

10 TOP TIPS FOR MORTGAGE INVESTMENT CORPORATIONS (MICS)

With changes in banking regulations, interest rates rising and the volatility of investing in the stock market, the growth of managing private lending either through MICs, direct investment or syndicated lending is growing exponentially. If you are thinking of starting to manage private equity into mortgages: here are some tips.

BEING ATTRACTIVE

With the volatility of the stock market these days, private investing in mortgages is increasingly becoming more attractive. Not only are investors able to receive consistent dividends but their investment is also secured against tangible real estate. As long as your management teams funds and finds good mortgages, the ability to find investment interest as well as funding opportunities will continue to increase and grow.

UNDERWRITING

It seems obvious that the ability to choose good mortgages to fund that won't default is an important aspect of managing private mortgages. Having a system to analyze your portfolio is very valuable and making decisions such as types and areas of loans is very important. For instance, with the requirement of having 50% of your managed portfolio in residential mortgages in a MIC you might choose to fund across different geographical areas with lending many and small amount of loans.

THE ABILITY TO ANALYZE

Whether it is through the use of software package or your internal reports ; having a real time snapshot of your corporation's progress with respect to mortgage and investments under management allows for proactive decision making and effective growth.

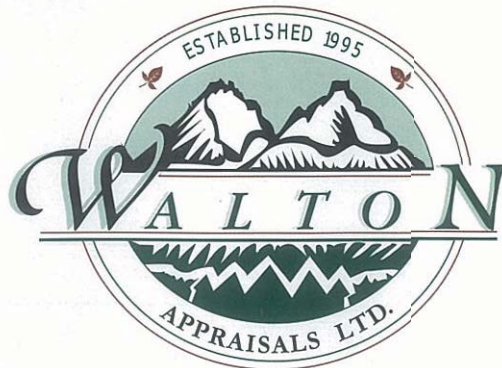
HAVING AN ACCOUNTING SYSTEM

Using an accounting software such as Quick Books or some system is important not only for corporate financial analysis but also with the requirement and cost of audited financials.

(continued on next page)



Shannon Dolphin
Dolphin Enterprises Ltd.
604-685-6721 - office
604-220-0605 - cell
www.dolphinent.com



✓ Approved
On all
Major lenders list.

Your local residential specialist serving:
Squamish, Whistler and Pemberton.

1-38920 Queens Way
Squamish, BC V0N 3G0
Email: info@waltonappraisals.com

Tel: 604.892.2311
Toll Free: 1.877.898.2699
Fax: 604.892.2341

(MICs: continued from previous page)

STARTING A MIC

MICs are private corporations created by the income tax act as a conduit for private equity being allocated into mortgages. In short there are a pool of capital funding a pool of mortgages.

There are three main areas for registration and compliance when starting and managing a MIC. First, is outlined in the Income Tax Act section 130.1 (6) which states the rules to compliance of a MIC as a tax exempt corporation. The next step is to consider how to raise private equity for the funding of mortgages which is regulated provincially such as through the BCSC or BC Securities Commission. For instance, you might choose to raise capital by special exemption using an Offering Memorandum. Next to consider is the lending side of the business which is regulated by such entities as the BC Financial Institution Commission or FICOM. If you are underwriting properties outside of BC you need to know how that province regulates brokers.

BEING A GOOD MIC

As long as you comply with the above mentioned bodies you must also comply to other MIC rules. For instance, in order to be a MIC, you must distribute all interest income from mortgages to the investors (minus expenses and management fees), not one person or related thereof either by marriage, family or corporately can own more than 25% of the MIC, the MIC needs at least 20 investors, over 49 investors you must have an Offering Memorandum or Prospectus and audited financials, and the MIC needs to contain 50% residential mortgages.

MANAGING A MIC

The administration of MICs can be onerous, especially when you are managing over 10 million dollars of raised capital. The most important concern is being able to allocate your raised private equity into a group of mortgages so that you can receive the interest payments to allocate to investors in the form of dividends. The allocation of dividends to investors or certificates can take days to execute manually. Using a software

system that can allocate correct dividends, deliver funds either by EFT or cheque and execute statements is an enormous time saver. Similarly, having a system that can calculate and manage your pool of mortgages ensures data management accuracy and efficiency.

WHETHER TO GO PRIVATE OR PUBLIC

As of July 1 2010 – the rules for MICs and Syndicated lenders are changing. However, whether to go private or public specifically as a MIC is an important decision to how you want to raise your capital. Private MICs or under 49 investors can be only friends and family. Alternatively, managing a public MIC you can have as many investors as you can manage as well as publically advertise for those investors. However, being a public MIC is more costly to create and manage and is more strictly regulated.

RRSP ELIGIBILITY

One of the advantages for a MIC is that they are RRSP eligible. As long as the Trustee has approved your MIC for their clients, trustee clients can earn a better annual return

by investing in MICs. In addition, being RRSP eligible opens up a great opportunity for you to source new investors.

RRSP REPORTING

Since Trust companies are held liable for their held investments, trust companies will request reporting from the MICs. They generally request a hard copy of the certificates for the initial investment as well as a certificate for the total of annual dividends to the investors. Being proactive by having a system in place to create the certificates as well as report to the trustees will save many hours of frustrating administration time.

The growth of the private lending space in Canada is growing exponentially. The creation and growth of MICs and the private lending industry at large in Canada is becoming a more popular avenue for brokers and borrowers to fund projects. In addition, with successful management and underwriting, you as a MIC Manager can also enjoy a steady business of lending capital. ■

For more information about MICs, private lending, Syndicated lending or using Software to manage private mortgage investments please drop an email to Shannon@dolphinent.com.



Chris Chernoff
PHOTOGRAPHY

Executive Portraiture
Headshots
Corporate Events

604.315.8301
www.chernoffcommercial.com