September 1, 2023

Types of Residential Lenders

Although I've never seen a document delineating mortgage lenders into the following categories, the wording "A", "B" and "Private" lenders, seems to be common terminology/classifications used to refer to certain types of lenders.

The following is meant to be a quick explanation of the differences between lenders that fall within the aforementioned categories.

"A" lenders generally compete for the top tier of borrower. These lenders have good rates, moderate fees, require small down payments etc. But, not all lenders are the same and the "A" lender category seems to be populated with two basic types of lenders.

> **Monolines.** This is a term that is used to describe a lender that operates principally in the mortgage lending space (ie. unlike a bank, which might also offer RRSPS, credit cards, investments, personal loans etc). These lenders have a reputation of pooling a number of similar mortgages and selling them, as investments, to investor(s). I have rarely heard of a borrower being aware of this practice and it seems the originating lender is often the point of contact for the borrowers, even if their mortgage is eventually sold within a pool. The advantage of this type of lender is speed, product options and competitive rates. These lenders are often very quick at reviewing files, often offer many products (such as pre-approvals), and have competitive rates. The disadvantage is that they are often not the final decision maker (since they are planning on selling the mortgage) and sometimes have to consult the would-be-investor/buyer for an exception (ie. if a property is too small for their minimum square foot guideline etc).
>
> **Balance Sheet lenders**. These lenders generally have a reliable source of funds that they can rely on. These sources might be deposits from those who bank with them, or GICs etc. Although they might at times sell certain mortgages as investments (like a monoline), generally this type of lender has more autonomy than a monoline because they can sometimes choose to lend to someone who might not be marketable as an investment to someone else.

"B" lenders generally compete for the best clients that the "A" lenders won't fund. Compared to "A" lenders, these lenders often have: higher rates, a lender fee, we (Concord Mortgage Group Ltd) often charge a fee too, require more down payment, and they often charge fees at renewal. But, at least they will sometimes entertain applications that "A" lenders won't.

"Private Lenders". This is a term that loosely refers to many different types of lenders. In my opinion, this is the area of financing that has evolved the most, during the course of my career, thus far. Similar to "A" lenders, there seems to be basically two types of private lender.

> **MIC/Company/Institution.** By "MIC" I mean a "mortgage investment corporation". These types of lenders are often big and have specific lending "products" (ie. option 1, option 2 etc). I consider them to be the monolines of the private lending world. They often have good service and fair/consistent rates and underwriting practices, but (similar to monolines) many don't hold all the decision-making authority since many of these types of lenders lend out money that they themselves have borrowed (ie. a line of credit), and the entity that extended the credit line to them (ie. a bank) often has requirements that limits the kinds of properties/files the private lender can lend on.
>
> **Individual.** Although the immediately above class mentions "company", this class of lender can also include companies. Ultimately, though, it is in this "individual" category that I place private lenders who hold all the decision-making authority themselves, and can grant exceptions and negotiate on specific terms etc. While these lenders are often the most accommodating, this is where you're likely to find the greatest spread in rates/terms offered. In my opinion, it is in this class that a broker's knowledge/relationship of/with the lender most matters.

This article/document was written by Trevor Hickey, who has been a licenced Mortgage Associate with Concord Mortgage Group Ltd. since 2006.