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Lender launches first-of-its-kind program to keep Canadians in their home in the event of job loss

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You have a mortgage. You lose your job. With no savings or other resources to fall back on, you start missing payments.

What would you do then, besides panic?

If you're with most lenders, you'll likely lose your home in as little as a few months, depending on the lender and what province you live in. If you're with alternative mortgage lender Haventree Bank, you get more breathing room.

Haventree has launched a first-of-its-kind program in Canada called NextJob. Essentially, it is designed to help people who have lost their job find new work. That way, homeowners can start earning money again, keep their mortgage and not lose their home. The program, which offers online job-search assistance and employment coaching, also defers their mortgage payments for four to six months.

WHY THEY DO IT

Haventree Bank specializes in providing mortgages to Canadians with weaker credit and/or harder-to-prove income, the kind of borrowers who don't qualify for the best rates or a mortgage with one of the big banks.

Formerly Equity Financial Trust, Toronto-based Haventree has $1.9-billion in assets, making it a small to mid-sized lender. Wilfred Pande, vice-president of mortgage servicing at Haventree, says the NextJob program creates positive word of mouth, good reviews and referral business.

Moreover, customers helped by a business tend to stick around. “The average tenure of that customer increases when they go through NextJob,” Mr. Pande says. That generates higher mortgage-renewal revenue.

It’s also a good way for Haventree to keep expenses down. “It helps us [economically] by having the customer stay in their homes.” That’s because of the many administrative costs of taking someone’s home, some of which are not recoverable.

And lastly, there can be other financial benefits for a lender. A mortgage forbearance agreement, in which a lender agrees not to foreclose if the borrower meets the lender’s terms, could mean that the mortgage doesn’t show up in the lender’s bad loan statistics. Fewer non-performing loans on paper can sometimes lower a lender’s capital costs.

WHY IS THIS HAPPENING NOW?

Given all the economic and goodwill benefits, you’d think that more lenders would be doing this. And in fact, some lenders do let borrowers defer up to four payments, due to hardship, if the borrower pro-actively approaches the lender and is honest about their situation. But it’s virtually never an official publicized policy that you can rely on, as with Haventree.

In Canada, lenders generally prefer quick cures, and liquidating a conventional borrower’s property gets the lender most of its money back. So, management teams are less motivated to come up with out-of-the-box ideas like this one.

Albeit, mortgage default insurers (Genworth Canada, CMHC and Canada Guaranty) have had borrower “workout programs” for a while. That’s where they work with borrowers to resolve delinquencies by restructuring their financing or giving them more time to pay. And “they’ve been very effective,” says Mr. Pande, who helped get Genworth’s program off the ground before he joined Haventree.

WHAT’S THE CATCH?

Flexibility isn’t free. Customers must pay NextJob about $2,000 for its employment assistance. Haventree adds that fee to the mortgage so there’s no out-of-pocket expense.

Some will balk at a bank charging hard-up borrowers a couple of grand – until they consider the alternative. “This upfront cost pales in comparison to what you’d pay to lose your house,” says Vince Gaetano, principal broker at MonsterMortgage.ca.

Mr. Pande adds: “The average legal costs of a power of sale in Ontario range from $6,000 to almost $10,000.” There’s also the cost of taking possession and maintaining the home during the sale period, another $3,000-plus that a customer might be on the hook for. And then there’s the damage to the homeowner’s credit score, realtor fees and potential equity losses from the forced sale.

If you meet their job program terms, Haventree won’t report you as delinquent to the credit bureaus. That’s a big deal because missed or late mortgage payments will seriously hurt your credit report, which could affect the interest rate you’re offered from lenders in the future.

If the borrower follows the Haventree program but still can’t find a job in four to six months, the lender will then liquidate the property, Mr. Pande says.

A PROGRAM WHOSE TIME HAS COME

Automation alone could eventually displace up to 42 per cent of traditional workers, estimates the Brookfield Institute for Innovation and Entrepreneurship. Other things equal, “If I were a borrower, I would want a lender that provides this option," Mr. Gaetano says. “It speaks to the reality of life. People lose their jobs. This acts as a safety net.”

Indeed, most lenders would do well to consider such a policy as it can afford a positive return on investment – up to 300 per cent, according to NextJob’s case studies with U.S. lender adopters such as Fifth Third Bank.

From a borrower’s standpoint, if you’re getting a non-prime mortgage and your employment isn’t as stable as it could be, this is a program to consider.

And if you’re deciding between multiple lenders with like terms, and only one lender has this kind of offering, it makes a good tie-breaker. Credit-wise and financially, you always come out ahead by avoiding foreclosure. At the very least, the deferred payments buy people time to sort out their affairs.

Mr. Pande says he believes more will follow in Haventree’s footsteps, and Mr. Gaetano agrees: "It’s competing beyond just rates and products,” he says.

With any luck, more lenders will add such programs, ideally before the next recession.

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