



MORTGAGE POST

Volume 2, Issue 1
July 2009

Alternate strategies to improve your credit score -Thicken my wallet

June 2009

June 30th is typically the busiest home closing day of the year. For most home buyers, it is also that time of the year where a credit score is thought of since the difference between a good or bad credit score could mean hundreds or thousands more dollars a year in mortgage payments. As the banks are slowing putting liquidity back into the market, many people are also considering applying for new credit or extending credit regardless of whether they are purchasing a home or not. Thus, a lot of people may be turning their minds to their credit score and how to improve it.

A credit score is a number between 0-800. The higher the number, the lower your risk to lenders and the better your credit terms. Conventionally, any score over 750 will typically allow you to obtain the best credit terms. FICO estimates that 40% of the population has a credit score of 750 or greater. If you need to raise your credit score, the tired and true is to pay on time all of your accounts with your oldest accounts being kept in the best shape. But, if you are looking for some alternatives to raise your credit score, consider these:

PREAUTHORIZE ONE PURCHASE ON AN OLD CREDIT CARD. Most of us have very old credit cards that we may not use because the rewards program is not great, the credit too small etc. Instead of canceling the old credit card-which impacts negatively on your credit score- pre-authorize one small transaction on it a month (newspaper subscription, membership fees, phone bill) and pay the entire amount off immediately. Do not run any other transactions on that card.

Why does this work? Several reasons: (i) you maintain positive payment history (payment history determines 35% of your credit score); (ii) you keep your credit utilization low (balance owing is 30% of your credit score) and (iii) maintain activity on an aged account (15% of your credit score).

MAINTAIN A LINE OF CREDIT BACKED BY CASH COLLATERAL. This one was told to me by a banker and especially useful if you have emerged from bankruptcy or have bad credit history. The key is you have to earn someone's trust. Open up a line of credit ("LOC") which is backed dollar for dollar in cash collateral held in a GIC or money market fund at the same bank you obtained the LOC; this will help someone with bad credit obtain a LOC since the bank has de facto secured interest for an unsecured credit line it usually only gives to people with good credit scores. The money for the collateral is put up by someone you trust (the "guarantor"). Arrange for the line of credit to be withdrawal only if both the borrower and the guarantor sign for it (your bank can arrange this). Then, you make a deal with the guarantor: every quarter you draw down on the LOC in a very minimal amount only IF you have the cash to pay it back immediately (perhaps you give the cash to the guarantor first).

Why does this work? You are taking the following positive steps: (i) establishing payment history; (ii) establishing a type of credit in use properly (10% of your credit score); (iii) maintaining low credit utilization. Thus, rather than do a straight guarantor arrangement (which can work), you have put in mechanics (dual signing authority) to control the use of the LOC which should give your guarantor a measure of security (assuming your guarantor has the discipline to say no to you). It is actually a practical manner to build a credit score of someone who has been undisciplined in their spending in the past.

BUILD BACK UP GOOD HISTORY ON A BAD AGED ACCOUNT. Many borrowers, after they have had a bad history with a credit account, stop using it and open up a new account. This is generally a bad idea. A new lender will look up your credit score (which decreases your score) and the credit score system favors aged accounts over new ones. The better thing to do is to begin to make regular payments on all your old accounts.

Why does this work? Re-establishing payment history and reducing amounts owing are the two largest factors in determining a credit score. Open new accounts quickly and having multiple inquiries into your credit score account for 10% of your credit score but it is often used negatively. Its easy to destroy your credit score. Harder to maintain it. The key is to be regular in payment and be disciplined in how you use your credit. Good luck.



Alyssa Yang, AMP
M08010954

Mortgage Centre
10933 Jane Street
Maple, ON L6A 1S1

Phone: 905-879-3359
Fax: 905-879-9969
Cell: 416-825-0096

Email: alyssa@alysseyang.com
Websites: www.alysseyang.com
www.mortgagecentre.com/alysseyang

Contents

Special Interest Articles

Alternate Strategies to	
Improve your credit score	1
Why do my Condo Fees Keep	
going up?	2

Individual Highlights

Quotes	3
Cooking Corner	3

The Mortgage Post is a newsletter for your information and enjoyment. Receive the latest in mortgage news and advice. Add some quick recipes to your cookbook.

Find us on the Web:
www.alysseyang.com

To subscribe a friend or family member to the Mortgage Post email: alyssa@alysseyang.com

Your Mortgage is my focus! Serving all GTA areas.

Why do my condo fees keep going up? – Thicken my Wallet June 2009

Our condo corporation passed its budget recently; we got by relatively unscathed with a small increase after several years of no increases. But for many condo owners in newer or older buildings, this may not be the case. Why do condo fees escalate, setting aside natural inflation of expenses of time, and what are the implications to the potential buyer of condos?

Condo fees is short-hand for the aggregate of maintenance and operating expenses of the common expenses such as the building exterior, lobby, meeting/party room, exercise room, insurance, security staff, superintendent. In other words, all the elements everybody shares, regardless of whether you use them or not. The total condo fee is divided among the unit-holders by square footage.

What the largest reasons why condo fees going up? There's really two large and inter-connected reasons.

1. **There are too many common element expenses.** At the height of the real estate boom, one particular condo developer was known for building condos with the latest common element bells and whistles: water falls in the lobby, golf simulator room, indoor/outdoor pool. You name it, they built it. One condo along the lake actually owned a boat that it docked in the harbor (since sold from what I have been told). One problem- **the more frills there are, the higher the condo fees** (a condo corporation is just like government in that respect). All of this "stuff" looks great when you buy the condo, but the price to be paid is in higher condo fees which becomes a much larger headache over the years because...
2. **Reserve fund shortage.** A reserve fund is a fund which is intended to be accumulated for the expected repairs and replacement costs of the common elements in a building (as opposed to normal operating expenses). The size of the reserve fund is determined by numerous assumption as to future events of the common elements as determined by engineers (for example, the roof needs to be replaced every 10 years). Many jurisdictions require a condo corporation to pay for a reserve fund and to update it periodically given chronic under-funding before legislation was enacted. All condo corporations contribute to the reserve fund every year. The issue is that as common elements age, the reserve fund contribution has to increase and the more common elements there are to maintain, the greater the reserve fund contribution.

What does this mean for you and I?

1. **For the buyer of new condos: Expect a spike in condo fees in year 1-3.** Condo fees are typically low when a condo corporation is first formed because, well, there's nothing to maintain. Everything is brand new. However, as the building ages, two things tend to occur: (i) the condo corporation has to start making reserve fund contributions; and (ii) all those great common elements were either too rich (24 hour security for a 30 unit building is simply not practical) or begin to require maintenance. All of these factors tend to drive up the cost of condo fee. In fact, it is commonly assumed that developers under-estimate condo fees to entice people to purchase new units.
2. **For the buyer of old condos:** Expect more and more of your condo fees to be used for the reserve fund rather than actually providing better service. As condos get older, large items need to be replaced so the reserve fund contribution tends to go up. What makes the situation worse is that, until many jurisdictions passed laws requiring reserve fund studies to be undertaken and reserve funds topped up, some condo corporation reserve funds were woefully under-funded so there's been a catch up in contribution or a special levy made.

Condo fee are one reason that I tend not to consider condos to be ideal real estate investment. It is hard to control the expense variable in a condo (which is the only real variable you can control in any business). Expense control is taken out of the owner's hands and into the condo board's hands. Since most landlords include the condo fee in the rent, increasing condo fees tends to mean less profits especially if you live in a rent control jurisdiction where you cannot simply pass on the cost of doing business to the tenant or you rent in a competitive market.

If you are buying a condo for any reason, make sure you add in a condition of sale a thorough review of the condo corporation's financial statements. On the common element side, look to see whether there has been a year over year cost escalation which seems unusual (a spike of more than 5%) and ask why. On the reserve fund side, head to the notes to the financial statement, it should tell you what the reserve fund should be and what the expected expenditures should be. If there are large expenditures in the future and large reserve fund shortage, look out!

Life Quotes

There are no secrets to success. It is the result of preparation, hard work, and learning from failure. **Colin Powell**

Learn from yesterday, live for today, hope for tomorrow. **Anonymous**

The greatest results in life are usually attained by simple means and the exercise of ordinary qualities. These may for the most part be summed in these two: common-sense and perseverance. **Owen Feltham**

The difference between a successful person and others is not a lack of strength, not a lack of knowledge, but rather a lack in will. **Vince Lombardi**

The man who makes a success of an important venture never wails for the crowd. He strikes out for himself. It takes nerve, it takes a great lot of grit; but the man that succeeds has both. Anyone can fail. The public admires the man who has enough confidence in himself to take a chance. These chances are the main things after all. The man who tries to succeed must expect to be criticized. Nothing important was ever done but the greater number consulted previously doubted the possibility. Success is the accomplishment of that which most people think can't be done. **C. V. White**

Before going to Europe on business, a man drives his Rolls-Royce to a downtown New York City bank and asks for an immediate loan of \$5,000.

The loan officer, taken aback, requests collateral. "Well then, here are the keys to my Rolls-Royce," the man says. The loan officer promptly has the car driven into the bank's underground parking for safe keeping and gives the man the \$5,000.

Two weeks later, the man walks through the bank's doors and asks to settle up his loan and get his car back. "That will be \$5,000 in principal, and \$15.40 in interest," the loan officer says.

The man writes out a check and starts to walk away. "Wait, sir," the loan officer says. "You are a millionaire. Why in the world would you need to borrow \$5,000?"

The man smiles, "Where else could I find a safer place to park my Rolls-Royce in Manhattan for two weeks and pay only \$15.40?"

COOKING CORNER



Orange Beef

1/2 Lb. Top round steak
2 Tb Sherry
2 Tb Cornstarch
2 Egg whites
6 Tb Peanut oil

SAUCE:
1 1/2 cups Beef stock
2 Tb Light soy sauce
1 Ts Sugar
1 1/2 Tb Cornstarch
1 Ts Red wine vinegar

5 Dried red chile peppers, broken into pieces
8 Thin slices of orange rind (orange part only) or more
Fresh ground black pepper to taste

Whisk together the sherry, cornstarch, and egg whites until the mixture is foamy. Add the beef and toss to coat the pieces well. Set aside.

Cut meat into 2x2-inch pieces. Heat 4 tbs. Peanut oil in wok. Fry quickly, just until crispy and browned, remove to wok rack to drain.

Add remaining 2 tbs. Peanut oil to wok. Add orange rind and red peppers to hot oil in wok. Stir-fry until orange rind begins to darken and aroma from oil becomes pleasant.

Add remaining ingredients and stir until bubbly (add more beef stock if too thick). Add fried beef and toss to coat with sauce.

Serve at once with steamed white rice.