,000 when file is insured)
- Mortgages may be subject to sliding scale when purchase price is greater than +/- \$750,000
- All mortgage products are available; exception is LOC on certain properties
- Raw/bare land
  - \* With or without building commitment
  - \* Lender will mortgage up to 60-75% of properties value, down payment is dependant on location of property
- Acreage program
  - \* Lender will value up to 160 acres, house & garage; some animal/crop raising is allowed but it cannot be a working farm
- New construction
  - \* Draw mortgages on new construction, both insured and conventional are allowed
  - \* Long term rate holds available for new builds
- Mobile, modular, ready-to-move and/or leasehold communities
- Best rates generally apply

# FINANCING FOR RURAL PROPERTIES

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Mortgage underwriters will review the following:

- Borrowers can afford the home and meet all debt-servicing requirements
- Borrower verification documents will be required (preferably upfront for ease of underwriting)
- Terms 1-10 years & amortization up to 25 years insured or 30 years conventional
- Insured (5-20% down payment) qualification at the 5 year rate benchmark rate; conventional (20% down payment or greater) qualification at benchmark or contract rate + 2%, whichever is greater
- For an acreage a lender may also look at, for example... if there is no well but a cistern, they will want water hauling costs to be confirmed and debt-serviced
- A "Sliding Scale" may be applied to the mortgage amount (for purchases > \$750,000 used on average)
- Confirmation of potable water and possibly a septic certificate may be required
- They will review the appraisal and verify the details of the home; they will ensure the correct valuation criteria was applied from the appraisal, the overall marketability of the home (days on market, comparable sales), and its general condition
- No environmental concerns
- Tip ... lenders do not like to see "farm", "hobby farm" or "sub-division potential" in a listing, so choose your works carefully as it may reduce a buyers financing options.

Applicant conditions to qualify:

- Employment Status & Gross Monthly Income: Verification of gross income for all salaried and/or hourly paid borrowers; verification of gross & net income for all business-for-self and contract borrowers. Stated/declared income available for those strong borrowers that qualify with a down payment of 35% or greater

- Equity/Down Payment:

Down payments less than 20% require the mortgage to be insured against default, known as high-ratio or insured, and are available for owner-occupied properties only; down payments of 20% or greater are considered a conventional loan.

\* Insured: A minimum of 5% is required for a new purchase at/under \$499,999

\* Insured: A minimum of 10% is required for a new purchase at \$500,000 and above

\* Conventional: A minimum of 20% for a new purchase at any price (subject to sliding scale)

\* Conventional: A minimum of 25-40% for a raw land purchase

\* Conventional: A minimum of 20% for a refinance

\* Conventional: A minimum of 25-35% for a new purchase of a rental/investment property

- Credit Score: A strong credit score of at least 620 is required, 680+ for a best-rate mortgage; however, mortgages may still be available to those with bruised or blemished credit

- GDSR (Gross Debt Service Ratio): The total amount of mortgage payment (principal + interest), plus heating costs, plus property taxes divided by the borrowers gross monthly income. Ratios up to 32% (39% for well qualified) are acceptable

- TDSR (Total Debt Service Ratio): The GDSR plus all other contractual debts (credit cards, vehicle loan payments, child support, alimony, etc.) divided by the borrowers gross monthly income. Ratios up to 40% (44% for well qualified) are acceptable

- Closing Costs: Confirmation of funds available to pay for closing costs. May include legal fees, home inspection, title insurance, appraisal, property tax adjustments, etc. Ratio of 1.5% of purchase price is generally used

**NOTES:**

*Talk to your clients about a **Reverse Mortgage**, "right-sizing" in the same neighbourhood or community when their golden years have arrived. Talk to me for more information!*

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