

# **MORTGAGE BROKERING IN ONTARIO**

13<sup>th</sup> Edition

Joseph J White

## **1.12 Key Terms and Definitions**

### **“B” type lending**

Mortgage lending to borrowers who have impaired credit or some other impairment that prevents them from being able to qualify for traditional lending products

### **Alternative mortgage market**

A market for borrowers who do not qualify for traditional lending products

### **AMP designation**

The Accredited Mortgage Professional designation awarded by Mortgage Professionals Canada

### **Bank**

An institution approved as a Schedule I, II, or III Bank under the *Bank Act*. Schedule I Banks are Canadian owned, while Schedule II Banks are subsidiaries of foreign owned Banks and Schedule III Banks are foreign owned Banks.

### **Bank Act**

The legislation that governs chartered banks in Canada

### **Borrower**

The individual responsible for the receipt and repayment of mortgage proceeds

### **British North America Act, 1867**

On March 29, 1867, the British Parliament passed the *British North America Act*, which established the provisions of the Confederation of the Province of Canada (Ontario and Quebec), New Brunswick and Nova Scotia into a federal state with a parliamentary system patterned on the British model. The Act established the division of powers between the central Parliament and the provincial legislatures. The federal government was responsible for, among other things, banking business, criminal law, the post office, the armed forces; the provinces could legislate, among other things, property law, contracts, and local work.

### **Canadian Mortgage Brokers Association (CMBA)**

An inter-jurisdictional umbrella association consisting of provincial mortgage broker associations in Canada

### **Collateral mortgage**

A promissory note with a lien on the property for the total amount registered.

### **Commercial mortgages**

A commercial mortgage is similar to a residential mortgage, except the collateral is a commercial building or other business real estate, not residential property.

### **Constitution Act, 1867**

The *Constitution Act, 1867* (formerly called the *British North America Act, 1867*, and still known informally as the *BNA Act*), constitutes a major part of Canada's Constitution. The Act entails the original creation of a federal dominion and defines much of the operation of the Government of Canada, including its federal structure, the House of Commons, the Senate, the justice system, and the taxation system. It received its current name in 1982, with the patriation of the

constitution (originally being enacted by the British Parliament).

**Crown**

The executive branch of government, the Queen acting through Her Agents (the members of the Cabinet)

**Demographics**

Refers to selected population characteristics as used in government, marketing or opinion research

**Errors and omissions insurance**

Insurance that provides coverage for errors or omissions made by a brokerage, broker, agent or Administrator. This insurance must contain a provision for fraud.

**Expropriate/Expropriation**

The act of a public authority (such as federal, provincial, municipal governments or other bodies empowered by statute) taking property without the consent of an owner through a statutory or common law process. In Ontario this right is conferred by the *Expropriations Act*. This process involves the payment of compensation to the owner by the authority and the owner having the right to claim additional compensation to be determined by the courts or an administrative board. Compensation is intended to make the owner whole, in light of the loss suffered.

**Financial statements**

Formal records of a business' financial activities. These statements provide an overview of a business' profitability and financial condition in both short and long term.

**Foreclosure**

A lender's remedy that enables the lender to obtain title to the defaulted borrower's property and dispose of it. Any profit or loss will belong to the lender while the borrower is free of the debt.

**FSRA**

The Financial Services Regulatory Authority of Ontario (formerly the Financial Services Commission of Ontario until June 8, 2019). This is the regulatory body that oversees the mortgage brokerage industry and enforces the *Mortgage Brokerages, Lenders and Administrators Act, 2006* (formerly the *Mortgage Brokers Act*), as well as several other industries and Acts.

**Home inspector**

A home inspection is a non-invasive examination of the condition of a home, often in connection with the sale of that home. This is carried out by a home inspector, who usually has special equipment and training to carry out such inspections.

**Income approach**

An approach to calculating the value of an income producing property through the usage of the net operating income and capitalization rate typical for that type of property and the area in which it is located

**Institutional lender**

A lender considered to be a Bank, Loan or Trust Company, Credit Union or caisses populaires.

**Institutional mortgage originator**

An individual employed by an institutional lender to provide suitable borrowers to that institution for mortgage financing

**Lawyer**

A person licensed to practice law

**Life insurance company**

A licensed company providing life insurance to policy holders

**Line of credit**

An amount of credit made available to a borrower but not advanced on closing.

**Mortgage**

The word mortgage is defined as, “any charge on any property for securing money or money’s worth.” However, the more common definition of a mortgage states that: a mortgage is defined as a loan secured by real property.

**Mortgage administrator**

An individual or business that processes mortgage loans on behalf of another party.

**Mortgage backed security**

An investment in a pool of amortized residential mortgages insured through CMHC under the *National Housing Act* (NHA)

**Mortgage agent or broker**

Individuals who are remunerated for dealing in mortgages or trading in mortgages in Ontario, as employees or otherwise. A mortgage broker may hold the position of principal broker and may supervise licensed mortgage agents. Mortgage agents and brokers must be licensed.

**Mortgage brokerage community**

The mortgage brokerage industry as a whole

***Mortgage Brokerages, Lenders and Administrators Act, 2006***

The legislation that governs the mortgage brokerage industry in Ontario. This legislation is enforced by FSRA and replaces the previous *Mortgage Brokers Act*.

***Mortgage Brokers Act***

The legislation predating the *Mortgage Brokerages, Lenders and Administrators Act, 2006*. This legislation governed the mortgage brokerage industry in Ontario until July 1<sup>st</sup>, 2008 and was enforced by FSRA.

**Mortgage default insurer**

An insurer that provides a policy to the insured lender. This policy will compensate the lender for losses incurred in a mortgage transaction. As of 2011 the insurers that are in Ontario include CMHC, Genworth Financial and Canada Guaranty.

**Mortgage Investment Corporation (MIC)**

A corporation created to invest in mortgages. Investors purchase shares in the corporation and receive income through dividend payments.

**Mortgage Professionals Canada**

A national mortgage industry association

**National Housing Act (NHA)**

The legislation that created mortgage default insurance in 1954

**Non-conforming mortgage market**

Mortgage loans for borrowers who have impaired credit or some other impairment that prevents them from being able to qualify for traditional lending products

**Premiums (Life Insurance)**

Payments made in return for a policy

**Private lender**

A private lender is typically an individual investor with funds who would like to invest in mortgages. This individual will usually invest through his or her lawyer who may have clients requiring mortgage financing or a mortgage agent. His or her purpose may vary but normally an investor will invest in 2<sup>nd</sup> mortgages due to their higher rate of return when compared to 1<sup>st</sup> mortgages and other potential types of investments such as GICs or bonds.

**Real Estate and Mortgage Institute of Canada Inc. (REMIC)**

A national organization dedicated to providing the mortgage and real estate industries with resources designed to increase market penetration and the success of its members.

**Real estate appraiser**

An individual, usually licensed, who provides a report illustrating several components of a property, including its value, usually in the form of its market value

**Real estate board**

A non-profit organization representing local real estate brokers and agents, that provides services to its members

**Real estate broker**

According to the *Real Estate and Business Brokers Act, 2002*, a “Broker” means an individual who has the prescribed qualifications to be registered as a broker under the *Act* and who is employed by a brokerage to trade in real estate.

**Real estate brokerage**

According to the *Real Estate and Business Brokers Act, 2002*, a “Brokerage” means a corporation, partnership, sole proprietor, association or other organization or entity that, on behalf of others and for compensation or reward or the expectation of such, trades in real estate or holds himself, herself or itself out as such.

**Real estate lawyer**

A lawyer specializing in real estate law

**Real estate salesperson/salespersons**

According to the *Real Estate and Business Brokers Act, 2002*, an “agent” means an individual who has the prescribed qualifications to be registered as an agent under this Act and who is employed by a brokerage to trade in real estate.

**Refinance**

When a borrower already has an existing mortgage, refinancing means to increase the size of that mortgage, or renegotiate it in some fashion.

**Renewal**

This is an option when a borrower has an existing mortgage. At the end of the term of the mortgage the lender may offer to renew it. This means that the lender is offering to give the borrower new terms and conditions for a new term while not changing the mortgage amount (unlike in a refinance).

**Residential mortgages**

Mortgage lending on properties that are zoned residential

**Securitization**

The selling of a pool of mortgages to a third party

**Sub-prime mortgage**

A mortgage loan for a borrower who has impaired credit or some other impairment that prevents him or her from being able to qualify for traditional lending products

**Sub-prime mortgage market**

A market for borrowers who do not qualify for traditional lending products

**Title insurer**

A provider of title insurance

**Title insurance**

An insurance policy that provides protection against errors in title such as survey errors, zoning infractions and property encroachments. It can also protect the homeowner against fraud.

**1.13 Review Questions**

Answers to the Review Questions are found at [www.REMIC.ca](http://www.REMIC.ca)

**Short Answer Questions**

1. What are the main differences between a mortgage agent and a mortgage broker?
2. What are the typical activities of a mortgage agent/broker?
3. List and define the key participants in the Ontario mortgage industry.
4. Explain when and why banks began lending in the residential mortgage market.
5. Define the sub-prime mortgage market.
6. What impact has the U.S. sub-prime market collapse had on the Ontario mortgage market?
7. Which type of lender is the predominant lender in the Canadian mortgage market?
8. What segment of the Canadian population has a Beacon Score of 750 to 799?
9. What are the six major differences between the commercial and residential mortgage markets?
10. What is the typical maximum loan to value of a private mortgage?
11. What advice would you give to an individual wishing to invest in mortgages?
12. What options are available for investors who wish to invest in mortgages but have a low tolerance for risk?

## Appendix 1: Schedule 1 Banks

Schedule 1 Banks<sup>13</sup>  
As at December 31, 2018

Name of Bank	Head Office
ADS Canadian Bank	Ontario
B2B Bank	Ontario
Bank of Montreal	Quebec
Bank of Nova Scotia (The)	Nova Scotia
Bridgewater Bank	Alberta
Caisse populaire acadienne ltée	New Brunswick
Canadian Imperial Bank of Commerce	Ontario
Canadian Tire Bank	Ontario
Canadian Western Bank	Alberta
Coast Capital Savings Federal Credit Union	British Columbia
Concentra Bank	Saskatchewan
Continental Bank of Canada	Ontario
CS Alterna Bank	Ontario
DirectCash Bank	Alberta
Equitable Bank	Ontario
Exchange Bank of Canada	Ontario
First Nations Bank of Canada	Saskatchewan
General Bank of Canada	Alberta
Haventree Bank	Ontario
Home Bank	Ontario
HomeEquity Bank	Ontario
Laurentian Bank of Canada	Quebec
Manulife Bank of Canada	Ontario
Motus Bank	Ontario
National Bank of Canada	Quebec
President's Choice Bank	Ontario
Rogers Bank	Ontario
Royal Bank of Canada	Quebec
Street Capital Bank of Canada	Ontario
Tangerine Bank	Ontario
Toronto-Dominion Bank (The)	Ontario
Vancity Community Investment Bank	British Columbia
VersaBank	Ontario
Wealth One Bank of Canada	Ontario
Zag Bank	Alberta

<sup>13</sup> Bank Act ( 1991, c. 46 ), Schedule I, <https://laws-lois.justice.gc.ca/eng/acts/B-1.01/page-161.html#h-1115190>



## Appendix 2: Schedule 2 Banks

Schedule 2 Banks<sup>14</sup>  
As at December 31, 2018

Name of Bank	Head Office
Amex Bank of Canada	Ontario
Bank of China (Canada)	Ontario
Bank One Canada	Ontario
BofA Canada Bank	Ontario
Cidel Bank Canada	Ontario
Citco Bank Canada	Ontario
Citibank Canada	Ontario
CTBC Bank Corp. (Canada)	British Columbia
Habib Canadian Bank	Ontario
HSBC Bank Canada	British Columbia
ICICI Bank Canada	Ontario
Industrial and Commercial Bank of China (Canada)	Ontario
J.P. Morgan Bank Canada	Ontario
J.P. Morgan Canada	Ontario
KEB Hana Bank Canada	Ontario
Mega International Commercial Bank (Canada)	Ontario
SBI Canada Bank	Ontario
Shinhan Bank Canada	Ontario
Société Générale (Canada)	Quebec
UBS Bank (Canada)	Ontario
Walmart Canada Bank	Ontario

<sup>14</sup> Bank Act ( 1991, c. 46 ), Schedule II, <https://laws-lois.justice.gc.ca/eng/acts/B-1.01/page-162.html#docCont>

### **Appendix 3: Schedule 3 Banks**

Schedule 3 Banks<sup>15</sup>  
As at December 31, 2018

<b>Name of Authorized Foreign Bank (FB)</b>	<b>Name under which FB is permitted to carry on business in Canada</b>	<b>Type of Foreign Bank Branch (FBB)</b>	<b>Principal Office</b>
Bank of America, National Association	Bank of America, National Association	Full-service	Ontario
Bank of China Limited	Bank of China, Toronto Branch	Full-service	Ontario
Bank of New York Mellon (The)	Bank of New York Mellon (The)	Full-service	Ontario
Barclays Bank PLC	Barclays Bank PLC, Canada Branch	Full-service	Ontario
BNP Paribas	BNP Paribas	Full-service	Quebec
Capital One Bank (USA), N.A.	Capital One Bank (Canada Branch)	Full-service	Ontario
China Construction Bank	China Construction Bank Toronto Branch	Full-service	Ontario
Citibank, N.A.	Citibank, N.A.	Full-service	Ontario
Comerica Bank	Comerica Bank	Full-service	Ontario
Coöperatieve Rabobank U.A.	Rabobank Canada	Full-service	Ontario
Crédit Agricole Corporate and Investment Bank	Crédit Agricole Corporate and Investment Bank (Canada Branch)	Lending	Quebec
Credit Suisse AG	Credit Suisse AG, Toronto Branch	Lending	Ontario
Deutsche Bank AG	Deutsche Bank AG	Full-service	Ontario
Fifth Third Bank	Fifth Third Bank	Full-service	Ontario
First Commercial Bank	First Commercial Bank	Full-service	British Columbia
JPMorgan Chase Bank, National Association	JPMorgan Chase Bank, National Association	Full-service	Ontario
M&T Bank	M&T Bank	Full-service	Ontario
Maple Bank GmbH	Maple Bank	Full-service	Ontario
Mega International Commercial Bank Co., Ltd.	Mega International Commercial Bank Co., Ltd.	Full-service	Ontario
Mizuho Bank, Ltd.	Mizuho Bank, Ltd., Canada Branch	Full-service	Ontario
MUFG Bank, Ltd.	MUFG Bank, Ltd., Canada	Full-service	Ontario

<sup>15</sup> Bank Act (1991, c. 46), Schedule III, <https://laws-lois.justice.gc.ca/eng/acts/B-1.01/page-163.html#docCont>

	Branch		
Natixis	Natixis Canada Branch	Lending	Quebec
Northern Trust Company (The)	Northern Trust Company, Canada Branch (The)	Full-service	Ontario
PNC Bank, National Association	PNC Bank Canada Branch	Full-service	Ontario
Silicon Valley Bank	Silicon Valley Bank	Lending	Ontario
Société Générale	Société Générale (Canada Branch)	Full-service	Quebec
State Street Bank and Trust Company	State Street	Full-service	Ontario
Sumitomo Mitsui Banking Corporation	Sumitomo Mitsui Banking Corporation, Canada Branch	Full-service	Ontario
U.S. Bank National Association	U.S. Bank National Association	Full-service	Ontario
UBS AG	UBS AG Canada Branch	Full-service	Ontario
United Overseas Bank Limited	United Overseas Bank Limited	Full-service	British Columbia
Wells Fargo Bank, National Association	Wells Fargo Bank, National Association, Canadian Branch	Full-service	Ontario

## **2.12 Key Terms and Definitions**

### **1<sup>st</sup> mortgage**

The first mortgage registered on title of a property

### **2<sup>nd</sup> mortgage**

A mortgage registered on title of a property after a 1<sup>st</sup> mortgage

### **3<sup>rd</sup> mortgage**

A mortgage registered on title of a property after a 2<sup>nd</sup> mortgage

### **Assignment of mortgage**

The transference of a mortgage from one lender to another

### **Charge/Mortgage**

The document that indicates that there is a debt registered against the title of a property

### **Chattel**

Personal property, movable property and other property not deemed to be fixtures

### **Collateral mortgage**

A promissory note secured by a lien on the property for the total amount registered, which may differ from the total amount advanced.

### **Conventional mortgage**

A mortgage not exceeding 80% loan to value

### **Discharge of Charge/Mortgage**

The document that indicates that a debt has been removed from the title of a property

### **Down payment**

An amount of a purchaser's money provided to the vendor from his or her own resources (not included in a mortgage loan). Under certain programs this amount may be borrowed.

### **Equity take-out (ETO)**

The removal of equity by refinancing of the property

### **Interest rate**

The rate at which interest, which is a fee paid to the lender for borrowing money, is calculated

### **Mortgage**

The providing of real property to a lender as security in exchange for a debt

### **Mortgagee**

The lender

### **Mortgagor**

The borrower

**Payment**

A periodic amount, in dollars, required to be made in relation to a mortgage contract. A payment may be interest only or a blend of interest and principal.

**Personal property**

Everything one owns that is not real property. That includes chattels and other goods. Personal property is typically not fixed in its location and normally has a shorter useful life expectancy than real property.

**Real property**

Land and everything affixed to it. It is in a fixed location and is permanent, remaining, to one extent or another, long after the current owners have relinquished their rights to it.

**Self-insured lender**

A lender that does not use default insurance, but that charges a lender's fee and pools this money in a reserve fund to help offset the risks associated with lending high ratio mortgages without the protection of default insurance. The amount of this fee is typically similar to what a borrower would pay for default insurance.

**Standard Charge Terms**

The terms and conditions of the mortgage contract, including the remedies available to the lender upon default by the borrower

**Term**

A period of time in which the mortgage contract is in force. After this period of time the mortgage must be fully repaid or renegotiated.

**Title**

A term that refers to the ownership of a property. If something is registered "on title" it means that it is officially registered against the ownership of the property through the Land Titles Office, where property ownership is recorded

## **2.13 Review Questions**

Answers to the Review Questions are found at [www.REMIC.ca](http://www.REMIC.ca)

### **Short Answer Questions**

1. Discuss the difference between a mortgage and a car loan.
2. There are two mortgages registered against the title of Barbara's property. One was registered on May 20, 2006 and the other was registered on March 17, 2005. Which is the 1<sup>st</sup> mortgage and which is the 2<sup>nd</sup>?
3. Jonathan owns a house valued at \$250,000 with a current 1<sup>st</sup> mortgage that has a balance of \$190,000. Jonathan has credit card debts of \$12,500 that he wishes to consolidate by increasing his first mortgage. Would Jonathan require a conventional or high ratio mortgage?
4. Describe the purpose of the Charge/Mortgage.
5. Name and describe three of the main borrower obligations under a mortgage contract.
6. Every mortgage comes with a set of Standard Charge Terms. Discuss the purpose of this document and its importance in the mortgage transaction.

### **3.3 Key Terms and Definitions**

**Accelerated mortgage payment**

A mortgage payment larger than required to retire the mortgage over the contracted amortization, having the effect of repaying the amount borrowed sooner and saving the borrower interest

**Amortization**

The total amount of time required to fully repay a mortgage

**Assumability options**

This option allows a purchaser the ability to take over the current homeowner's mortgage

**Balloon payment**

The amount repayable at the end of the term

**Basis point**

1/100<sup>th</sup> of one percent

**Blended payment**

A payment that includes a combination of interest and principal

**Bundled option**

Also referred to as a Combination Option, this option combines a mortgage and a line of credit.

**Capped variable rate mortgage**

A variable rate mortgage that cannot exceed a preset interest rate

**Cash back option**

An option whereby on closing of the mortgage, a percentage of the mortgage loan is paid to the borrower by the lender

**Closed mortgage**

A mortgage with no option to repay the outstanding principal balance during the term unless the property is sold to an arm's length purchaser

**Compounding frequency**

The number of times per year in which an interest rate is charged. Typical compounding frequencies include semi-annually and monthly.

**Constant payment**

A payment that remains the same throughout the term of the mortgage

**Default**

The failure to meet the obligations of a contract. In a mortgage contract default typically refers to the failure to make the regular periodic mortgage payments

**Equity**

The difference, in dollars between the value of the property and the amount of financing

currently on the property.  $\text{Value} - \text{Financing} = \text{Equity}$

**Extended amortization**

An amortization that exceeds the standard amortization of 25 years

**Face value of the mortgage**

The original amount of the mortgage repayable by the borrower

**Fixed rate**

An interest rate that remains the same throughout the term of the mortgage

**Fully open mortgage**

An option allowing early repayment of the mortgage principal without penalty or notice

**Graduated payment mortgage**

A mortgage repayment plan whereby the mortgage payments are initially small but grow over time. The initial payments may not be enough to pay the principal and accrued interest for the period.

**High ratio mortgage**

A mortgage in excess of 80% loan to value

**Home equity line of credit (HELOC)**

A line of credit secured by a property

**Interest accruing mortgage**

A mortgage with a term whereby no repayments of interest or principal are made. The principal and compound interest are repayable at the end of the term.

**Interest only mortgage**

A mortgage with a term and a constant mortgage payment consisting of only interest payable for the payment period. At the end of the term, the principal amount is repayable.

**Interest rate differential**

The difference between a borrower's current contracted mortgage rate and the lender's current available rate for a similar term

**Line of credit**

A debt with a credit limit that allows the borrower to withdraw funds up to that credit limit. Repayments are based on a percentage of the outstanding balance and interest is charged only on the amount of the credit limit that is actually used.

**Loan to value (LTV)**

The amount of a loan to the value of the property expressed as a percentage.

$\text{Loan to Value (\%)} = \text{Loan} / \text{Property Value}$

**Lump sum payment**

A payment of money applied directly to the principal of a mortgage



**Mortgage default insurance**

An insurance policy which protects the insured (the lender) against losses suffered by the default of the borrower

**Mortgage rank**

The position of a mortgage registered on title of a property in relation to the timing of other registered mortgages. The first mortgage registered on title is considered a 1<sup>st</sup> mortgage. The next mortgage registered after the 1<sup>st</sup> is considered a 2<sup>nd</sup> mortgage, and so on.

**Negative amortization**

A scenario in which the periodic payment is not sufficient to pay the accumulated interest and the principal for the payment period. This causes the amortization to extend beyond the amount contracted.

**Open mortgage**

A mortgage that allows the borrower to repay the entire principal balance or portion thereof without penalty (fully open mortgage) or with an interest rate differential or 3 month's interest penalty (partially open mortgage)

**Outstanding balance**

The amount of the mortgage remaining to be repaid at a given time

**Partially amortized**

A mortgage contract that has a term

**Partially amortized, blended constant payment mortgage – Fixed rate**

A mortgage with a term and a repayment plan consisting of a fixed interest rate and the same periodic payment made up of a combination of interest and principal throughout the term.

**Partially amortized, blended constant payment mortgage – Variable rate**

A mortgage with a term and a repayment plan consisting of a variable interest rate that changes whenever the lender's prime rate changes and the same periodic payment made up of a fluctuating combination of interest and principal throughout the term.

**Partially amortized, blended variable payment mortgage – Variable rate**

A mortgage with a term and a repayment plan consisting of a variable interest rate and a fluctuating periodic payment that both change whenever the lender's prime rate changes. The payment consists of a fluctuating combination of interest and principal throughout the term.

**Portability option**

This option allows the borrower to take the mortgage with him or her to his or her new home

**Power of sale**

A process that allows the lender to take control of a property, sell it and repay its mortgage without having to use the courts (exceptions apply). This can be a quick and fairly inexpensive remedy available to lenders upon default by the borrower.

**Prepayment options**

Options available to the borrower to prepay a part of his or her mortgage. These options may or

may not include a penalty for this right.

**Prepayment penalty**

A penalty charged by a lender to a borrower for early prepayment of the mortgage

**Principal**

The amount of money advanced on a mortgage loan, excluding interest or any other costs

**Property insurance**

Insurance that protects the insured against losses to the property due to fire and other covered perils

**Purchaser**

The buyer of a property

**Quiet possession**

The right of the borrower to enjoy the property without interference by the lender unless there is a default by the borrower

**Reverse mortgage**

An interest accruing mortgage typically reserved for seniors. The mortgage is usually only repayable upon the death of the surviving homeowner or sale of the property.

**Straight line principal reduction mortgage**

A mortgage repayment plan whereby equal payments of principal are made throughout the term in addition to the interest payable for that period

**Term**

A period of time in which the mortgage contract is in force. After this period of time the mortgage must be fully repaid or renegotiated.

**Variable payment**

A payment that changes based on a lender's prime rate

**Variable rate**

An interest rate that fluctuates based on a lender's prime rate

**Vendor**

The seller of a property

### **3.4 Review Questions**

Answers to the Review Questions are found at [www.REMIC.ca](http://www.REMIC.ca)

#### **Short Answer Questions**

1. What mortgage option allows a borrower to pay off his or her mortgage during the term without a penalty?
2. Discuss the difference between accelerating a mortgage and using the increased payment option to pay the mortgage off more quickly.
3. Discuss the difference between an open mortgage and a closed mortgage.
4. Why might a consumer be confused as to the differences between an open and closed mortgage?
5. Under what circumstances would a prepayment penalty be charged?
6. Describe a scenario under which a 3-month interest penalty would be charged.
7. Describe a scenario under which an interest differential penalty would be charged.
8. What is a bundled mortgage? Name and describe the lenders that currently offer bundled mortgages in Ontario. This will require you to complete outside investigation.
9. What is the most common type of mortgage repayment plan in Ontario today?
10. A borrower has asked you for options regarding repaying his mortgage more quickly. Explain the options available to him and under what circumstances you would advise him to use these options.

## **4.8 Key Terms and Definitions**

### **Building scheme**

A group of restrictive covenants registered against several properties in a development plan that is binding on all purchasers of a property within that development

### **Chattel**

Personal property, movable property and other property not deemed to be fixtures

### **Condominium**

The whole collection of individual home units along with the land upon which they sit. Individual unit ownership is composed only of the air-space within the boundaries of the unit, as defined by a document known as a Declaration, filed on record with the local governing authority.

### **Dominant tenement**

A property receiving a benefit

### **Easement**

A right for the benefit of the dominant tenement over that of the servient tenement that is normally registered on title. Easements have several legal requirements and will “run with the land,” or are passed from owner to owner.

### **Encumbrance**

An interest in property that has the effect of limiting the rights of fee simple ownership of real property. Typical encumbrances are mortgages, easements and restrictive covenants.

### **Fee simple estate**

The most common form of ownership in Ontario and provides the holder with the widest breadth of rights available. Fee refers to the fact that the estate may be inherited while simple refers to the fact that there are no prohibitions against who may inherit it.

The owner of this estate is in control of the real property for as long as he or she has it, subject to paying the property taxes and other municipal obligations. This individual may transfer his or her interest in the property during his or her lifetime or dictate who will inherit the fee simple interest upon his or her death, mortgage the interest, and so on.

### **Joint tenancy**

A type of co-ownership of real property whereby all owners own an undivided interest in the property. This is most commonly used for spousal ownership of a matrimonial home.

### **Judgment**

A final court ruling resolving the key questions in a lawsuit and determining the rights and obligations of the opposing parties, such as the awarding of monies to an injured party. Judgments are included in the public records section of credit reports and will normally have a negative impact on credit scores and a person's ability to obtain credit.

### **Leasehold estate**

An interest in land created by a landlord and tenant, most commonly by a lease. This interest in land is created for a fixed period of time, such as a month, year, or more. There is no limit on

the time that a leasehold estate may be in effect. A leasehold estate provides the owner of this estate the right to exclusive use and possession of the property, subject to contractual limits contained in the terms of the lease.

**Lien**

Security against a property, either real or personal, for a debt

**Personal property**

Everything one owns that is not real property. That includes chattels and other goods. Personal property is typically not fixed in its location and normally has a shorter useful life expectancy than real property.

**Real property**

Land and everything affixed to it. It is in a fixed location and is permanent, remaining, to one extent or another, long after the current owners have relinquished their rights to it.

**Restrictive covenant**

A restriction of use placed on title of the servient tenement for the benefit of the dominant tenement

**Runs with the land**

Means that an interest in property, such as an easement or restrictive covenant, transfers from owner to owner

**Servient tenement**

A property giving up a benefit

**Tenancy in common**

A type of co-ownership of real property typically used by parties who wish to own individual shares in a property

## **4.9 Review Questions**

Answers to the Review Questions are found at [www.REMIC.ca](http://www.REMIC.ca)

### **Short Answer Questions**

1. Describe the differences between real and personal property.
2. What does a homeowner actually own in relation to his or her property?
3. Describe the term “Fee Simple” and discuss the rights of the fee simple holder.
4. Describe the term “Leasehold Estate” and discuss the rights of a holder of this type of estate.
5. What makes condominium ownership unique?
6. What impact on property ownership do encumbrances have?
7. What is an easement and what are its impacts on property rights?
8. What is a restrictive covenant and what are its impacts on property rights?
9. Describe the difference between a building scheme and a restrictive covenant.
10. Discuss the main difference between joint tenancy and tenancy in common.
11. Explain the impact of a judgment on property ownership.

## **5.12 Key Terms and Definitions**

### **Administrative penalties**

A penalty assessed by the FSRA for less serious contraventions of or failures to comply with the *MBLAA*

### **Authorized name**

The name authorized to be used by FSRA. Typically, this is the name found on a licensee's license

### **Borrower**

The individual responsible for the receipt and repayment of mortgage proceeds

### **Complaint**

A disagreement or statement of dissatisfaction with a brokerage or Administrator. Both must have policies and procedures in place to deal with complaints.

### **Compliance**

Conforming to the *MBLAA* and its *Regulations*

### **Corporation**

A legal business entity created under federal or provincial statutes

### **Cost of borrowing**

The *MBLAA* defines the cost of borrowing as "the interest or discount applicable to the mortgage; any amount charged in connection with the mortgage that is payable by the borrower to the brokerage or lender; any amount charged in connection with the mortgage that is payable by the borrower to a person other than the brokerage or lender, where the amount is chargeable, directly or indirectly, by the person to the brokerage or lender, and; any charge prescribed as included in the cost of borrowing, but does not include any charge prescribed as excluded from the cost of borrowing. It must be disclosed as either a percentage or in dollars and cents depending on the disclosure requirements of the *Regulations*."

### **Deemed trust funds (also see trust funds)**

Funds that are deemed to be payable to another party. These funds must be kept in a separate trust account.

### **Designated class of lenders and investors**

A term used to describe specific lenders and investors that may be exempt from certain requirements under *Regulation 188/08, section 2.(1)* which states,

"2. (1) For the purposes of this Regulation, a person or entity is a member of a designated class of lenders and investors if the person or entity is a member of any of the following classes:

1. The Crown in right of Ontario, Canada or any province or territory of Canada.
2. A brokerage acting on its own behalf.
3. A financial institution.
4. A corporation that is a subsidiary of a person or entity described in paragraph 1, 2 or 3.
5. A corporation that is an approved lender under the National Housing Act (Canada).
6. An administrator or trustee of a registered pension plan within the meaning of

- subsection 248 (1) of the Income Tax Act (Canada).
7. A person or entity who is registered as an adviser or dealer under the Securities Act when the person or entity is acting as a principal or as an agent or trustee for accounts that are fully managed by the person or entity.
  8. A person or entity who is registered under securities legislation in another province or territory of Canada with a status comparable to that described in paragraph 7 when the person or entity is acting as a principal or as an agent or trustee for accounts that are fully managed by the person or entity.
  9. A person or entity, other than an individual, who has net assets of at least \$5 million as reflected in its most recently-prepared financial statements and who provides written confirmation of this to the brokerage.
  10. An individual who, alone or together with his or her spouse, has net assets of at least \$5 million and who provides written confirmation of this to the brokerage.
  11. An individual who, alone or together with his or her spouse, beneficially owns financial assets (being cash, securities within the meaning of the Securities Act, the cash surrender value of a life insurance contract, a deposit or evidence of a deposit) that have an aggregate realizable value that, before taxes but net of any related liabilities, exceeds \$1 million and who provides written confirmation of this to the brokerage.
  12. An individual whose net income before taxes in each of the two most recent years exceeded \$200,000 or whose net income before taxes in each of those years combined with that of his or her spouse in each of those years exceeded \$300,000, who has a reasonable expectation of exceeding the same net income or combined net income, as the case may be, in the current year and who provides written confirmation of this to the brokerage.
  13. A person or entity in respect of which all of the owners of interests, other than the owners of voting securities required by law to be owned by directors, are persons or entities described in paragraphs 1 to 12. O. Reg. 188/08, s. 2 (1)."

**Disclosure**

The act of making something evident. There are several disclosure requirements mandated by the *MBLAA* and its *Regulations* with relation to a mortgage being recommended to a borrower, investor or lender by a brokerage.

**Disclosure form**

A form, prescribed or otherwise, used to provide disclosure to a borrower, lender or investor, as the case may be, in accordance with the *MBLAA* and its *Regulations*

**Errors and omissions insurance**

Insurance that provides coverage for errors or omissions made by a brokerage, broker, agent or Administrator. This insurance must contain a provision for fraud.

**Financial guarantee**

A requirement under the *MBLAA* in regard to Mortgage Administrators requiring licensees to have at least \$25,000 in unimpaired working capital or in another form as approved by FSRA.

**Financial Services Tribunal**

An independent, adjudicative body that hears appeals of regulatory decisions by the FSRA



**FSRA**

The Financial Services Regulatory Authority of Ontario (formerly FSCO). As of June 8, 2019, this is the regulatory body that oversees the mortgage brokerage industry and enforces the *Mortgage Brokerages, Lenders and Administrators Act, 2006* (formerly the *Mortgage Brokers Act*), as well as several other industries and Acts.

**Guarantees**

In regard to the *MBLAA*, a promise to pay. Guarantees are prohibited under several circumstances including a brokerage, broker, agent or Administrator guaranteeing payment from a borrower to an investor.

**Investor (also see Lender)**

An individual or entity lending money using a mortgage as security

**Lender (also see Investor)**

An individual or entity lending money using a mortgage as security

**Licensure**

Permission granted by an agency of government to an individual to engage in a given profession or occupation

**Limited Partnership**

An association of two or more partners formed to conduct a business jointly and in which one or more of the partners is liable only to the extent of the amount of money they have invested

**MBLAA**

The abbreviation of The *Mortgage Brokerages, Lenders and Administrators Act, 2006*, the legislation regulating the activities of mortgage brokerages, lenders and Administrators

**Mortgage administrator**

An individual or entity that enforces payments by borrowers on behalf of lenders or investors. Mortgage Administrators must be licensed.

**Mortgage agent**

Individuals who are remunerated for dealing in mortgages or trading in mortgages in Ontario, as employees or otherwise. Mortgage agents are restricted in their abilities by the *MBLAA* and its *Regulations* and must be supervised by a licensed mortgage broker. Mortgage agents must be licensed.

**Mortgage broker**

Individuals who are remunerated for dealing in mortgages or trading in mortgages in Ontario, as employees or otherwise. A mortgage broker may hold the position of principal broker and may supervise licensed mortgage agents. Mortgage brokers must be licensed.

**Mortgage brokerage**

Corporations, partnerships, sole proprietorships and prescribed entities that carry on the business of dealing in mortgages, trading in mortgages or lending money on the security of real property

**Partnership**

A type of business entity in which partners (owners) share with each other the profits or losses of the business undertaking in which all have invested

**Policies and Procedures**

A policy is a plan or course of action, while a procedure is a step by step process on how to perform a certain task. Under the *MBLAA*, brokerages and Administrators must have a set of documents that describe an organization's policies for operation and regulatory compliance, and the procedures necessary to fulfill the policies

**Principal broker**

A title held by the licensed mortgage broker responsible for ensuring that the brokerage, and all brokers and agents comply with the requirements of the *MBLAA*, including ensuring that any contraventions of the *Act* are dealt with, and that the brokerage has the proper policies and procedures in place to ensure that all brokers and agents are adequately supervised and that they comply with every requirement under the *MBLAA*. There may be only one principal broker per brokerage who must be identified to FSRA.

**Proprietor**

A sole owner of an unincorporated business, also called a sole proprietor

**Public register of licensees**

A registry required to be maintained by FSRA that provides access to licensee information

**Public relations**

As defined in *Regulation 188/08*, any advertisement by the brokerage in connection with its business as a brokerage that is published, circulated or broadcast by any means, or any material that a brokerage makes available to the public in connection with its business as a brokerage.

**Regulated activities**

As defined by the *MBLAA*, any activities that require a license which are currently listed as dealing or trading in mortgages and mortgage lending

**Simple referral**

A term used to describe the act of referring a potential borrower to a potential lender, or vice versa. This person does not need to be licensed if he or she informs the other party, in writing, that a fee will be received for the referral, the nature of the relationship between the parties, and as long as the only other information provided is the name, address, telephone number, fax number, email address or website address of the individual being referred.

**Sole proprietorship (also see Proprietor)**

A sole owner of an unincorporated business, also called a proprietor

**Standards of Practice**

*Regulation 188/08*, which applies to mortgage brokerages, *Regulation 187/07*, which applies to mortgage agents and brokers, and *Regulation 189/08*, which applies to mortgage administrators constitute the Standards of Practice under the *MBLAA*. These *Regulations* detail the business rules that licensees must follow to comply with the *MBLAA* and its *Regulations*.

**Trade completion date**

*Regulation 188/08* defines the trade completion date as the earlier of:

- a) the date on which an investor, or a brokerage on behalf of an investor, enters into an agreement to trade in the mortgage, or
- b) the date on which the trade in the mortgage is completed.

**Trust account**

A bank account held by a brokerage or Administrator for the purposes of keeping money held on behalf of clients separate from the funds of the professional or her business

**Trust fund (or account) reconciliation**

A written record of all deemed trust funds received, and all transactions relating to the funds, summarized and checked for accuracy.

**Trust funds (also see deemed trust funds)**

Funds that are deemed to be payable to another party. These funds must be kept in a separate trust account.

**Vendor take-back (VTB)**

Where the seller of the property provides all or some of the financing to the purchaser in order to sell the property. The arranging of a VTB by a real estate salesperson is an exempted activity under the *MBLAA* as long as certain conditions are met.

### **5.13 Review Questions**

Answers to the Review Questions are found at [www.REMIC.ca](http://www.REMIC.ca)

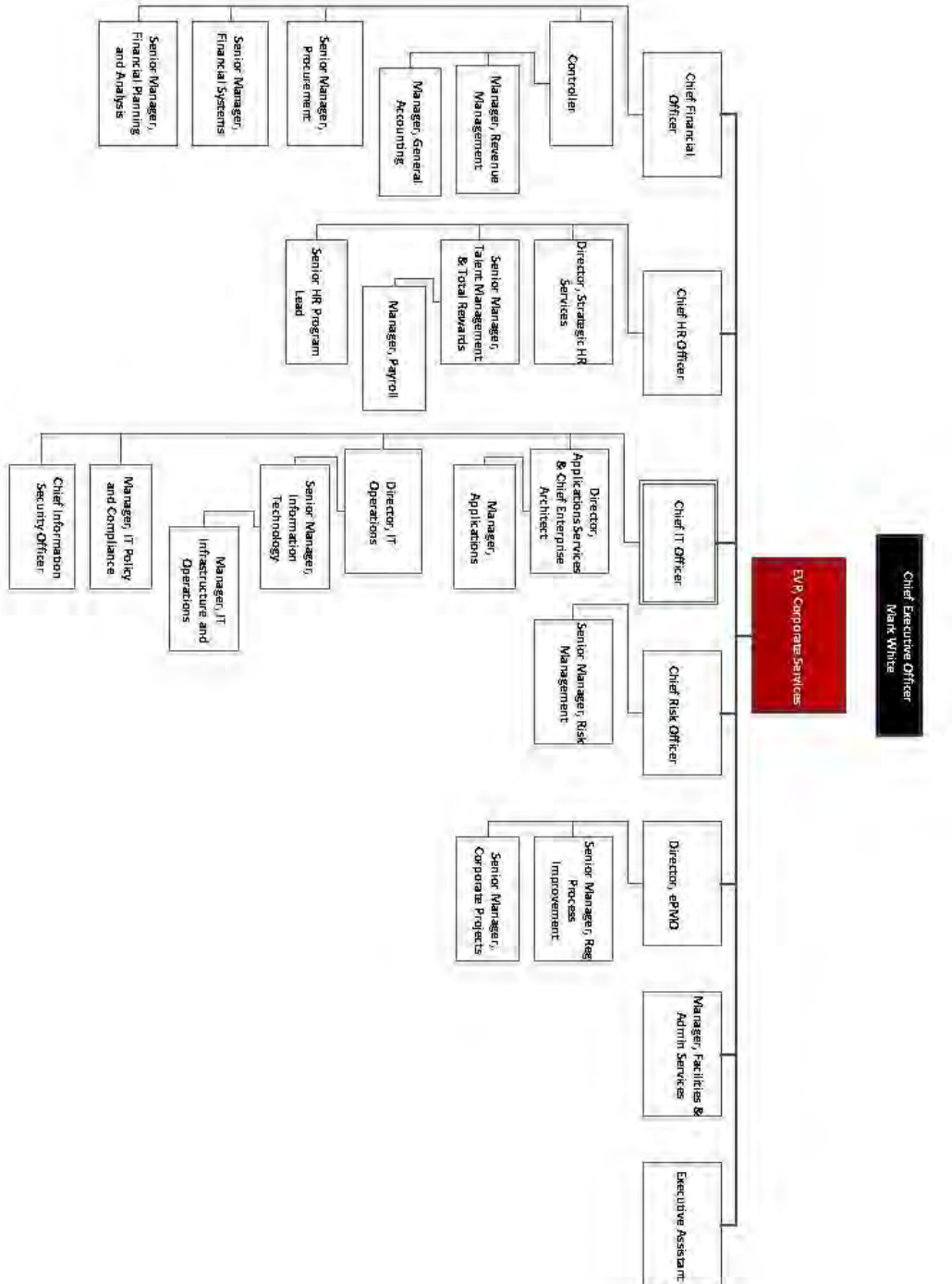
#### **True or False Questions**

1. As of January 2009, a brokerage must disclose to a borrower if one of its agents will receive a fee from a lender in connection with the mortgage renewal.
2. Borrowers are entitled to the following information, only if they ask: brokerage name and license number.
3. It is a good idea for a brokerage to have a complaints process, but this is not required by law.
4. The FSRA has the authority to refuse to grant a license to a brokerage if the FSRA thinks the name might confuse the public with another existing brokerage.
5. A sole proprietorship must establish its eligibility for licensure as a mortgage brokerage whereas a corporation does not.
6. Under certain circumstances, the FSRA may suspend a broker's license without warning.
7. No changes may be made to the *Regulations* without going through the formal process of receiving Royal Assent.
8. The Financial Services Commission is only concerned with one sector, the mortgage brokerage industry.
9. Standards of Practice are guiding principles that businesses are encouraged to implement.
10. Regulatory decisions by the FSRA are final, based on the powers conferred upon the position.
11. As per the *MBLAA*, there are currently three different licenses in the mortgage brokerage industry.
12. The FSRA (or its designate) may visit a brokerage within the FSRA registry to examine documents and records.
13. The principal broker designation was created by the *MBLAA* to address compliance issues within the brokerage.
14. The role of the brokerage may be defined as "taking steps, on behalf of another person or entity, to enforce payment by a borrower under a mortgage."
15. A mortgage agent may work only for one brokerage whereas a mortgage broker may be employed by several brokerages at the same time.

### Short Answer Questions

1. What are the educational requirements to obtain a mortgage agent's license?
2. What is/are the difference(s) between a mortgage agent and mortgage broker?
3. Describe the duties and responsibilities of the principal broker.
4. What administrative penalties may be imposed on a brokerage, broker or agent?
5. What is the difference between an offence under the *MBLAA* and an administrative penalty?
6. List the circumstances in which an individual would be deemed unsuitable to be granted a mortgage broker's license.
7. Describe the complaints policy that a brokerage must have to comply with the *MBLAA* and its *Regulations*.
8. What information must be included in every public relations item?
9. List the items that must be disclosed to a borrower in a disclosure document.
10. What amount of errors and omissions insurance must a brokerage have to comply with the *MBLAA*?
11. What is the amount of time that records of a mortgage transaction are required to be kept by the brokerage?
12. What types of funds must be deposited into a trust account?
13. What information must be provided to a potential private lender before he or she can commit to funding a mortgage?
14. What titles (i.e., broker, agent, etc.) must/can be used by brokers and agents in advertising materials?





## **6.4 Key Terms and Definitions**

### **Advertising**

A paid, controlled message through a non-personal medium. Types of advertising include publicity, public relations, product placement, sponsorship, and sales promotion.

### **Advisor**

An expert who provides objective advice. A mortgage agent, for example, acts as an advisor to a borrower.

### **Application**

A form used to record information about a potential borrower's state of affairs, including financial, credit and employment

### **Budget**

An estimate of income and spending

### **Commission (from a lender)**

A commission or fee paid to a mortgage brokerage by a lender. This fee is usually based on a certain number of basis points multiplied by the mortgage amount.

### **Commission (from a brokerage)**

The amount paid to the broker or mortgage agent who completed the transaction. This is typically based on a percentage of the commission or finder's fee paid by the lender to the mortgage brokerage.

### **Commitment letter**

A document illustrating an offer by a lender to a borrower, including the terms and conditions of that offer

### **Conditions (relating to a Commitment Letter)**

These are the requirements of the lender that must be met before the mortgage will be funded

### **Disclosure documents**

These are the documents prescribed under the *Mortgage Brokerages, Lenders and Administrators Act, 2006* (formerly the *Mortgage Brokers Act*) that must be provided to the borrower (and the investor in the case of a private transaction) before the mortgage can be funded. These documents include the Investor / Lender Disclosure for Brokered Transactions, the Investor / Lender Disclosure Statement for Brokered Mortgages on Renewal, and the borrower disclosure.

### **Finder's fee**

A commission or fee paid to a mortgage brokerage by a lender. This fee is usually based on a certain number of basis points multiplied by the mortgage amount.

### **Marketing**

Presenting products or services to potential customers in a fashion that positively promotes the product or service and makes customers eager to buy or use those products or services



**Referral**

A client or customer who has been advised by a third party to use the product or service of another

**Remuneration**

A payment or reward provided to someone for a product or service rendered

**6.5 Review Questions**

Answers to the Review Questions are found at [www.REMIC.ca](http://www.REMIC.ca)

**Short Answer Questions**

1. Discuss the expectations that lenders make regarding their business dealings with a mortgage agent.
2. Discuss the expectations that borrowers make regarding their expectations of a mortgage agent.
3. If a finder's fee is 85 bps, how much would a lender pay the mortgage brokerage on a \$350,000 mortgage transaction?
4. Discuss the positives and negatives of creating a budget for the borrower.
5. What step(s) in the mortgage transaction do you feel is/are the most important and why?

## **7.6 Key Terms and Definitions**

**Approved lender**

A lender approved by CMHC

**Beneficiary**

The person or entity who receives the payment of the amount of insurance after the death of the insured. Creditor insurance names the lender as the beneficiary.

**Business for self**

Another term for an individual who is self-employed

**Capitalization**

The act of adding mortgage arrears or other costs associated with a mortgage to the principal amount. For example, capitalizing a lender's fee means that this fee would be added to the mortgage principal and amortized.

**Chattel loan/mortgage**

A purchaser borrows funds for the purchase of movable personal property (the chattel) from the lender. The lender then secures the loan with a mortgage against the chattel.

**Claim**

A legal action to obtain money, property or the enforcement of a right protected by law against another party. An insurance claim is a claim made under the terms of the insurance contract.

**CMHC**

Canada Mortgage and Housing Corporation (CMHC), created through the *National Housing Act, 1954 (NHA, 1954)* established mortgage default insurance in Canada in 1954 and is the largest provider of default insurance in Canada.

**Common areas**

Common areas are the areas of a condominium building that are common to all unit owners, but not owned by them. For example, a swimming pool, gym, etc. Each unit owner pays a monthly fee to maintain these areas.

**Condominium**

The whole collection of individual home units along with the land upon which they sit. Individual home ownership is composed only of the air-space within the boundaries of the home, as defined by a document known as a Declaration, filed on record with the local governing authority.

**Condominium corporation**

A Corporation without share capital, created under the *Condominium Act* for the purposes of administering the operation, maintenance and repair of the common elements and assets of the condominium. The Corporation is guided by a Board of Directors consisting of the building's unit owners.

**Condominium status certificate**

A document containing information regarding the operational, legal, and financial status of the

condominium corporation. This document can contain the declaration, by-laws, rules and regulations, insurance information, reserve fund balance, other financial disclosures, legal description of the unit and management contract (if applicable). It may also include information about any legal filings or judgments against the condominium. A buyer should always review the status certificate.

**Deductible**

In relation to an insurance contract, this is the insured's share of the claim. The insured pays the deductible and the insurance company pays the remainder of the claim.

**Default management**

Programs in place by mortgage default insurers that allow the lender to assist the borrower in resolving mortgage arrears

**Depreciation**

Depreciation refers to the fact that certain assets, normally physical assets, can lose value over time. The amount of depreciation is calculated based on an item's original purchase price or economic value, its anticipated life expectancy and its residual value at a future point in time.

**Disbarment**

A revocation of a lawyer's ability to practice law

**Disbursements**

Amounts payable. In mortgage financing, disbursements typically relate to amounts paid from the mortgage proceeds.

**Down payment**

An amount of a purchaser's money provided to the vendor from his or her own resources (not included in a mortgage loan). Under certain programs this amount may be borrowed.

**E&O (Errors and omissions insurance)**

Insurance that provides coverage for errors or omissions made by a brokerage, broker, agent or Administrator. This insurance must contain a provision for fraud.

**Easement**

A right for the benefit of the dominant tenement over that of the servient tenement that is normally registered on title. Easements have several legal requirements and will "run with the land," or be passed from owner to owner.

**Encroachments**

When a piece of real property hangs from one property over the property line of another's. The structure that encroaches might be a tree, garage, fence, part of a building, or other fixture.

**Environmental hazards**

Any situation or state of events which poses a threat to the surrounding environment. This may be caused by chemicals leaking into the soil, ruptured gas tanks at a gas station, etc.

**Executions**

A "Writ of Execution" filed with the sheriff in the district in which the debtor lives or owns land.

This allows a plaintiff who has successfully obtained a judgment against a debtor in court to enforce the judgment.

**Extended amortization period**

An amortization that exceeds the standard amortization of 25 years

**Fire retrofit**

The *Municipal Act* and *Planning Act* permit one apartment in most detached houses, semi-detached houses and some types of row houses as long as minimum health and safety requirements can be met. The requirements for fire safety in such units are regulated under one of two provincial regulations, either the Building Code or Section 9.8 of the Fire Code. The requirements for a legal second unit can be summed up with these four points: there must be a fire separation between each unit; there has to be a way for occupants to escape from each unit; each unit must have smoke alarms; the units must meet electrical safety standards.

**Grossing up taxable income**

The process of adding deductions originally taken from an individual's income back to that income

**Group policy**

An insurance policy that groups together certain policyholders based on general criteria

**Home Buyers' Plan (HBP)**

A program that allows a first-time home buyer to withdraw up to \$35,000 in a calendar year from his or her registered retirement savings plans (RRSPs) to buy or build a qualifying home. A first-time home buyer is considered to be an individual who has not owned real property within four years prior to purchasing the current property.

**Home insurance**

Insurance to protect the home owner against covered risks and perils

**Insurance policy**

A policy that, in return for the payment of a premium or premiums, provides insurance coverage to the insured

**Liability**

An obligation of an individual or other entity to compensate for past occurrences that have caused injury or loss to another

**Lien**

Security against a property, either real or personal, for a debt

**Life insurance**

A policy of insurance that provides financial compensation to a beneficiary upon the death of the insured

**Malpractice insurance (Lawyer's)**

Insurance that provides coverage for acts of negligence or malpractice by a lawyer. This will compensate the injured party.

**Master insurance policy (Condominiums)**

Typically found with condominium buildings, this policy outlines the coverage for the entire building.

**Mobile home / Manufactured home**

A large trailer or transportable prefabricated structure that is situated in one particular place and used as a permanent living accommodation.

***Mortgage Brokerages, Lenders and Administrators Act, 2006***

The legislation that governs the mortgage brokerage industry in Ontario. This legislation is enforced by FSRA and replaces the previous *Mortgage Brokers Act*.

***Mortgage Brokers Act***

The legislation predating the *Mortgage Brokerages, Lenders and Administrators Act, 2006*. This legislation governed the mortgage brokerage industry in Ontario until July 1<sup>st</sup>, 2008 and was enforced by FSRA.

**Mortgage creditor insurance**

Insurance that provides coverage to the insured so that, in the case of the insured's death or other covered risk, payment is made to the lender

**Mortgage creditor life insurance**

Insurance that provides coverage to the insured so that, in the case of the insured's death or other covered risk, payment is made to the lender

**Mortgage default insurance**

An insurance policy which protects the insured (the lender) against losses suffered by the default of the borrower

**Mortgage fraud**

The deliberate omission of information, use of misstatements or misrepresentations to obtain, purchase or fund a mortgage loan

***National Housing Act***

The legislation that created mortgage default insurance in 1954

**Non owner-occupied property**

A property that is rented

**Non-permanent resident**

Non-permanent residents (NPRs) are persons who have been legally granted the right to live in Canada on a temporary basis under the authority of a temporary resident permit, along with members of their family living with them

**Owner-occupied property (O/O)**

A property that is occupied by the owner

**Portability**

The ability to transfer something such as a mortgage or insurance to another property, or

transfer mortgage creditor insurance coverage to another lender

**Premium**

An amount paid in return for insurance coverage

**Principal residence**

The place in which an individual normally resides

**Private insurer**

A non-governmental insurance company

**Property insurance**

Insurance that protects the insured against losses to the property due to fire and other covered perils

**Reamortization**

The process of changing the amortization on a current mortgage

**Refinance**

The process of paying off a current mortgage and replacing it with another

**Rental property**

A property used solely for the process of renting to generate income for the owner

**Replacement value**

The cost to replace an item in today's dollars

**Restrictive covenant**

A restriction of use placed on title of the servient tenement for the benefit of the dominant tenement

**RRIF**

A Registered Retirement Income Fund (RRIF) is a fund purchased by an individual from a carrier. It is purchased using money from an RRSP, a PRPP, an RPP, an SPP, or from another RRIF. The carrier then makes payments to the owner of the RRIF. A lender can use RRIF income as part of a borrower's income for qualification purposes.

**RRSP**

A Registered Retirement Savings Plan is a savings plan that is registered with Canada Revenue Agency and allows the individual to defer taxes, generally until retirement.

**Second home**

A second home is a vacation property such as a cottage or other property, not used as a principal residence. It is possible to get a 95% Ltv mortgage to purchase a second home, as long as it is owner occupied or for family members to live rent-free (other conditions do apply). The Home Buyers Plan is not eligible for this type of purchase.

**Self-directed RRSP**

A type of RRSP (Registered Retirement Savings Plan) whose owner determines the asset mix

held in the trust

**Self-employed borrower**

A mortgage borrower whose income is derived from self-employment activities

**Septic system**

A domestic wastewater treatment system (consisting of a septic tank and a soil absorption system) into which wastes are piped directly from the home. Bacteria decompose the waste, sludge settles to the bottom of the tank, and the treated effluent flows out into the ground through drainage pipes.

**Solicitor's Letter of Opinion**

A report by the lender's real estate lawyer outlining the condition of the title of the mortgaged property

**Survey**

A document that determines the boundaries of a property. More information can be found at the Association of Land Surveyors, <https://www.aols.org/faq/2002-09-26-15>

**Tenant**

An individual renting a property

**Term life insurance**

A life insurance policy with a specified term or amount of time that the policy will be in place

**Title**

A term that refers to the ownership of a property. If something is registered "on title" it means that it is officially registered against the ownership of the property through the Land Titles Office, where property ownership is recorded

**Title defects**

Any problem that "clouds" the property's title. A title defect can be a lien, a person or entity that may have had interest in the property and never surrendered it, or any number of other situations making the title less than perfect

**Title insurance**

An insurance policy that provides protection against errors in title such as survey errors, zoning infractions and property encroachments. It can also protect the homeowner against fraud.

**Underwriting**

The process that a product or service provider uses to assess the eligibility of a customer to receive its products such as mortgage financing, insurance or other credit to a consumer



## **7.7 Review Questions**

Answers to the Review Questions are found at [www.REMIC.ca](http://www.REMIC.ca)

### **Short Answer Questions**

1. How has mortgage default insurance improved the mortgage market?
2. Who are the current mortgage default providers in Ontario?
3. What is/are the main benefits of mortgage default insurance to a) the borrower? b) the lender?
4. How can a borrower currently in default be assisted by the lender and the mortgage default insurer?
5. How does title insurance benefit a) the borrower? b) the lender? c) the real estate lawyer?
6. What type of insurance would you suggest to a purchaser of a condominium?
7. When was title insurance first introduced?
8. Discuss the main differences between mortgage creditor life insurance and term life insurance.
9. Which companies are currently licensed to provide title insurance in Ontario?
10. Without errors and omissions insurance, what might the consequences be to a mortgage broker who commits an error and is sued by a client?

## **8.8 Key Terms and Definitions**

**Amortization period**

The total amount of time required to fully repay a mortgage

**Compounding frequency**

The number of times per year in which an interest rate is charged. Typical compounding frequencies include semi-annually and monthly.

**EFF%**

The J1 rate or the annual interest rate with only one compounding period

**Equivalent interest rate**

A rate that is equal to another. Two rates are said to be equal if, for the same amount borrowed over the same period of time, the same amount is owed at the end of that period

**Floating decimal place**

The calculator provides the answer on the display to the number of decimal places the number requires without rounding.

**FV**

The future value also referred to as the outstanding balance at a given point in time

**HP10BII**

The financial calculator used to compute several mortgage calculations

**Interest rate**

The rate at which interest, which is a fee paid to the lender for borrowing money, is calculated

**Interest rate conversion**

The process of converting a rate to its equivalent with a different frequency of compounding

**Mortgage amount**

The amount of money borrowed, also referred to as the present value

**N**

The key on the HP10BII representing the total number of compounding periods required to repay a mortgage

**NOM%**

The key on the HP10BII representing the annual rate of interest

**Outstanding balance**

The same as the future value, this is the amount owed at a given point in time.

**P/YR**

The key on the HP10BII representing the total number of compounding periods per year

**PMT**

The key on the HP10BII representing the payment or the amount required to be repaid per compounding period

**PV**

The key on the HP10BII representing the Present Value, also referred to as the mortgage amount

**Rounded payment**

A payment that has been properly rounded. A mortgage payment is rounded up to the next highest cent unless otherwise indicated.

**Term**

A period of time in which the mortgage contract is in force. After this period of time the mortgage must be fully repaid or renegotiated.

## 8.9 Review Questions

Answers to the Review Questions are found at [www.REMIC.ca](http://www.REMIC.ca)

### Short Answer Questions

1. Note: This question does not apply to the Sharp or Texas Instruments calculators.  
Your client has asked you which interest rate is lower: 6% compounded semi-annually or 5.93% compounded monthly. Which rate is lower?
2. Note: This question does not apply to the Sharp or Texas Instruments calculators.  
Perform the following rate conversions:
  - a.  $J_{12} = 7\%$ . What is the  $J_4$  equivalent?
  - b.  $J_4 = 3.2\%$ . What is the  $J_{12}$  equivalent?
  - c.  $J_{12} = 3\%$ . What is the  $J_2$  equivalent?
  - d.  $J_{365} = 18\%$ . What is the  $J_1$  equivalent?
3. Your client has asked you to tell her the amount of her mortgage payment based on the following proposed mortgage: \$295,500 mortgage amortized over 35 years with an interest rate of 4.25% compounded semi-annually, not in advance, with weekly payments and a 3-year term. What is her proposed payment?
4. Calculate the payment for the following mortgages:
  - a. \$470,000 mortgage, 25-year amortization, monthly payments, 3-year term,  $J_2=6\%$
  - b. \$350,000 mortgage, 40-year amortization, bi-weekly payments, 5-year term,  $J_2=5.57\%$
  - c. \$20,000 second mortgage, 15-year amortization, monthly payments, 15-year term,  $J_2=14\%$
  - d. \$1,250,000 mortgage, 35-year amortization, weekly payments, 5-year term,  $J_2=3.75\%$
5. Your client does not qualify for an institutional mortgage, so you have arranged a private second mortgage for him. The mortgage amount is \$34,500 and the interest rate is 13% compounded semi-annually. The monthly payments are interest only for one year. What is the amount of the proposed mortgage payment? (Hint: the present value and the future value are the same because there is no principal being repaid)

### **9.3 Key Terms and Definitions**

**Advertising Standards Canada (ASC)**

This not-for-profit, self-regulatory body founded in 1952, regulates the advertising industry and handles consumer complaints related to advertising.

**Bait and switch**

Providing a consumer with an attractive offer to obtain him or her as a client but being unable to provide the product or service at the indicated price

**Database marketing**

Database Marketing is the function of warehousing potential and existing client information in an electronic medium that allows the user to assemble or list these clients in groups that can be marketed to.

**Marketing**

Presenting products or services to potential customers in a fashion that positively promotes the product or service and makes customers eager to buy or use those products or services

**Mortgage agent**

Individuals who are remunerated for dealing in mortgages or trading in mortgages in Ontario, as employees or otherwise. Mortgage agents are restricted in their abilities by the *MBLAA* and its *Regulations* and must be supervised by a licensed mortgage agent. Mortgage agents must be licensed.

**Standards of Practice**

*Regulation 188/08*, which applies to mortgage brokerages, *Regulation 187/07*, which applies to mortgage brokers and agents, and *Regulation 189/08*, which applies to Mortgage Administrators constitute the Standards of Practice under the *MBLAA*. These *Regulations* detail the business rules that licensees must follow to comply with the *MBLAA* and its *Regulations*.

**Testimonials**

An endorsement in writing, verbally or electronically by a client

**The Canadian Code of Advertising Standards**

The Canadian Code of Advertising Standards was created by the advertising industry in 1963 to promote the professional practice of advertising

**9.4 Review Questions**

Answers to the Review Questions are found at [www.REMIC.ca](http://www.REMIC.ca)

**Short Answer Questions**

1. What is a “Bait and Switch”?
2. What does the Canadian Code of Advertising Standards promote?
3. What does the *Mortgage Brokerages, Lenders and Administrators Act, 2006* prohibit regarding advertising?

## ***10.5 Key Terms and Definitions***

**Advertising**

A paid, controlled message through a non-personal medium. Types of advertising include publicity, public relations, product placement, sponsorship, and sales promotion.

**Audio business card**

A smaller version of a CD that allows the user to create their own audio business card

**Bait and switch**

Providing a consumer with an attractive offer to obtain him or her as a client but being unable to provide the product or service at the indicated price

**Business card**

A marketing tool that provides contact information, a logo, and other relevant information about the company, products and/or services of the company and/or the individual

**Call script**

A written document that outlines or scripts a telephone conversation, allowing the user to remain focused on the purpose and objectives of the call

**Classified advertisement**

A print advertisement placed in the Classified section of a newspaper

**Cold call**

A call made to a cold or potentially unfriendly new client or referral source who does not know the caller

**Database marketing**

Database Marketing is the function of warehousing potential and existing client information in an electronic medium that allows the user to assemble or list these clients in groups that can be marketed to.

**Flyer**

A stand-alone marketing piece, usually on 8.5 x 11-inch paper

**Marketing**

Presenting products or services to potential customers in a fashion that positively promotes the product or service and makes customers eager to buy or use those products or services

**Mission statement**

A Mission Statement is a plan for companies and people to accomplish the goals they set. It is designed to shape the company or individual's identity and is typically based on a vision, goal, or ethics.

**Mortgage agent**

Individuals who are remunerated for dealing in mortgages or trading in mortgages in Ontario, as employees or otherwise. Mortgage agents are restricted in their abilities by the *MBLAA* and its *Regulations* and must be supervised by a licensed mortgage agent. Mortgage agents must be

licensed.

**Networking**

Building or expanding one's social network or sphere of influence by initiating mutually advantageous new relationships with people

**Niche marketing**

Marketing to a specific audience or target demographic

**Referral**

A client or customer who has been advised by a third party to use the product or service of another

**Post-purchase cognitive dissonance**

Commonly referred to as buyer's remorse, this refers to the emotional state a buyer is in after completing what is typically a large purchase and who is no longer in an emotionally charged state.

**Pre-purchase research**

The research done by a potential purchaser of a more expensive item. This may include online research as well as contacting past clients, calling service providers, etc.

**Testimonials**

An endorsement in writing, verbally or electronically by a client

**Unaddressed admail**

Bulk, unaddressed advertising that is delivered in bulk to a certain area by Canada Post

**Video business card**

A visual presentation of a sales person on CD

**Vision statement**

A Vision Statement is something that the business or mortgage agent aspires to become. It should illustrate the core belief of the business or mortgage agent and effectively communicate that to the reader.

**Warm call**

A call made to a warm or potentially friendly new client or referral source who may know the caller or may have been referred to the caller by a third party



## ***10.6 Review Questions***

Answers to the Review Questions are found at [www.REMIC.ca](http://www.REMIC.ca)

### **Short Answer Questions**

1. What is the typical question that a potential client asks when first contacting a mortgage agent?
2. What are five tips for success when using a call script?
3. Discuss the benefits of using a call script.
4. What is a cold call?
5. How can a cold call be turned into a warm call?
6. What information should be provided to the caller within the first ten to fifteen seconds of a call?
7. Why is it important to develop a relationship with a potential client?
8. Discuss the differences between a Mission and a Vision Statement.
9. What does a business card provide to the mortgage agent?
10. What are the benefits of an audio business card?
11. Is networking typically more or less expensive than marketing? Explain your answer.
12. In what ways can a mortgage agent differentiate him or herself from the competition?
13. Why are testimonials beneficial in the marketing of intangible products or services?
14. Discuss three ways that a mortgage agent can obtain referrals.

## **11.7 Key Terms and Definitions**

**Business license**

A license provided to a business that serves as proof that a business is registered and operational

**Civic address**

The street address of a property, including the number of the property, the street, the unit number (if applicable), the province and the postal code

**Closed-ended question**

A question designed to elicit a single word answer such as a yes or no

**Co-applicant / co-borrower**

An individual who is registered on title and who is applying for financing with the applicant

**Co-signer**

An individual who is registered on title and who is guaranteeing that payments will be made to the lender if the borrower defaults. Usually required if the applicant has insufficient income.

**Decision-maker**

The individual who tends to make the majority of the decisions for the family unit

**File**

The collection of relevant documents related to a mortgage transaction

**File checklist**

A document that allows the mortgage agent to check off the documents received in the file

**Financial statements**

Formal records of a business' financial activities. These statements provide an overview of a business' profitability and financial condition in both short and long term.

**Guarantor**

An individual who is not registered on title but who is guaranteeing that payments will be made to the lender if the borrower defaults. Usually required if the applicant has poor credit.

**Legal description**

A description of the property, including the lot and plan number, and the municipality, township or borough in which the property is located

**Letter of employment**

A document provided by an employer that lists the employee's position, length of employment and income

**MLS listing**

Multiple Listing Service. This is typically how real estate salespersons expose a property to the marketplace.

**Mortgage repayment history**

A history of the applicant's mortgage payments, typically over twelve to twenty-four months, provided by a lender

**Open-ended question**

A question designed to elicit a conversational answer, not simply a "yes" or "no" answer

**Paystub**

A document provided to an individual by his or her employer each time the employee is paid (by cheque, direct deposit or other), and is often required by a lender in addition to a job letter and/or any other document used to verify the employee's income

**PIPEDA consent**

Consent under the *Personal Information Protection and Electronic Documents Act* that allows the mortgage agent to use the applicant's information for a set of specific purposes

**Property insurance policy**

An insurance policy that insures the property against losses due to fire, vandalism, etc.

**Property tax statement**

A statement provided by the municipality in which the property is located indicating the amount of annual property taxes and if any property taxes are outstanding

**Purchase and sale agreement**

The document completed by a real estate salesperson for the sale of property

**T4**

A document provided to an individual by his or her employer, typically when there is employment income, such as salaried or hourly income. Employers are required by law to provide the T4 so that employees may file their income tax returns. The T4 indicates, among other things, the amount of money the employee earned in the one-year period, as well as the deductions from earnings

**Tax return**

The document required to be completed by a taxpayer and submitted to Canada Revenue Agency that describes income, deductions, expenses, etc. as prescribed by the *Income Tax Act*

## **11.8 Review Questions**

Answers to the Review Questions are found at [www.REMIC.ca](http://www.REMIC.ca)

### **Short Answer Questions**

1. Describe the documentation that must be obtained by a mortgage agent in every mortgage transaction.
2. What documentation is typically required for a self-employed individual?
3. What documentation is typically required for a purchase transaction?
4. What documentation is typically required for a refinance, equity take-out or switch transaction?
5. Discuss the importance of the file checklist.
6. Where are the different places that a client may be met and what are the positives and negatives of each?
7. Why is it important to verify an applicant's identity?
8. Discuss the difference between a co-applicant and a guarantor.
9. Why is it important to have the mortgage application signed by the applicant(s)?
10. How can a mortgage agent determine the applicant's needs?

## ***12.7 Key Terms and Definitions***

### **Agreement of purchase and sale**

A document used in the purchase of real estate in Ontario

### **Certificate of Independent Legal Advice (ILA)**

A document that states that the borrower's lawyer has met with the borrower, explained the terms and conditions of the mortgage, and that the borrower attests that he or she is not taking the mortgage under duress or undue influence

### **Creditor insurance application**

A document used by an insurance company to determine the eligibility of an applicant for creditor insurance

### **Employment insurance (EI) premiums**

Premiums deducted from an employee's earnings which go into a general fund; EI premiums are automatically deducted from wages but are not paid by self-employed workers

### **Estoppel Certificate**

See Status Certificate

### **Gift letter**

A document that outlines the terms of a gifted down payment in a real estate purchase transaction; in other words, the down payment came from a source other than the purchaser.

### **Job letter**

A document provided to an individual by his or her employer. This document is often required by a lender, in addition to other documentation, to verify an applicant's employment as well as income

### **Mortgage statement**

A document provided by a homeowner's current mortgage provider to the homeowner which outlines the details of the current mortgage

### **Multiple Listing Service (MLS)**

One or more databases available to real estate agents/brokers which allow real estate brokers representing sellers under a listing contract to widely share information about the seller's property with other real estate brokers who may represent potential buyers. In some, but not all cases, real estate listings involve MLS at the outset because of the clear marketing advantages.

### **Notice of Assessment (NOA)**

A form that the federal government issues when a personal tax return has been completed and filed. This document provides a breakdown of the year's income along with the balance owing or refund.

### **Paystub**

A document provided to an individual by his or her employer each time the employee is paid (by cheque, direct deposit or other), and is often required by a lender in addition to a job letter

and/or any other document used to verify the employee's income

**Property assessment**

A document provided by the Municipal Property Assessment Corporation (MPAC) to homeowners to illustrate the value of a home, as assessed or determined by MPAC, for the purposes of calculating property taxes; although homeowners might argue about the value of their home, it is the MPAC Property Assessment Value that is used to determine the property's value for tax purposes

**Self-employed commissions**

Commissions paid to an independent agent, in other words, someone working not as an employee but on a contract or self-employed basis, who earns commission based directly on production, such as sales volume. This amount will be shown on a T4A

**Status Certificate**

Formerly known as an Estoppel Certificate, this is a document provided by a condominium corporation (the entity that runs the condominium) to the owner of the condominium unit to indicate the current status of the corporation, among other items

**TBA**

To Be Advised. This abbreviation is typically used when information is currently unavailable but will be available at a later date.

**T4**

A document provided to an individual by his or her employer, typically when there is employment income, such as salaried or hourly income. Employers are required by law to provide the T4 so that employees may file their income tax returns. The T4 indicates, among other things, the amount of money the employee earned in the one-year period, as well as the deductions from earnings

**T4A**

A document provided to an individual by his or her employer, typically when there is self-employed commission income or other income not listed on a T4. Employers are required by law to issue the T4A when applicable so the individual may file his/her income tax return. The T4A indicates, among other things, the amount of money the individual earned in this manner in the one-year period

**Tax bill**


A document provided to a homeowner by the municipal tax authority in the jurisdiction in which the property is located. The tax bill reflects, for the mortgage agent, the amount of taxes payable by the homeowner

**12.8 Review Questions**

Answers to the Review Questions are found at [www.REMIC.ca](http://www.REMIC.ca)

**Short Answer Questions**

1. Briefly describe when a mortgage agent would be required to obtain the following documents from an applicant.
  - a) T4
  - b) T4A
  - c) Job letter
  - d) Paystub
  - e) NOA
  - f) Agreement of Purchase and Sale
  - g) Gift letter
  - h) Property assessment
  - i) Property tax bill
  - j) Mortgage statement
  - k) Status certificate
2. Describe the information found in an MLS document.
3. What is a certificate of independent legal advice and under what circumstances would it be required?
4. Under what circumstances must a mortgage agent complete a creditor insurance application?
5. What information must be in a job letter for it to be acceptable to a lender?
6. The next section contains blank documents found in this chapter. Test your knowledge of these documents by writing the appropriate information in documents' blank fields without referring to the chapter. Once done, refer to the chapter to review the accuracy of your answers.

Employer's name – Nom de l'employeur		 Canada Revenue Agency    Agence du revenu du Canada		<b>T4</b> <b>STATEMENT OF REMUNERATION PAID</b> <b>ÉTAT DE LA RÉMUNÉRATION PAYÉE</b>	
		Year Année			
Business Number Numéro d'entreprise <div style="border: 1px solid black; height: 30px; width: 100%; margin-top: 5px;"></div>		Employment income – ligne 101 Revenus d'emploi – ligne 101 <div style="border: 1px solid black; width: 100%; height: 30px; margin-top: 5px;"></div>			
		Income tax deducted – ligne 437 Impôt sur le revenu retenu – ligne 437 <div style="border: 1px solid black; width: 100%; height: 30px; margin-top: 5px;"></div>			
Social insurance number Numéro d'assurance sociale <div style="border: 1px solid black; width: 100%; height: 30px; margin-top: 5px;"></div>		Employee's CPP contributions – ligne 308 Cotisations de l'employé au RPC – ligne 308 <div style="border: 1px solid black; width: 100%; height: 30px; margin-top: 5px;"></div>			
		EI insurable earnings Gains assurables d'AE <div style="border: 1px solid black; width: 100%; height: 30px; margin-top: 5px;"></div>			
Exempt – Exemption CPP - QPP    EI    PPIP <div style="display: flex; justify-content: space-around; align-items: center;"> <div style="border: 1px solid black; width: 20px; height: 20px; margin: 2px;"></div> <div style="border: 1px solid black; width: 20px; height: 20px; margin: 2px;"></div> <div style="border: 1px solid black; width: 20px; height: 20px; margin: 2px;"></div> </div>		Employee's QPP contributions – ligne 308 Cotisations de l'employé au RRC – ligne 308 <div style="border: 1px solid black; width: 100%; height: 30px; margin-top: 5px;"></div>			
		CPP-QPP pensionable earnings Gains ouvrant droit à pension - RPC-RRC <div style="border: 1px solid black; width: 100%; height: 30px; margin-top: 5px;"></div>			
RPC - RRC    AE    RPAP <div style="display: flex; justify-content: space-around; align-items: center;"> <div style="border: 1px solid black; width: 20px; height: 20px; margin: 2px;"></div> <div style="border: 1px solid black; width: 20px; height: 20px; margin: 2px;"></div> <div style="border: 1px solid black; width: 20px; height: 20px; margin: 2px;"></div> </div>		Employee's EI premiums – ligne 312 Cotisations de l'employé à l'AE – ligne 312 <div style="border: 1px solid black; width: 100%; height: 30px; margin-top: 5px;"></div>			
		Union dues – ligne 212 Cotisations syndicales – ligne 212 <div style="border: 1px solid black; width: 100%; height: 30px; margin-top: 5px;"></div>			
RPP contributions – ligne 207 Cotisations à un RPA – ligne 207 <div style="border: 1px solid black; width: 100%; height: 30px; margin-top: 5px;"></div>		Charitable donations – see the back Dons de bienfaisance – voir au verso <div style="border: 1px solid black; width: 100%; height: 30px; margin-top: 5px;"></div>			
		RPP or DPSP registration number N° d'agrément d'un RPA ou d'un RPD <div style="border: 1px solid black; width: 100%; height: 30px; margin-top: 5px;"></div>			
Pension adjustment – ligne 206 Facteur d'équivalence – ligne 206 <div style="border: 1px solid black; width: 100%; height: 30px; margin-top: 5px;"></div>		Employee's PPIP premiums – see the back Cotisations de l'employé au RPAP – voir au verso <div style="border: 1px solid black; width: 100%; height: 30px; margin-top: 5px;"></div>			
		PPIP insurable earnings Gains assurables du RPAP <div style="border: 1px solid black; width: 100%; height: 30px; margin-top: 5px;"></div>			

**Employee's name and address – Nom et adresse de l'employé**

Last name (in capital letters) – Nom de famille (en lettres majuscules)

First name – Prénom

Initials – Initiales

Other information (see the back)	Box – Case	Amount – Montant	Box – Case	Amount – Montant	Box – Case	Amount – Montant
Autres renseignements (voir au verso)	Box – Case	Amount – Montant	Box – Case	Amount – Montant	Box – Case	Amount – Montant
	<div style="border: 1px solid black; width: 20px; height: 20px;"></div>	<div style="border: 1px solid black; width: 100px; height: 20px;"></div>	<div style="border: 1px solid black; width: 20px; height: 20px;"></div>	<div style="border: 1px solid black; width: 100px; height: 20px;"></div>	<div style="border: 1px solid black; width: 20px; height: 20px;"></div>	<div style="border: 1px solid black; width: 100px; height: 20px;"></div>



**T4A (15) Protected B when completed / Protégé B une fois rempli**

**Payer's name – Nom du payeur**  
Sample Company

**Payer's account number / Numéro de compte du payeur**  
001

**Social Insurance Number / Numéro d'assurance sociale**  
012 800 000 000

**Recipient's account number / Numéro de compte du bénéficiaire**  
013

**Year / Année**  
2017

**Canada Revenue Agency / Agence du revenu du Canada**

**Statement of Pension, Retirement, Annuity, and Other Income / État du revenu de pension, de retraite, de rente ou d'autres sources**

**T4A**

**Pension or superannuation – line 115 / Prestations de retraite ou autres pensions – ligne 115**  
016 0.00 022 18,149.00

**Large sum payments – line 130 / Paiements forfaitaires – ligne 130**  
018 855.00 020 65,700.00

**Income tax deducted – line 437 / Impôt sur le revenu retenu – ligne 437**  
024 0.00 048 0.00

**Other information (see over) / Autres renseignements (voir au verso)**

**Box – Case / Amount – Montant**

Box – Case	Amount – Montant	Box – Case	Amount – Montant	Box – Case	Amount – Montant	Box – Case	Amount – Montant
Box – Case	Amount – Montant	Box – Case	Amount – Montant	Box – Case	Amount – Montant	Box – Case	Amount – Montant
Box – Case	Amount – Montant	Box – Case	Amount – Montant	Box – Case	Amount – Montant	Box – Case	Amount – Montant

**Recipient's name and address – Nom et adresse du bénéficiaire**  
1234 Borrower Lane  
Toronto, ON  
M1M 1M1

**CLIENT** **YOUR**

**Annuitants / Rentes**  
024 0.00 048 0.00

**Fees for services / Honoraires ou autres sommes pour services rendus**  
020 65,700.00

Employee # 0004		Department # 99		Period From		To		Payday		
STATEMENT OF EARNINGS BULLETIN DE PAIE					EMPLOYER DEDUCTIONS AND CONTRIBUTIONS RETENUES DE L'EMPLOYE ET COTISATIONS PATRONALES					
Type	Hours	Rate	Amount	Y.T.D.	Type	Current	Y.T.D.	Type	Current	Y.T.D.
SUMMARY SOMMAIRE	GROSS PAY PAIE BRUTE	DEDUCTIONS RETENUES	NET PAY PAIE NETTE	NET PAY ALLOCATION DETAILS DE LA PAIE NETTE						
Current Courant										
Year-to-date Cumul annuel										

## Chapter 13: Application Analysis – Application Ratios

### **Learning Outcomes**

Successful understanding of the concepts presented in this chapter will enable the learner to:

- ☐ Perform a loan to value calculation in a given scenario
- ☐ Calculate the maximum mortgage amount using the loan to value ratio
- ☐ Calculate the GDS and TDS ratios in a given scenario
- ☐ Calculate the maximum mortgage amount using the TDS ratio
- ☐ Indicate the industry standards regarding the GDS and TDS ratios

### **Introduction**

The mortgage agent has three basic ratios that must be applied to virtually every transaction: the loan to value (LTV), the gross debt service ratio (GDS) and the total debt service ratio (TDS). The LTV is used to determine the maximum loan possible based on the value of the property, while the GDS and TDS ratios determine the maximum loan possible based on the borrower's income. The lender will then use the lowest of these three loan amounts as the mortgage amount.

While the majority of lenders will use all three of these ratios, the GDS is not typically used in sub-prime transactions or by private lenders.

In this chapter, the mortgage agent will be introduced to these three ratios and taught how to apply them in a mortgage transaction.

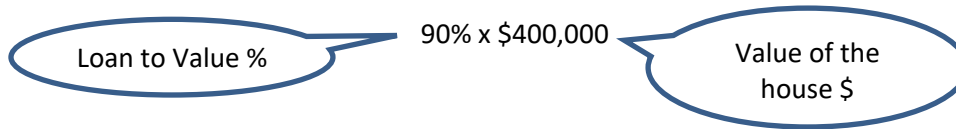
### **13.1 Loan to Value Ratio (LTV)**

The LTV is the amount of the loan, in dollars, in relation to the value of the property, in dollars, expressed as a percentage that is typically rounded off to two decimal places (unless it is an exact number). For example, if the LTV is exactly 90% there is no need to show any decimal places. Lenders use this ratio to determine the maximum loan amount for a given property based on the specific type of loan product that is offered by the lender.

There are two calculations when using the LTV. The first is calculating the LTV of a mortgage. To accomplish this, we divide the amount of the loan by the value of the property. For example, if we had a \$200,000 mortgage and a \$400,000 house, the equation would look like this:

The diagram illustrates the LTV calculation. It features the equation  $\$200,000 / \$400,000$  in the center. To the left of the equation is a speech bubble containing the text "Loan Amount \$", with a line pointing from the bubble to the first number in the equation. To the right of the equation is another speech bubble containing the text "Value of the house \$", with a line pointing from the bubble to the second number in the equation.

The second use for the loan to value is to determine a maximum mortgage amount. To accomplish this, we multiply the loan to value by the value of the house. For example, if we have a loan to value of 90% and a \$400,000 house, the equation would look like this:



### ***Pause for clarification – The “/” character***

The calculations in this chapter use the “/” character to represent the division sign.

To better illustrate these calculations let’s look at a few examples.

## **Calculating the LTV of a 1<sup>st</sup> Mortgage**

### **Example 1**

A client would like a 1<sup>st</sup> mortgage in the amount of \$270,000. The property he is purchasing is valued at \$300,000. What is the LTV of the proposed 1<sup>st</sup> mortgage?

Solution

$$\text{LTV} = (\text{Proposed 1}^{\text{st}} \text{ mortgage amount} / \text{Property value}) \times 100$$

$$\text{LTV} = (270,000 / 300,000) \times 100$$

$$\text{LTV} = .90 \times 100$$

$$\text{LTV} = 90\%$$

Therefore, the loan to value of the proposed 1<sup>st</sup> mortgage is 90%.

### ***Pause for clarification – Converting decimals to percentages***

When you **calculate a percentage** the decimal number must be multiplied by 100 to obtain the percentage. For example, 10 is 10% of 100. We can calculate this by dividing 10 by 100 (10/100). That, however, equals 0.10. The answer is not 0.10 percent. To convert the decimal to its percentage you must multiply it by 100. Therefore, 0.10 multiplied by 100 equals 10. *This* (10) is the percentage.

### **Example 2**

A client would like to refinance her 1<sup>st</sup> mortgage in the amount of \$185,000. She has told you that her home is worth \$222,000. What is the LTV of this proposed mortgage?

Solution

$$\text{LTV} = (\text{Proposed 1}^{\text{st}} \text{ mortgage amount} / \text{Property value}) \times 100$$

$$\text{LTV} = (185,000 / 222,000) \times 100$$

$$\text{LTV} = (8.33333333\text{E}-1) \times 100$$

$$\text{LTV} = .833333333 \times 100$$

$$\text{LTV} = 83.33\%$$

Therefore, the loan to value of the proposed 1<sup>st</sup> mortgage is 83.33%.

### ***Pause for clarification – “E” in your display***

Although this was discussed in chapter 8, remember that if you ever get an answer on your calculator’s display that looks like our last example,

8.33333333E-1

this means that you must move the decimal place one place to the left, or the number of places indicated by the number following the E. In this example the actual answer would be .833333333

## **Calculating the LTV of a 2nd Mortgage**

To calculate the LTV of a 2<sup>nd</sup> mortgage the mortgage agent must complete the same process as above; however, he or she must also include the first mortgage in the calculation.

### **Example 1**

A client has a 1<sup>st</sup> mortgage in the amount of \$270,000 and would like an additional \$15,000 as a 2<sup>nd</sup> mortgage to consolidate credit card debt. The property is valued at \$300,000. The loan to value would be calculated as follows:

Solution

$$\text{LTV} = [(1^{\text{st}} \text{ mortgage amount} + \text{Proposed } 2^{\text{nd}} \text{ mortgage}) / \text{Property value}] \times 100$$

$$\text{LTV} = [(270,000 + 15,000) / 300,000] \times 100$$

$$\text{LTV} = (285,000 / 300,000) \times 100$$

$$\text{LTV} = 0.95 \times 100$$

$$\text{LTV} = 95\%$$

Therefore, the loan to value of the proposed 2nd mortgage is 95%.

### **Example 2**

A client has a 1<sup>st</sup> mortgage in the amount of \$185,000 and would like an additional \$20,000 as a 2<sup>nd</sup> mortgage to renovate her house. The property is valued at \$222,000. The loan to value would be calculated as follows:

Solution

$$\text{LTV} = [(1^{\text{st}} \text{ mortgage amount} + \text{Proposed } 2^{\text{nd}} \text{ mortgage}) / \text{Property value}] \times 100$$

$$\text{LTV} = [(185,000 + 20,000) / 222,000] \times 100$$

$$\text{LTV} = (205,000 / 222,000) \times 100$$

$$\text{LTV} = 9.23423423\text{E-}1 \times 100$$

$$\text{LTV} = 0.923423423 \times 100$$

$$\text{LTV} = 92.34\%$$

Therefore, the loan to value of the proposed 2<sup>nd</sup> mortgage is 92.34%.

### Calculating the LTV of Additional Mortgages

If the applicant is applying for a 3<sup>rd</sup> mortgage (or any mortgage other than a 1<sup>st</sup> mortgage) the mortgage agent must complete the same process as above; however, he or she must also include all mortgages that rank before the proposed mortgage in the calculation.

#### **Example**

A client has a 1<sup>st</sup> mortgage in the amount of \$270,000, and a \$15,000 2<sup>nd</sup> mortgage and would like to borrow an additional \$7,500 to repay a loan that has been placed in collections. The applicant believes that this is the best option since both the 1<sup>st</sup> and 2<sup>nd</sup> mortgages are closed and cannot be refinanced before their respective renewal dates. The property is valued at \$300,000. The loan to value would be calculated as follows:

Solution

$$\text{LTV} = [(1^{\text{st}} \text{ mortgage} + 2^{\text{nd}} \text{ mortgage} + \text{Proposed } 3^{\text{rd}} \text{ mortgage}) / \text{Property value}] \times 100$$

$$\text{LTV} = [(270,000 + 15,000 + 7,500) / 300,000] \times 100$$

$$\text{LTV} = (292,500 / 300,000) \times 100$$

$$\text{LTV} = 0.975 \times 100$$

$$\text{LTV} = 97.5\%$$

Therefore, the loan to value of the proposed 3<sup>rd</sup> mortgage is 97.5%.

### Using the LTV to Calculate a Maximum Mortgage Amount

When using the LTV to calculate a maximum mortgage amount, the mortgage agent needs to know the LTV that is offered by the lender as well as the value of the property. Knowing the lender's LTV is straightforward and involves understanding the lender's products. Knowing the value of a property can be difficult unless there has been an appraisal performed or it is a purchase (under normal circumstances the value of a property being purchased is the purchase price).

The formula for determining the maximum mortgage amount using the LTV calculation is as follows:

$$\text{Maximum Mortgage Amount} = \text{LTV} / 100 \times \text{Property Value}$$

The LTV is divided by 100 since it is a percentage and the calculation requires it be converted to its decimal equivalent.

### **Example**

A borrower wishes to purchase a new home and has asked his mortgage agent to advise how much of a down payment he requires. The purchase price is \$400,000. The mortgage agent has determined that this borrower qualifies with a lender who offers a maximum loan to value of 95%. Our next step is to calculate the mortgage amount based on this loan to value.

Solution

$$\text{Maximum Mortgage Amount} = 95\% / 100 \times \$400,000$$

$$\text{Maximum Mortgage Amount} = .95 \times \$400,000$$

$$\text{Maximum Mortgage Amount} = \$380,000$$

Therefore, the maximum mortgage amount based on the LTV is \$380,000.

To answer the borrower's question, the borrower would need a \$20,000 down payment which is the purchase price minus the mortgage (\$400,000 - \$380,000 = \$20,000).

## ***13.2 Gross Debt Service (GDS) and Total Debt Service (TDS) Ratios***

The GDS and TDS are debt service ratios that are designed to determine whether a mortgage payment can be afforded by the potential borrower. A debt service ratio is the ratio of debt to income expressed as a percentage. While these ratios have not changed in several decades, they remain the fundamental calculations in determining affordability.

### **Calculating the Gross Debt Service Ratio (GDS)**

#### **Industry Standard – 39%**

The GDS is designed to determine if the potential borrower can afford the proposed mortgage payment based on his or her income (or a combined income, if there is more than one applicant). The GDS combines the costs that a potential borrower has regarding shelter and divides that cost by his or her gross income (the income before taxes are deducted).

The maximum ratio that is typical in the mortgage industry is 39%. This means that 39% of a potential borrower's gross income may be used to service his or her shelter costs. The GDS has one main purpose: to determine if the proposed mortgage payment is within the lender's maximum GDS ratio. The GDS is calculated using the following equation:

$$\text{GDS} = [(\text{PITH} + \frac{1}{2} \text{ Condo Maintenance fee}) / \text{Gross Income}] \times 100$$

## The Components of GDS

To understand how to calculate the GDS, let's break it down into each of its components.

### **PITH**

The PITH represents the **P**rincipal, **I**nterest, **P**roperty **T**axes, and **P**roperty **H**eat. Let's have a look at what each letter of PITH represents.

#### **PI (Principal and Interest)**

The Principal and Interest consist of the amount of the mortgage payment necessary to repay the blended principal and interest for the payment period.

#### **T (Property Taxes)**

The property taxes consist of the actual amount of property taxes payable on the property.

#### **H (Property Heat)**

CMHC states that mortgage professionals are expected to ask the prospective borrower what the monthly heating costs are for the subject property and use the actual heat cost records, if provided by the prospective borrower. Where no history is readily available, the heat costs used must be a reasonable estimate taking into consideration factors such as property size, location and/or type of heating system. Such estimates are to be based on a sound rationale, providing an accurate estimate that is reflective of the characteristics of the property being purchased.<sup>1</sup>

Most lenders will accept a standard amount of \$100 per month for heat for most properties, while a higher amount may be used for a large property. Although heat varies from property to property, this standard amount is applied to all debt service ratio calculations unless advised otherwise by the lender.

For the purposes of this course \$100 will be assumed unless otherwise noted.

### **Condominium Maintenance Fee**

The condo maintenance fee is the fee that a condominium unit owner pays to the condominium corporation for the maintenance of the common elements. Common elements are those items that are common to all unit owners such as upkeep of the building, lobby, hallways, pool, gymnasium, etc. The GDS uses fifty percent of this expense. Naturally, if the property being mortgaged is not a condominium, this part of the formula is excluded.

### **Gross Income**

The gross income is the potential borrower's total income before paying income taxes.

### **Converting to a Percentage**

The entire amount must be multiplied by one hundred to provide a percentage.

---

<sup>1</sup> CMHC, [http://www.cmhc-schl.gc.ca/en/hoficlincl/moloin/mupr/mupr\\_015.cfm](http://www.cmhc-schl.gc.ca/en/hoficlincl/moloin/mupr/mupr_015.cfm)



**Example 1**

Mr. Borrower wishes to purchase a home valued at \$350,000. He has \$87,500 as a down payment, leaving a required mortgage in the amount of \$262,500. You have determined that his monthly mortgage payment will be \$1,679.50. This is not a condominium and therefore there is no maintenance fee. Mr. Borrower has an annual income of \$77,500 and pays \$3,100 per year in property taxes. What is Mr. Borrower's GDS?

Solution

$$\text{GDS} = [(\text{PITH}) / \text{Gross Income}] \times 100$$

$$\text{GDS} = [((\$1,679.50 \times 12) + (\$100 \times 12) + \$3,100) / \$77,500] \times 100$$

$$\text{GDS} = [(\$20,154 + \$1,200 + 3,100) / \$77,500] \times 100$$

$$\text{GDS} = (\$24,454 / \$77,500) \times 100$$

$$\text{GDS} = 3.15535484\text{E-}1 \times 100$$

$$\text{GDS} = 0.315535484 \times 100$$

$$\text{GDS} = 31.55\%$$

Therefore Mr. Borrower's GDS is 31.55%.

In this case Mr. Borrower's GDS is within the acceptable industry standard of 39%, meaning that his GDS will qualify with most lenders.

***Pause for clarification – Frequency of payments in GDS***

***All figures in the GDS calculation must be based on the same frequency.*** In Example 1 the mortgage payment is monthly and the income is annually. It is therefore necessary to annualize all figures, which is why the mortgage payment and heat is multiplied by twelve.

**Example 2 – Condominium Unit**

Ms. House owns a condominium unit valued at \$200,000 that has a mortgage with an outstanding balance of \$120,000. She would like to refinance this mortgage, increasing it to \$145,000. Ms. House has informed you that the monthly condominium maintenance fee is \$350, and her property taxes are \$1,900 per year while she has a monthly income of \$5,000. Based on your calculations you have determined that her monthly mortgage payment based on this proposed mortgage will be \$927.72. What is her GDS?

Solution

$$\text{GDS} = [(\text{PITH} + \frac{1}{2} \text{Condo Maintenance fee}) / \text{Gross Income}] \times 100$$

$$\text{GDS} = [((\$927.72 \times 12) + (\$100 \times 12) + (.50 \times \$350 \times 12) + \$1,900) / (\$5,000 \times 12)] \times 100$$

$\frac{1}{2}$  of the condo maintenance fee

$$\text{GDS} = [(\$11,132.64 + \$1,200 + \$2,100 + \$1,900) / \$60,000] \times 100$$

$$\text{GDS} = (\$16,332.64 / \$60,000) \times 100$$

$$\text{GDS} = 2.72210667\text{E-}1 \times 100$$

$$\text{GDS} = 0.272210667 \times 100$$

$$\text{GDS} = 27.22\%$$

Therefore Ms. House's GDS is 27.22%.

In this case Ms. House's GDS is within the acceptable industry standard of 39%, meaning that Ms. House's GDS will qualify with most lenders.

### ***Success Tip – If GDS is above industry standard***

If the **GDS** is higher than the allowable industry standard it will be necessary to consult further with the client to either bring the GDS within acceptable limits by decreasing the payment or suggest a lender that may allow a GDS that is higher than the industry standard.

## GDS and Second Mortgages

Since the debt service ratio includes all costs for shelter, when you are calculating the GDS for a 2<sup>nd</sup> mortgage application, you must include in the GDS the 1<sup>st</sup> mortgage payment as well as the proposed 2<sup>nd</sup> mortgage payment.

### **Example – 2<sup>nd</sup> Mortgage**

Tedros is applying for a 2<sup>nd</sup> mortgage in the amount of \$17,000. You have determined that the mortgage payment for this mortgage will be \$200.88 per month. Tedros has informed you that he lives in a single-family detached home and that his 1<sup>st</sup> mortgage payment is \$255.92 per week and his property taxes are \$2,400 per year. Tedros earns \$6,350 per month. What is Tedros' GDS under this proposed 2<sup>nd</sup> mortgage?

Solution

Since Tedros lives in a single-family detached home there is no condominium maintenance fee payable. Since this is a 2<sup>nd</sup> mortgage the 1<sup>st</sup> mortgage payment must be included in this calculation.

$$\text{GDS} = [(\text{PITH}) / \text{Gross Income}] \times 100$$

$$\text{GDS} = [((\$255.92 \times 52) + (\$200.88 \times 12) + (\$100 \times 12) + 2,400) / (\$6,350 \times 12)] \times 100$$

1<sup>st</sup> mortgage  
payment

$$\text{GDS} = [(\$13,307.84 + \$2,410.56 + \$1,200 + \$2,400) / \$76,200] \times 100$$

$$\text{GDS} = (\$19,318.40 / \$76,200) \times 100$$

Proposed mortgage  
payment

$$\text{GDS} = 2.5352231\text{E-}1 \times 100$$

$$\text{GDS} = 0.25352231 \times 100$$

$$\text{GDS} = 25.35\%$$

Therefore Tedros' GDS is 25.35%.

In this case Tedros' GDS is within the acceptable industry standard of 39%, meaning that his GDS will qualify with most lenders.

## Calculating the Total Debt Service Ratio (TDS): Pre-Qualifying

### **Industry Standard - 44%**

Like the GDS the TDS is designed to determine if the borrower can afford the potential mortgage payment, however this calculation also includes all other debts that the borrower has.

The TDS has two main functions. It can be used to:

1. Pre-qualify the borrower by determining the maximum mortgage payment that the borrower can afford.
2. Verify that the payment qualifies by determining if the potential mortgage payment falls within the lender's TDS ratio.

To pre-qualify a potential borrower, it is necessary to determine the amount of a mortgage payment that he or she can afford based on the TDS calculation, and then use that payment amount to determine the maximum mortgage amount.

Pre-qualifying a potential borrower based on the TDS is calculated by using the following equation:

$$\text{Maximum Mortgage Payment} = (\text{Income} \times \text{Max TDS} / 100) - (\text{Property Taxes} + \text{Heat} + \frac{1}{2} \text{ Condo Maintenance Fee} + \text{Other Debts})$$

- Since the TDS Ratio is a percentage, it is necessary to convert it to its decimal equivalent by dividing the number by 100.
- Other debts can be defined as other obligations that, if the borrower failed to make a payment, would require monies to be paid to another party. For example, if a borrower had a car loan and failed to make his or her monthly payments, the car would be repossessed, and the borrower would still owe the balance of the loan. If the borrower failed to make his or her monthly car insurance payment, on the other hand, the borrower would *not* owe any further money since the car insurer would cancel the insurance policy.

## TDS: Included and excluded items

Examples of items included in the TDS ratio:

- Loans
- Mortgage payments
- Credit cards
- Child support
- Alimony
- Any payment that, if discontinued, would result in a balance owing.

Examples of items **not** included in the TDS ratio:

- Child care expenses (that are not court ordered)
- Food
- Clothing
- Entertainment
- RRSP contributions
- Car insurance
- Property insurance
- Life insurance
- Any expense or payment that, if discontinued, would **not** result in a balance owing

### ***Success Tip – Outstanding balance or credit limit in the TDS?***

Lenders will typically use 3% of the outstanding balance on a credit cards and other types of unsecured revolving credit as the payment amount when calculating the TDS, although this can vary from lender to lender. For secured debts CMHC suggests lenders calculate what the monthly payment would be if the debt was amortized over 25 years. It is important to know how a lender calculates the TDS before submitting an application to that lender.

### **Example 1 – Condominium Unit**

Ms. House owns a condominium unit valued at \$200,000 that has a mortgage with an outstanding balance of \$120,000. She would like to refinance this mortgage and wishes to know how much she qualifies to borrow. Ms. House has informed you that the monthly condominium maintenance fee is \$350, and her property taxes are \$1,900 per year while she has a monthly income of \$5,000. Further investigation shows that Ms. House has a car payment of \$310 per month, credit card payments of \$145 per month and a loan payment of \$225 per month. Ms. House also makes weekly contributions of \$50 to her RRSP, spends \$185 per month for her car insurance, and has a life insurance policy that costs her \$30 per month.

What is the maximum monthly mortgage payment for which Ms. House qualifies based on a TDS of 44%?

**Solution**

The first step is to determine which payments are included in the TDS calculation and which are not. The car payment, credit card payment, and loan payment must be included as other debts, while the weekly RRSP contribution, car insurance, and life insurance payments are not.

The second step is to determine whether the calculation will be done based on monthly or annual numbers. This example has a mixture of monthly income, monthly payments, and an annual amount of property taxes. For the sake of simplicity in this example the annual property taxes will be divided by twelve to determine the monthly payment and all other debts will be kept monthly. Heat is standardized at \$100 per month.

$$\text{Maximum Mortgage Payment (MMP)} = \text{Income} \times (\text{MAX TDS} / 100) - (\text{Property Taxes} + \frac{1}{2} \text{ Condominium Maintenance Fee} + \text{Heat} + \text{Other Debts})$$

$$\text{MMP} = (\$5,000 \times 44\% / 100) - (\$1,900 / 12) - (.50 \times \$350) - \$100 (\text{heat}) - \$310 - \$145 - \$225$$

Other  
Debts

$$\text{MMP} = (\$5,000 \times .44) - \$158.33 - \$175 - \$100 - \$310 - \$145 - \$225$$

$$\text{MMP} = \$2,200 - \$158.33 - \$175 - \$100 - \$310 - \$145 - \$225$$

$$\text{MMP} = \$1,086.67$$

Therefore, the maximum mortgage payment that Ms. House qualifies for is \$1,086.67 per month.

### Example 2

Mr. Orange would like to apply for a mortgage to purchase a new home valued at \$400,000. Mr. Orange has stated that the property taxes are \$2,900 per year. His income is \$73,000 per year. Further investigation shows that Mr. Orange has a car payment of \$275 per month, credit card payments of \$195 per month and a loan payment of \$300 per month.

a) What is the maximum monthly mortgage payment for which Mr. Orange qualifies based on a TDS of 44%?

b) What is the maximum loan amount for which Mr. Orange qualifies based on an interest rate of 6% compounded semi-annually, not in advance, and a 25-year amortization?

### Solution

a) For the sake of simplicity in this example the annual property taxes and annual income will be divided by twelve to determine the monthly amount and all other debts will be kept monthly. Heat is standardized at \$100 per month.

$$\text{Maximum Mortgage Payment (MMP)} = \text{Income} \times (\text{MAX TDS} / 100) - (\text{Property Taxes} + \frac{1}{2} \text{ Condominium Maintenance Fee} + \text{Other Debts})$$

$$\text{MMP} = [(\$73,000 / 12) \times (44\% / 100)] - (\$2,900 / 12) - \$100 (\text{heat}) - \$275 - \$195 - \$300$$

$$\text{MMP} = (\$6,083.33 \times .44) - \$241.67 - \$100 - \$275 - \$195 - \$300$$

$$\text{MMP} = \$2,676.67 - \$241.67 - \$100 - \$275 - \$195 - \$300$$

$$\text{MMP} = \$1,565.00$$

Therefore, the maximum monthly mortgage payment for which Mr. Orange qualifies is \$1,565.00

b) If you wish to determine the maximum mortgage amount, based on the payment that was calculated above, it is necessary to complete the following calculation using the HP10BII (or another, as explained in chapter 8):

6 SHIFT NOM%  
2 SHIFT P/YR  
SHIFT EFF% 6.09  
12 SHIFT P/YR

SHIFT NOM% 5.92634643744  
 1,565.00 +/- PMT  
 O FV  
 12 X 25 N  
 PV 244,605.15757191

The difference between this calculation and calculating a mortgage payment is simply that here we enter the payment and solve the PV

Therefore, the maximum loan amount based on these terms is \$244,605.16

### Calculating the Total Debt Service Ratio (TDS): Verifying

If the mortgage agent has already determined the mortgage payment that the potential borrower requires, it is then necessary to determine if that payment meets the industry standard 44% TDS ratio or whatever the ratio is for the lender we've chosen or are considering.

#### **Example 1**

Malik and Nancy Borrower are purchasing a house valued at \$450,000 and have \$80,000 as a down payment, resulting in a required mortgage of \$370,000. You have reviewed their application and have determined that the lender best for them is currently offering a rate of 4.75% with a 25-year amortization and monthly payments. You have calculated that the monthly mortgage payment on this proposed mortgage will be \$2,099.59.

From their application you know that they have a combined monthly income of \$8,355. They have car payments of \$175 and \$300 per month, credit card payments of \$190 per month and a student loan payment of \$100 per month. The property taxes for this home are estimated to be \$3,100 per year. Based on the lender's TDS ratio of 44%, will they qualify for this proposed mortgage?

**Solution**

Heat is standardized at \$100 per month.

$$\text{TDS} = [(\text{PITH} + \frac{1}{2} \text{ Condo Maintenance fee} + \text{Other Debts}) / \text{Income}] \times 100$$

$$\text{TDS} = [(\$2,099.59 + \$100(\text{heat}) + \$175 + \$300 + \$190 + \$100 + (\$3,100 / 12)) / \$8,355] \times 100$$

$$\text{TDS} = [(\$2,964.59 + 258.33) / \$8,355] \times 100$$

$$\text{TDS} = (\$3,222.92 / \$8,355) \times 100$$

$$\text{TDS} = 0.3857474566128 \times 100$$

$$\text{TDS} = 38.57474566128$$

$$\text{TDS} = 38.57\%$$

Therefore, Malik and Nancy qualify for this mortgage based on the lender's TDS requirement.

**Success Tip – If TDS is above industry standard**

If the **TDS** is higher than the allowable industry standard, it will be necessary to consult further with the client, either to bring the TDS within acceptable limits by reducing debt or decreasing the payment, or to suggest a lender that may allow a TDS that is higher than industry standard.

**Example 2**

Anna and Ronin own a home and would like to obtain a \$31,000 2<sup>nd</sup> mortgage to consolidate all of their current debts. Their property is valued at \$450,000 and they currently have a 1<sup>st</sup> mortgage that has monthly payments of \$1,454.02. You have reviewed their application and have determined that the lender best for them is currently offering a rate of 12.75% with a 15-year amortization and monthly payments. You have calculated that the monthly mortgage payment on this proposed mortgage will be \$380.55.

From their application you know that they have a combined monthly income of \$7,400. They have car payments of \$175 and \$300 per month, credit card payments of \$190 per month and a student loan payment of \$100 per month. The property taxes for this home are \$2,800 per year. Based on the lender's TDS ratio of 44%, will they qualify for this proposed mortgage?

**Solution**

It is necessary to include the first mortgage payment in this calculation. Since this is a debt consolidation and all of the applicants' debts will be paid off from the proceeds of this proposed 2<sup>nd</sup> mortgage, they must not be included in this calculation. Heat is standardized at \$100 per month.

$$\text{TDS} = [(\text{PITH} + \frac{1}{2} \text{ Condo Maintenance fee} + \text{Other Debts}) / \text{Income}] \times 100$$

$$\text{TDS} = [((\$1,454.02 + \$380.55 + \$100 + (\$2,800 / 12)) / \$7,400) \times 100$$

$$\text{TDS} = [(\$1,934.57 + 233.33) / \$7,400] \times 100$$

$$\text{TDS} = (\$2,167.90 / \$7,400) \times 100$$

$$\text{TDS} = 2.92959459\text{E-}1 \times 100$$

$$\text{TDS} = .292959459 \times 100$$

$$\text{TDS} = 29.30\%$$

Therefore, Anna and Ronin qualify for this mortgage based on the lender's TDS requirement.

**13.3 Calculating the Maximum Mortgage Amount**

The lender will use either the LTV or GDS/TDS calculation when determining the maximum mortgage amount. The lender's decision will be based on the lower of the two. For example, if a property is valued at \$400,000 and a lender's maximum LTV is 90%, the maximum loan based

on the LTV would be \$360,000 (.90 x \$400,000). However, if after using the GDS/TDS calculation the maximum mortgage amount for which the borrower qualifies was \$340,000, then the lender would base the mortgage on the lowest value, or \$340,000.

### **13.4 LTV, GDS and TDS Quick Reference Guide**

<b>Loan to Value (LTV)</b>	
<b>LTV</b> of a 1 <sup>st</sup> mortgage	$\text{LTV} = \text{Mortgage Amount} / \text{Property Value}$
<b>LTV</b> of a 2 <sup>nd</sup> mortgage	$\text{LTV} = (\text{1st Mortgage Amount} + \text{2nd Mortgage Amount}) / \text{Property Value}$
<b>LTV</b> calculating the maximum loan amount	$\text{Maximum Mortgage Amount} = \text{LTV} \times \text{Property Value}$
<b>Gross Debt Service Ratio (GDS)</b>	
<b>GDS:</b> verifying that a payment meets the lender's GDS ratio	$\text{GDS} = ((\text{PITH} + \frac{1}{2} \text{ Condo Mtc. Fee}) / \text{Income}) \times 100$
<b>Total Debt Service Ratio (TDS)</b>	
<b>TDS:</b> verifying that a payment meets the lender's TDS ratio	$\text{TDS} = ((\text{PITH} + \frac{1}{2} \text{ Condo Mtc. Fee} + \text{Other Debts}) / \text{Income}) \times 100$
<b>TDS:</b> calculating a maximum mortgage payment	$\text{Maximum Mortgage Payment} = (\text{MAX TDS} \times \text{Income}) - \text{Taxes} - \text{Heat} - \frac{1}{2} \text{ Condo Mtc. Fee} - \text{Other Debts}$



### **13.5 Key Terms and Definitions**

**Gross debt service ratio (GDS)**

A debt service ratio that measures the amount of shelter (housing) payments in comparison to the amount of gross income, expressed as a percentage. The industry standard is 39%.

**Industry standard**

An amount that the mortgage industry will typically use in a calculation or a practice

**Loan to value (LTV)**

The amount of a loan to the value of the property expressed as a percentage.

$\text{Loan to Value (\%)} = \text{Loan} / \text{Property Value}$

**Percentage**

A fraction or ratio with 100 understood as the denominator; for example, 0.98 equals a percentage of 98

**Property value**

The value, in dollars, of a property, usually determined by independent verification such as an appraisal

**Total debt service ratio (TDS)**

A debt service ratio that measures the amount of shelter payments (PITH and condo maintenance fees, when applicable) and other debt payments in comparison to the amount of gross income, expressed as a percentage. The industry standard is 44%. The formula is  $(\text{PITH} [\text{Principal} + \text{Interest} + \text{Taxes} + \text{Heating}] + \text{other debts} + \frac{1}{2} \text{condo maintenance fee} [\text{when applicable}]) / \text{Gross Income}$ .

### 13.6 Review Questions

Answers to the Review Questions are found at [www.REMIC.ca](http://www.REMIC.ca)

1. A house has been appraised at a value of \$550,000. The owner requires a 1<sup>st</sup> mortgage in the amount of \$255,000 and a 2<sup>nd</sup> mortgage in the amount of \$70,000.
  - a) What is the LTV of the 1<sup>st</sup> mortgage?
  - b) What is the total LTV of the combined 1<sup>st</sup> and 2<sup>nd</sup> mortgages?
2. Tedros has been approved for a mortgage in the amount of \$262,500 on a 1<sup>st</sup> mortgage. The property he is buying is worth \$350,000. What is the LTV of this mortgage?
3. Adela and Carlos are applying for a mortgage through you, their local mortgage agent. They have requested a mortgage in the amount of \$455,000 with weekly payments for a 3-year term at 5.95% compounded semi-annually with a 25-year amortization. They have told you that they also have a car payment of \$385 per month, annual car insurance of \$2,712, a weekly loan payment of \$45 and total monthly credit card payments of \$510. Their property taxes are \$2,100 per year. Their combined income is \$126,966 per year and heat on this house is \$100 per month. The proposed mortgage payment is \$667.43.
  - a) What is their GDS?
  - b) What is their TDS?
4. Hisa and Botan are applying for a mortgage through you, their local mortgage agent. They have requested a mortgage in the amount of \$300,000 with monthly payments for a 5-year term at 4.95% compounded semi-annually with a 25-year amortization. They have told you that they also have a car payment of \$275 per month, annual car insurance of \$2,000, a weekly loan payment of \$95 and total monthly credit card payments of \$300. Their property taxes are \$2,100 per year. Their combined income is \$95,000 per year and heat on this house is \$100 per month. The proposed mortgage payment is \$1,736.29.
  - a) What is their GDS?
  - b) What is their TDS?
5. Joe and Mary are applying for a mortgage through you, their local mortgage agent. They have requested a mortgage in the amount of \$640,000 with bi-weekly payments for a 5-year term at 3.75% compounded semi-annually with a 25-year amortization. They have told you that they also have a car payment of \$405 per month, annual car insurance of \$3,000, a weekly loan payment of \$55 and total monthly credit card payments of \$400. Their property taxes are \$2,100 per year. Their combined income is \$145,000 per year and heat on this house is \$100 per month. The proposed mortgage payment is \$1,512.75.
  - a) What is their GDS?
  - b) What is their TDS?
6. Lin and Shen have been approved for a mortgage through you, their local mortgage agent in the amount of \$200,000 with monthly payments for a 1-year term at 8.25% compounded semi-annually with a 25-year amortization. They have told you that they also have a car payment of \$405 per month, a Line of Credit payment of \$180 per month and total monthly credit card payments of \$400. Their property taxes are \$2,100 per year. Their combined income is \$75,000 per year and heat on this house is \$100 per month. The proposed mortgage payment is \$1,558.46.

- a) What is their GDS?
  - b) What is their TDS?
7. Dalila has been approved for a \$30,000 2<sup>nd</sup> mortgage with monthly payments, a 1-year term, 10-year amortization at 12.5% compounded semi-annually. She has a first mortgage with an outstanding balance of \$220,000 (down from \$230,000 when she first took out the mortgage) with bi-weekly payments of \$700. The second mortgage is going to consolidate her credit cards for which she currently pays \$390 per month. She has a car lease of \$360 per month, annual car insurance payments of \$2,300 and monthly home insurance premiums of \$150. Her property taxes are \$3,500 per year and it costs \$100 per month to heat her home, which has been appraised at \$350,000. Dalila earns \$78,000 per year as a manager. The proposed mortgage payment for the 2<sup>nd</sup> mortgage is \$433.66.
- a) What is the LTV of the 1<sup>st</sup> mortgage?
  - b) What is the LTV of only the 2<sup>nd</sup> mortgage (excluding the 1<sup>st</sup> mortgage)?
  - c) What is the total LTV of the 2<sup>nd</sup> mortgage?
  - d) What is her GDS?
  - e) What is her TDS?
8. Your clients, Aarav and Anika have applied for a mortgage with you. They are buying a high-rise condo and need a mortgage in the amount of \$320,000. You've suggested that they take a mortgage with monthly payments for a 5-year term at 3.35% compounded semi-annually with a 20-year amortization. They have told you that they also have a car payment of \$310 per month, annual car insurance of \$2,000, a weekly loan payment of \$80 and total monthly credit card payments of \$275. The property taxes are \$2,100 per year while the condo maintenance fees are \$418 per month. Their combined income is \$117,000 per year and heat, which is not included in the maintenance fee, is estimated at \$100 per month. The proposed mortgage payment is \$1,827.53.
- a) What is their GDS?
  - a) What is their TDS?

## **14.4 Key Terms and Definitions**

### **Bankruptcy**

A legally declared inability of an individual or organization to pay their creditors

### **Beacon score**

A numerical representation of an individual's credit provided by Equifax

### **Collections**

A debt that has been placed with a collection agency which is a company assigned to collect a debt on behalf of a third party

### **Consumer proposal**

A proposal made by a consumer debtor to his or her creditors under Division II of Part III of the *Bankruptcy and Insolvency Act (BIA)*, with the intention being to restructure the debt. A typical proposal will result in the debtor repaying less than the full debt but more than might occur in a bankruptcy

### **Credit**

The granting of a money by one party to another with an arrangement to make periodic payments to the credit grantor to retire the debt

### **Credit bureau**

An agency that collects information on individuals and provides that information to its members

### **Credit counseling**

Credit counseling involves negotiating with creditors to establish a repayment plan that will repay the borrower's debt with more favourable terms for the borrower than are currently in place.

### **Credit report**

A report on an individual's credit. Two types exist: one which is made available to the consumer and one which is provided to a member of a credit bureau

### **Credit score**

A numerical representation of an individual's credit

### **Empirica score**

A numerical representation of an individual's credit provided by Transunion

### **Equifax**

A Canadian credit bureau

### **Fair Isaac Company (FICO)**

Fair Isaac, founded in 1956, is a company that provides software and consulting services. Its software is used by credit bureaus to calculate credit scores

### **Judgment**

A final court ruling resolving the key questions in a lawsuit and determining the rights and

obligations of the opposing parties, such as the awarding of monies to an injured party

**Public records**

Information that is available to the Canadian public. Credit bureaus include publicly available information such as bankruptcies, judgments, etc. in their credit reports

**Secured loan**

A loan in which a borrower pledges an asset such as a car that may be sold if the borrower is unable to repay the loan. This is typically registered under the *Personal Property Security Act* (PPSA)

**Trade line**

Information on a debt, found in a credit report, that contains the date that the credit was granted, the balance, terms and repayment history

**Transunion**

A Canadian credit bureau

**14.5 Review Questions**

Answers to the Review Questions are found at [www.REMIC.ca](http://www.REMIC.ca)

**Short Answer Questions**

1. Define the term trade line.
2. Discuss the items that are involved in calculating a credit score.
3. What can an individual do to increase his or her credit score?
4. If an individual has a judgment filed against him or her, in what section of a credit report would this information be found?
5. If an individual has an account rated as an R3 on his or her credit report, what type of credit is this rating referring to and how many months in arrears is this account?
6. What is the relationship between a credit score and the delinquency rates of Canadians?
7. How long does a bankruptcy remain on an individual's credit report provided by:
  - a) Equifax?
  - b) Transunion?
8. How long does credit counselling remain on an individual's credit report provided by:
  - a) Equifax?
  - b) Transunion?
9. If an individual disputes an item in his or her credit report, what can he or she do?
10. Can a mortgage agent provide a copy of a client's credit report to the client?

## **15.4 Key Terms and Definitions**

### **Accredited Appraiser Canadian Institute, Professional Appraiser (AACI, P.App)**

The highest designation awarded to an appraiser of the Appraisal Institute of Canada

### **Adjusted value**

The value of a comparable property after the appraiser has made adjustments by comparing the comparable property to the subject property

### **Adjustments**

The amount, in dollars, of characteristics which differentiate between a comparable property and a subject property

### **Appraisal**

A report produced by a designated appraiser that determines the market value of an interest in land using accepted valuation techniques based on the purpose of the appraisal for a specific client

### **Appraisal Institute of Canada (AIC)**

A national professional organization that designates and represents professional real estate appraisers and valuation consultants nationwide

### **Appraiser**

The accredited individual who completes the appraisal report. Only reports from accredited appraisers are acceptable in the mortgage industry.

### **Automated valuation model (AVM)**

A computer program that typically uses public record data on residential properties to calculate the market value of a property

### **Canadian National Association of Real Estate Appraisers (CNAREA)**

A national, not for profit, independent association that certifies and regulates real property appraisers in Canada

### **Canadian Real Estate Association (CREA)**

One of Canada's largest single-industry trade associations, representing more than 92,000 real estate brokers and agents working through more than 100 real estate Boards and Associations

### **Canadian Residential Appraiser (CRA)**

A designation awarded to an appraiser by the Appraisal Institute of Canada

### **Cost approach**

An approach to calculating the value of a property by determining the replacement cost of a building, less depreciation plus the cost of the land

### **Desktop appraisal (also referred to as a Sales Data Report)**

A type of appraisal report that determines a value for the subject property based on MLS reports, including data on recent sales and data on recent listings

**Direct comparison approach**

An approach to calculating the value of a property by comparing it to similar properties that have recently sold

**Drive-by appraisal**

A type of appraisal report that combines MLS data as well as an inspection of the exterior of the subject property

**Emili**

CMHC's automated underwriting system

**Excel**

Genworth Financial's automated underwriting system

**Full appraisal**

A type of appraisal report that combines MLS data with a full interior and exterior inspection of the subject property

**Income approach**

An approach to calculating the value of an income producing property through the usage of the net operating income and capitalization rate typical for that type of property and the area in which it is located

**Market value**

The amount, in Canadian funds, for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arms-length transaction after proper marketing, where the buyer and seller have each acted knowledgeably, prudently, and without pressure

**Real Estate Institute of Canada (REIC)**

An association of professionals that has been providing advanced real estate education and certifying specialists in real estate since 1955

**Risk assessment tool**

An automated underwriting program



## **15.5 Review Questions**

Answers to the Review Questions are found at [www.REMIC.ca](http://www.REMIC.ca)

### **Short Answer Questions**

1. List the different purposes for which an appraisal might be required.
2. What is the role of the appraiser in the appraisal process?
3. What organizations award designations to appraisers?
4. What are the different designations that an appraiser may have?
5. How does market value differ from the price for which a property may be sold?
6. Discuss the three approaches to calculating the market value of a property and describe the most relevant approach for mortgage financing.
7. Explain how adjustments are made in the direct comparison approach.
8. Discuss the positives and negatives of AVMs.
9. What is the most detailed type of appraisal report and how does it differ from the other two types of appraisal reports?

## **16.4 Key Terms and Definitions**

### **BDM / BDO**

Business Development Manager / Business Development Officer. These are two of the titles held by representatives of lenders who are tasked with obtaining business from mortgage agents.

### **BFS**

Business For Self. This term applies to those clients who are self-employed.

### **O/O**

Owner occupied property

### **Prime lending**

Refers to mortgage lending to borrowers who are considered very good risks

### **Private lender**

A private lender is typically an individual investor with funds who would like to invest in mortgages. This individual will usually invest through his or her lawyer who may have clients requiring mortgage financing or a mortgage agent. His or her purpose may vary but normally an investor will invest in 2<sup>nd</sup> mortgages due to their higher rate of return when compared to 1<sup>st</sup> mortgages and other potential types of investments.

### **Product sheet**

A document provided by a lender that outlines the terms and conditions of its products

### **Rate drop**

Typically refers to the practice of decreasing a client's mortgage rate after he or she has been approved but before the mortgage transaction has closed, when the lender's interest rate on the product has decreased

### **Rate hold**

Typically refers to the practice of maintaining a rate for a specific period of time, whereby the lender will keep the client's mortgage rate at the approved amount after he or she has been approved but before the mortgage transaction has closed, when the lender's interest rate on the product has increased

### **Rate sheet**

A document provided by a lender that lists the interest rates for specific products, based on specific terms

### **Self-insured lender**

A term used to describe a sub-prime lender that charges a lender's fee. This fee is often comparable in amount to the fees charged by default insurers. This fee is used by the lender to offset amounts lost by borrowers who default on their mortgages but is not an actual insurance premium since these lenders do not use default insurance

### **SFD**

Single Family Dwelling

**Sub-prime lending**

Refers to mortgage lending to borrowers who are considered poor risks or who do not qualify for prime lending

**16.5 Review Questions**

Answers to the Review Questions are found at [www.REMIC.ca](http://www.REMIC.ca)

**Short Answer Questions**

1. Discuss the differences between the prime and sub-prime mortgage market.
2. Discuss the differences between prime and sub-prime mortgages.
3. What factors can cause a borrower to be considered sub-prime?
4. What type of borrower will typically require a private mortgage?
5. What information is typically found in a lender's product sheet?
6. What information is typically found in a lender's rate sheet?
7. What should a mortgage agent do if he or she is unsure if a lender will approve his or her client's application?
8. What factors must a mortgage agent consider when choosing a lender?
9. Which factors are the least important for a mortgage agent when choosing a lender?
10. What impact does a credit score have on the ability of a borrower to access a lender's products?

## **17.5 Key Terms and Definitions**

### **Administered mortgage**

In a private transaction, the mortgage agent or a third party is handling the collection of payments and/or other duties related to the administration of the mortgage.

### **Commitment letter**

A document illustrating an offer by a lender to a borrower, including the terms and conditions of that offer

### **Conditions**

Terms of a lender's commitment that must be fulfilled before the mortgage will be funded

### **Cooling off period**

A waiting period in which a potential investor cannot provide a commitment letter nor advance funds to a borrower

### **Face value**

The original amount of the mortgage repayable by the borrower

### **Funding ratio (also referred to as a Pull-Through Ratio)**

The ratio of applications submitted to a lender compared to the number of fundings. For example, if a mortgage agent submitted 10 applications to a lender and got 5 funded, he or she would have a funding ratio of 50% (5 divided by 10).

### **Insulbrick**

An inexpensive type of exterior siding designed to provide insulation that is most often found on older homes. Inferior types of insulbrick can pose a fire hazard and are typically grounds for declining a mortgage application.

### **Investor/Lender Disclosure (Form 1)**

A disclosure document required under the *MBLAA* to be provided to a potential private lender

### **Schedule (in relation to a Commitment Letter)**

An addendum to a mortgage commitment that outlines additional terms and conditions of a mortgage approval

### **UFFI (Urea formaldehyde foam insulation)**

Urea formaldehyde foam insulation is a type of insulation that is injected as a mixture of urea formaldehyde resin, an acidic foaming agent, and a propellant such as air. It was commonly used in pre-existing houses by injecting the foam into walls, where it was impractical to provide conventional insulation.

### **Underwriter**

An individual employed by a lender who reviews mortgage applications to determine if they meet the lender's lending guidelines, and who commonly provides a commitment letter when they are deemed to meet those guidelines

**17.6 Review Questions**

Answers to the Review Questions are found at [www.REMIC.ca](http://www.REMIC.ca)

**Short Answer Questions**

1. List the typical items that must be explained in the notes section of an application and provide an example of each.
2. To how many lenders should a mortgage agent submit an application at the same time?
3. Discuss the impact of funding ratios on a mortgage agent.
4. What is the most common complaint by underwriters when referring to mortgage applications?
5. List ten pieces of information that are commonly found in a commitment letter.
6. What types of documentation might a commitment letter require as proof of:
  - a) An employed individual's income?
  - b) A self-employed individual's income?
7. What options does a mortgage agent have if his or her client's application is declined by the lender?

## **18.10 Key Terms and Definitions**

### **Conflict of interest**

A brokerage, broker or agent with a direct or indirect interest in the mortgage being arranged resulting in a situation where the broker/agent must choose between his or her best interests and the interests of his or her borrower, investor or lender, as the case may be

### **Cost of borrowing**

The *MBLAA* defines the cost of borrowing as “the interest or discount applicable to the mortgage; any amount charged in connection with the mortgage that is payable by the borrower to the brokerage or lender; any amount charged in connection with the mortgage that is payable by the borrower to a person other than the brokerage or lender, where the amount is chargeable, directly or indirectly, by the person to the brokerage or lender, and; any charge prescribed as included in the cost of borrowing, but does not include any charge prescribed as excluded from the cost of borrowing. It must be disclosed as either a percentage or in dollars and cents depending on the disclosure requirements of the *Regulations*.”

### **Disclosure**

The act of making something evident. There are several disclosure requirements mandated by the *MBLAA* and its *Regulations* with relation to a mortgage being recommended to a borrower, investor or lender by a brokerage.

### **Disclosure form**

A form, prescribed or otherwise, used to provide disclosure to a borrower, lender or investor, as the case may be, in accordance with the *MBLAA* and its *Regulations*

### **Fees and payments**

This phrase is used to describe all payments involved in arranging a mortgage transaction, excluding repayment of the mortgage

### **Relationship between brokerage and lender**

This phrase is used to describe the nature of the relationship between the brokerage and lender, specifically if there is any relationship other than an arm’s length relationship between the two. This information must be disclosed to every potential borrower.

### **Risk**

A concept that identifies the borrower’s or investor’s acceptable level of risk. There are two fundamental requirements when considering risk: understanding the borrower’s or investor’s general level of acceptable risk and disclosing the specific risks associated with the mortgage being recommended by the broker/agent

### **Role of the brokerage**

This phrase is used to describe the nature of a brokerage’s relationship with borrowers and lenders, specifically on whose behalf the brokerage is acting, and must be disclosed in every mortgage transaction

### 18.11 Sample Borrower Disclosure - FIOLOGIX

Transaction #																																					
<b>Mortgage Brokerages, Lenders and Administrators Act</b> This document must be provided to the borrower 2 business days prior to the signing of any mortgage instruments, unless waived below.																																					
<b>Disclosure to Borrower</b>																																					
<b>Cost of Borrowing Disclosure:</b> Property to be mortgaged (address and description):																																					
<b>Details of Mortgage:</b> The principal amount of the _____ mortgage \$ _____, will be repayable in _____ installments of \$ _____ including interest / interest only, starting on _____. The net advance of funds is \$ _____. The total amount of all payments over the _____ term will be \$ _____. The mortgage will be amortized over _____ years / months.																																					
<b>Interest:</b> The date on which interest begins to accrue is: _____ and if any grace period is given, the details are:  The annual interest rate is _____ % and the compounding period is _____. Interest for each payment period is calculated against the balance owing. Each payment is applied first to the accumulated cost of borrowing, and then to the outstanding principal. Any interest unpaid becomes part of the balance owing for the purposes of calculating the interest charged in future payment periods. Where the annual interest rate may change, the method of determining the annual interest rate is:																																					
<b>Fees and Costs Payable by Borrower:</b> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;"></th> <th style="width: 30%;">Comments</th> <th style="width: 20%;">Value</th> <th style="width: 20%;">Included In APR</th> </tr> </thead> <tbody> <tr><td> </td><td> </td><td> </td><td> </td></tr> <tr><td> </td><td> </td><td> </td><td> </td></tr> <tr><td> </td><td> </td><td> </td><td> </td></tr> <tr><td> </td><td> </td><td> </td><td> </td></tr> <tr><td> </td><td> </td><td> </td><td> </td></tr> <tr><td> </td><td> </td><td> </td><td> </td></tr> <tr><td> </td><td> </td><td> </td><td> </td></tr> <tr> <td><b>Total Costs:</b></td> <td> </td> <td> </td> <td> </td> </tr> </tbody> </table>			Comments	Value	Included In APR																													<b>Total Costs:</b>			
	Comments	Value	Included In APR																																		
<b>Total Costs:</b>																																					
<b>Total Cost of Borrowing:</b> Total Cost of Borrowing (including interest) to be paid over the term of the mortgage: \$ _____ APR: _____ % <i>The APR is not the contract rate of the mortgage. It is the interest costs, plus the non-interest costs required to obtain the mortgage, expressed as a percentage of the average mortgage balance over the term of the mortgage.</i>																																					
<b>Terms and Conditions:</b>																																					
<b>Conflict of Interest Disclosure:</b>																																					

1 of 2



Transaction #

**Mortgage Brokerages, Lenders and Administrators Act**

This document must be provided to the borrower 2 business days prior to the signing of any mortgage instruments, unless waived below.

**Disclosure to Borrower****Referral Fees to Brokerage and/or Broker/Agent:**

*Describe any direct or indirect interest that the Brokerage has or, as currently contemplated, may acquire in the transaction for which this disclosure statement is provided.*

\_\_\_ Referral Fees to Brokerage and/or Broker/Agent:

\_\_\_ Mortgage - Commissions

**Other Compensation**

*The Lender involved in this transaction may provide the brokerage fees or incentives dependent on the interest rate and the term(s) accepted by the borrower. The brokerage may retain the fees and incentives or may use them for the benefit of another of the brokerage's clients.*

**Information on Brokerage:**

The Brokerage is representing \_\_\_\_\_ in this transaction.

The brokerage has placed over 50% of its business with \_\_\_\_\_ during the previous fiscal year.

The Brokerage has acted for \_\_\_\_\_ lenders during the previous fiscal year.

Name and Address of Brokerage: \_\_\_\_\_

Licence #: \_\_\_\_\_

Name of Authorized Person signing on behalf of Brokerage: \_\_\_\_\_ Licence #: \_\_\_\_\_

Date: \_\_\_\_\_ Authorized Signature: \_\_\_\_\_

**Disclosure of Material Risks:**

The brokerage has reviewed with the borrower the general risks associated with a mortgage commitment. These risks include:

**Acknowledgment**

I / we acknowledge receipt of a copy of this form, and corresponding Amortization Schedule and that I / we have reviewed the information.

Date: \_\_\_\_\_ Borrower: \_\_\_\_\_

Date: \_\_\_\_\_ Borrower: \_\_\_\_\_

I / we waive the 2 business days requirement for this disclosure.

Date: \_\_\_\_\_ Borrower: \_\_\_\_\_

Date: \_\_\_\_\_ Borrower: \_\_\_\_\_

This form is provided "as-is" and D+H Limited Partnership ("D+H") makes no representations, warranties or conditions with regard to this form. Without limiting the generality of the foregoing, D+H does not warrant that this form complies with any applicable legislation and/or regulation. To the maximum extent permitted by applicable law, D+H disclaims all warranties and conditions implied or statutory, including, but not limited to, any warranties or conditions of merchantability, fitness for a particular purpose, and non-infringement.

**18.12 Review Questions**

Answers to the Review Questions are found at [www.REMIC.ca](http://www.REMIC.ca)

**True or False Questions**

1. One of the things that must be disclosed to the borrower is the role of the brokerage.
2. The nature of the relationship between the brokerage and the borrower must be included in the disclosure document to the borrower.
3. A brokerage fee must be disclosed to the borrower and included in the cost of borrowing.
4. To comply with the *MBLAA* and its *Regulations* a borrower disclosure document should state “refer to the lender’s commitment’ to disclose the lender’s terms and conditions.
5. If a prospective mortgage was default insured by CMHC, the insurance fee would have to be included in the cost of borrowing.
6. Lawyer’s fees, excluding disbursements, must be included in the cost of borrowing.

**Short Answer Questions**

1. List the types of information (e.g., risks) that must be included in a borrower disclosure form.
2. Explain the timing requirements of providing disclosure to a borrower.
3. List the specific costs that must be included when calculating the cost of borrowing.
4. How must the cost of borrowing be expressed in a borrower disclosure form?
5. When or under what circumstances would a broker not have to supply his or her borrower with a borrower disclosure form?

## **19.5 Key Terms and Definitions**

### **Acknowledgment and Direction (A&D)**

The Acknowledgment and Direction, signed by the client, provides the lawyer with the authorization to electronically register documents

### **Closing costs**

The costs associated with closing a real estate and mortgage transaction

### **Document Registration Agreement (DRA)**

The document, signed by the vendor's and purchaser's lawyers that allows for closing an electronic transaction

### **e-reg**

The gateway used to access POLARIS and create and register land titles documents electronically in Ontario

### **Interest adjustment amount**

The interest payable to a lender for the period of time that mortgage proceeds are held by the borrower before the period covered by the first mortgage payment

### **Interest adjustment date (IAD)**

The date that the interest adjustment payment is due

### **Land transfer tax**

A tax payable to the Provincial Government by the purchaser of a property upon the transfer of title from a seller

### **POLARIS**

Province of Ontario Land Registration Information System

### **Solicitor's Final Report and Certificate of Title**

The document sent to the lender detailing the successful mortgage transaction

### **Teranet**

The province of Ontario's private sector partner in the creation of the electronic land registration system

### **Teraview**

Teranet's software that provides access to e-reg and POLARIS

## **19.6 Review Questions**

Answers to the Review Questions are found at [www.REMIC.ca](http://www.REMIC.ca)

### **Short Answer Questions**

1. List the common closing costs associated with a purchase of a resale home when a mortgage is used to complete this purchase.
2. What might be the legal fees on a purchase of a \$750,000 residential property?
3. Under what circumstances is HST charged in the purchase of a property?
4. What tax is charged on the mortgage default insurance premium?
5. List the pre-closing and closing procedures that a lawyer can complete using Teraview.
6. Explain the significance of the Acknowledgement and Direction in the closing process.
7. What purpose does the DRA serve?
8. In a title-insured transaction, who remits the insurance premium to the title insurer?
9. Define the IAD.
10. Ms. Homeowner is receiving a mortgage for \$350,000 on February 11<sup>th</sup>. The mortgage bears interest at a rate of 5.4% per year, compounded semi-annually, not in advance. The mortgage has monthly payments that begin on April 1<sup>st</sup>. What is the amount of the interest adjustment payment due on March 1<sup>st</sup>?

## Appendix 1: Acknowledgment and Direction

## ACKNOWLEDGEMENT AND DIRECTION

TO:

(insert Lawyer's name)

AND TO:

(insert Lawyer's name)

RE:

\_\_\_\_ (“the transaction”)  
(insert brief description of transaction)

**This will confirm that:**

- I/we have reviewed the information set out this Acknowledgement and Direction and in the documents described below (the "Documents"), and that this information is accurate;
- You, your agent or employee are authorized and directed to sign, deliver, and/or register electronically, on my/our behalf the Documents in the form attached.
- You are hereby authorized and directed to enter into an escrow closing arrangement substantially in the form attached hereto being a copy of the version of the Document Registration Agreement, which appears on the website of the Law Society of Upper Canada as of the date of the Agreement of Purchase and sale therein. I/we acknowledge the said Agreement has been reviewed by me/us and that I/we shall be bound by its terms;
- The effect of the documents has been fully explained to me/us, and I/we understand that I/we are parties to and bound by the terms and provisions of the Documents to the same extent as if I/we had signed them; and
- I/we are in fact the parties named in the Documents and I/we have not misrepresented our identities to you.
- I, \_\_\_\_\_, am the spouse of \_\_\_\_\_, the (Transferor/Chargor), and hereby consent to the transaction described in the Acknowledgement and Direction. I authorize you to indicate my consent on all the Documents for which it is required.

## DESCRIPTION OF ELECTRONIC DOCUMENTS

The Document(s) described in the Acknowledgement and Direction are the document(s) selected below which are attached hereto as "Document in Preparation" and are:

- ☐ A Transfer of the land described above.
- ☐ A Charge of the land described above.
- ☐ Other documents set out in Schedule "B" attached hereto.

Dated at \_\_\_\_\_, this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_\_.

WITNESS

(As to all signatures, if required)

---

**Properties**

*PIN* *Interest/Estate*  
*Description*  
*Address*

**Consideration**

*Consideration*

**Transferor(s)**

The transferor(s) hereby transfers the land to the transferee(s)

*Name*  
*Acting as an individual*

*Address for Service*

I am at least 18 years of age

This document is not authorized under Power of Attorney by this party

**Transferee(s)**

*Capacity*

*Share*

*Name* *Owner*  
*Acting as an individual*

*Date of Birth*

*Address for Service*

**Calculated Taxes**

*Retail Sales Tax*

*Land Transfer Tax*

## Appendix 2: Document Registration Agreement (DRA)

### DOCUMENT REGISTRATION AGREEMENT

**BETWEEN:**

\_\_\_\_\_  
(hereinafter referred to as the “**Purchaser’s Solicitor**”)

**AND:**

\_\_\_\_\_  
(hereinafter referred to as the “**Vendor’s Solicitor**”)

**RE:** \_\_\_\_\_ (the “**Purchaser**”) purchase from \_\_\_\_\_ (the “**Vendor**”) of  
\_\_\_\_\_ (the “**Property**”) pursuant to an agreement of purchase and sale  
dated \_\_\_\_\_, as amended from time to time (the “**Purchase Agreement**”),  
scheduled to be completed on \_\_\_\_\_ (the “**Closing Date**”)

**FOR GOOD AND VALUABLE CONSIDERATION** (the receipt and  
sufficiency of which is hereby expressly acknowledged), the parties hereto hereby  
undertake and agree as follows:

Holding Deliveries  
In Escrow

1. The Vendor’s Solicitor and the Purchaser’s Solicitor shall hold all funds, keys and closing documentation exchanged between them (the “**Requisite Deliveries**”) in escrow, and *shall* not release or otherwise deal with same except in accordance with the terms of this Agreement. Both the Vendor’s Solicitor and the Purchaser’s Solicitor have been authorized by their respective clients to enter into this Agreement. Once the Requisite Deliveries can be released in accordance with the terms of this Agreement, any monies representing payout funds for mortgages to be discharged shall be forwarded promptly to the appropriate mortgage lender.<sup>1</sup>

Advising of  
Concerns with  
Deliveries

2. Each of the parties hereto shall notify the other as soon as reasonably possible following their respective receipt of the Requisite Deliveries (as applicable) of any defect(s) with respect to same.

Selecting Solicitor  
Responsible for  
Registration

3. The Purchaser’s Solicitor shall be responsible for the registration of the Electronic Documents (as hereinafter defined) unless the box set out below indicating that the Vendor’s Solicitor will be responsible for such registration has been checked. For the purposes of this Agreement, the solicitor responsible for such registration shall be referred to as the “**Registering Solicitor**” and the other solicitor shall be referred to as the “**Non-Registering Solicitor**”:

	Vendor's Solicitor will be registering the Electronic Documents	<input type="checkbox"/>
Responsibility of Non-Registering Solicitor	4. The Non-Registering Solicitor shall, upon his/her receipt and approval of the Requisite Deliveries (as applicable), electronically release for registration the Electronic Documents and shall thereafter be entitled to release the Requisite Deliveries from escrow forthwith following the earlier of:	
and		
Release of Requisite Deliveries by Non-Registering Solicitor	<ul style="list-style-type: none"> <li>a) the registration of the Electronic Documents;</li> <li>b) the closing time specified in the Purchase Agreement unless a specific time has been inserted as follows [_____ a.m./p.m. on the Closing Date] (the "<b>Release Deadline</b>"), and provided that notice under paragraph 7 below has not been received; or</li> <li>c) receipt of notification from the Registering Solicitor of the registration of the Electronic Documents.</li> </ul>	
	If the Purchase Agreement does not specify a closing time and a Release Deadline has not been specifically inserted the Release Deadline shall be 6.00 p.m. on the Closing Date.	
Responsibility of Registering Solicitor	5. The Registering Solicitor shall, subject to paragraph 7 below, on the Closing Date, following his/her receipt and approval of the Requisite Deliveries (as applicable), register the documents listed in Schedule "A" annexed hereto (referred to in this agreement as the " <b>Electronic Documents</b> ") in the stated order of priority therein set out, as soon as reasonably possible once same have been released for registration by the Non- Registering Solicitor, and immediately thereafter notify the Non-Registering Solicitor of the registration particulars thereof by telephone or telefax (or other method as agreed between the parties).	
Release of Requisite Deliveries by Registering Solicitor	6. Upon registration of the Electronic Documents and notification of the Non-Registering solicitor in accordance with paragraph 5 above, the Registering Solicitor shall be entitled to forthwith release the Requisite Deliveries from escrow.	
Returning Deliveries where Non-registration	7. Any of the parties hereto may notify the other party that he/she does not wish to proceed with the registration <sup>2</sup> of the Electronic Documents, and provided that such notice is received by the other party before the release of the Requisite Deliveries pursuant to this Agreement and before the registration of the Electronic Documents, then each of the parties hereto shall forthwith return to the other party their respective Requisite Deliveries.	
Counterparts & Gender	8. This Agreement may be signed in counterparts, and shall be read with all changes of gender and/or number as may be required by the context.	
Purchase Agreement Prevails if Conflict or Inconsistency	9. Nothing contained in this Agreement shall be read or construed as altering the respective rights and obligations of the Purchaser and the Vendor as more particularly set out in the Purchase Agreement, and in the event of any conflict or inconsistency between the provisions of this Agreement and the Purchase Agreement, then the latter shall prevail.	
Telefaxing Deliveries & Providing Originals if Requested	10. This Agreement (or any counterpart hereof), and any of the closing documents hereinbefore contemplated, may be exchanged by telefax or similar system reproducing the original, provided that all such documents have been properly executed by the appropriate parties. The party transmitting any such document(s) shall also provide the original executed version(s) of same to the recipient within 2 business days after the Closing Date, unless the recipient has indicated that he/she does not require such original copies.	



### Appendix 3: Closing Costs Worksheet

## Closing Costs Worksheet

Client Name(s):

Item	Cost
<input type="checkbox"/> Appraisal Fee	
<input type="checkbox"/> Broker's Fee and/or lender's Fee	
<input type="checkbox"/> Closing Adjustments	
<input type="checkbox"/> Condominium Status Certificate Fee	
<input type="checkbox"/> HST (formerly GST – on new homes only)	
<input type="checkbox"/> Home Inspection	
<input type="checkbox"/> Interest Adjustment (based on anticipated closing date and 1 <sup>st</sup> payment date)	
<input type="checkbox"/> Land Transfer Tax @ ____% of Purchase Price: \$_____	
<input type="checkbox"/> New Home Warranty	
<input type="checkbox"/> Legal Fees	
<input type="checkbox"/> New Hydro Account	
<input type="checkbox"/> Property Insurance	
<input type="checkbox"/> PST on CMHC Premium @ 8% x \$_____ (if applicable)	
<input type="checkbox"/> Title Insurance	
<b>Total</b>	<b>\$</b>

## **20.7 Key Terms and Definitions**

**Acceptance**

A promise to accept an offer

**Assignment**

A transfer of rights from one party of a contract to another. The rule of privity of contract does not apply under this scenario.

**Breach**

A breach of contract occurs when one party to the contract fails or refuses to fulfill his or her obligations as contained within the contract

**Condition precedent**

A clause in a contract that describes an event that must occur before the contract can be performed

**Condition subsequent**

A clause in a contract that describes a future event that must occur for the contract to be cancelled

**Consideration**

Something of value exchanged between parties to a contract

**Contract**

A legally enforceable agreement made between two or more parties

**Damages**

Damages are an award of money by the court designed to put the innocent party in the position he or she would have been had the contract been performed

**Duress**

A threat or act, whether aimed at personal property or a person, that induces or causes another person to perform some act against his or her will

**Frustration**

Frustration occurs when an event outside of the control of the parties to a contract makes the performance of the contract impossible

**Injunction**

A court order that prohibits a party from doing something or acting in a certain manner

**Legal capacity**

Parties must be approximately equivalent in bargaining power and must meet minimum standards in regard to maturity and intellect to be deemed to have the legal capacity to enter into a contract

**Legal relationship**

The intention of the parties entering into an agreement to form a legally binding agreement

**Legality requirements**

Every contract must meet certain legality requirements. It must have a legal purpose. To be considered legal this purpose cannot violate any law, statute, or public policy. In addition, there are other legality requirements which may be required to be met under specific circumstances.

**Material alterations**

A change in a contract substantial enough to change the legal meaning and interpretation of a contract

**Misrepresentation**

A false statement that causes or helps to cause a party to enter into a contract

**Mistake**

A misunderstanding about a fundamental term or condition of the contract

**Offer**

A promise made by one party to another to do something

**Operation of law**

The *Bankruptcy and Insolvency Act* states that upon discharge of the bankruptcy contracts contained within the bankruptcy are discharged

**Option to Terminate**

A written clause in a contract that allows a party to terminate the contract whenever he or she decides, based on meeting the conditions of the option

**Performance**

Completing the obligations under a contract

**Privity of contract**

The doctrine of privity in contract law creates a situation in which only the parties to a contract may enforce it. A contract cannot confer rights or impose obligations on any individual except those parties in the contract.

**Quantum meruit**

Latin for “as much as is deserved” and is an amount determined by a court, where the contract stipulates that an amount of consideration will be paid but where the amount of that consideration has not been stipulated in the contract

**Rescission**

An order designed to put the parties to a contract in the position they would have been in had the contract never been made

**Right**

Discharge by right occurs when there is a clause written into a contract that provides one or both parties with the option to cancel the contract before performance

**Specific performance**

An order requiring the defendant to perform a specific task, usually the major condition of the

contract

**Substantial performance**

Substantial Performance is used in determining the amount of damages in a contract that has been substantially performed although the performance is not complete under the terms of the contract

**Unconscionable act**

An act or contract deemed so unfair to a party that no reasonable or informed person would agree to it

**Undue influence**

Any pressure or act of persuasion, short of physical force and therefore not meeting the definition of duress, that overcomes an individual's judgment and free will

**Vicarious performance**

The performance of all or part of a contract's obligations by a third party

**Waiver**

The cancellation of performing the terms and conditions of a contract once the contract is in effect but before the contract has been fully performed

## **20.8 Review Questions**

Answers to the Review Questions are found at [www.REMIC.ca](http://www.REMIC.ca)

### **Short Answer Questions**

1. What is a contract?
2. Explain the elements of a valid contract.
3. If misrepresentation exists, what option is available?
4. Discuss the differences between duress and undue influence.
5. Under the doctrine of privity of contract, who can enforce the terms and conditions of a contract?
6. What condition precedent is most common in real estate transactions?
7. Larry owns a car that is being stored in a self-storage unit. If Bob and Larry enter into a contract for Bob to purchase Larry's car but before Bob can take possession of the car the self-storage unit is destroyed by a fire, and Larry's car along with it, what will happen to this contract and why?
8. Abena has entered into a valid purchase and sale agreement to purchase a home from David. David decides not to sell Abena the home and instead enters into another agreement of purchase and sale with Bob. What options does Abena have?
9. A contract of employment between a mortgage agent and a mortgage brokerage contains a clause that states, "This contract may be terminated by either party by providing thirty days' notice to the other party." Of what is this an example?
10. Dominic is twelve and in the neighbourhood in which he lives he is known as the grass cutter. He wishes to get Mr. Malikson, another neighbour, as a customer so on Monday cuts his lawn without being asked and leaves a note on Mr. Malikson's front door. Mr. Malikson comes home from work on Monday night, sees the lawn, and is extremely happy with the quality of Dominic's work. He calls Dominic and tells him that on Friday he will give him ten dollars for cutting his lawn. On Friday Dominic arrives at Mr. Malikson's home and asks for the ten dollars, but Mr. Malikson refuses to pay, telling Dominic that when he saw the lawn on Tuesday he realized it was not as good a job as he had thought on Monday so he changed his mind about paying Dominic. In this situation, is there a contract and can Dominic enforce the promise to pay?

### **21.3 Key Terms and Definitions**

**Demand letter**

A letter sent by the lender's lawyer that requires the defaulting borrower to pay the lender the monies owed on the defaulted mortgage

**Foreclosure**

A lender's remedy that enables the lender to obtain title to the defaulted borrower's property and dispose of it. Any profit or loss will belong to the lender while the borrower is free of the debt.

**Notice of sale**

A document, prescribed by the *Mortgages Act, R.S.O. 1990, c.M.40*, that is used to inform the borrower of the lender's intent to recover monies owing to it when the borrower has defaulted on his or her obligations under the mortgage contract.

**Power of sale**

A process that allows the lender to commence a proceeding against the borrower without using the courts and sell the property. This can be a quick and fairly inexpensive remedy available to lenders upon default by the borrower

**Redemption period**

A period of time during which a defaulting borrower may pay the outstanding balance of a mortgage before the lender can sell the borrower's property, as prescribed by the *Mortgages Act, R.S.O. 1990, c.M.40*

**Sheriff**

An officer of the Enforcement Office who handles, among other things, evicting a defaulted borrower once the proper order has been made by the Courts

**Statement of claim for debt and possession (commonly referred to as a Statement of claim)**

A document filed with the Courts outlining a lender's claim against the borrower

**Writ of possession**

A document provided by the Courts that allows the lender to take possession of the borrower's property. This is enforced by the local sheriff

**21.4 Review Questions**

Answers to the Review Questions are found at [www.REMIC.ca](http://www.REMIC.ca)

**Short Answer Questions**

1. What constitutes default by the borrower?
2. What process is the most common remedy used by lenders in Ontario when a borrower defaults on his or her mortgage obligations?
3. What Act outlines the process that must be followed under a power of sale?
4. How long after a borrower defaults on his or her mortgage payment can a lender begin the power of sale process?
5. Describe, in your own words, the power of sale process.
6. How does a foreclosure differ from a power of sale?
7. What provinces currently use a power of sale process?
8. What documents must a lender provide a real estate salesperson when selling a property under power of sale?
9. List the order in which proceeds of a sale under a power of sale are distributed.
10. Other than a power of sale or foreclosure, what other steps might a lender first use to recover monies owing by a defaulting borrower?

## **22.8 Key Terms and Definitions**

### **Air Loan**

A mortgage provided on a property that does not exist

### **Foreclosure fraud**

The defrauding of a homeowner using the pretense of assisting to stop a foreclosure or power of sale

### **Fraud for criminal activities**

Mortgage fraud may be committed to further other criminal activities such as the financing of marijuana grow operations, drug labs and money laundering

### **Fraud for profit**

Fraud committed to obtain the proceeds of the mortgage without the intent to repay the loan

### **Fraud for shelter**

When an individual wishes to purchase a home in which to reside with no intent to abscond with mortgage funds or fraudulently sell the property, by misstating or misrepresenting his or her status

### **Identity theft**

The use of personal information that has been stolen or is being used to commit fraud or theft

### **Impersonation**

Similar to identity theft, when the criminal poses as another individual

### **Land Titles Assurance Fund**

A provincial fund that was created under the *Land Titles Act* which is designed to compensate individuals who have suffered financial losses due to errors or omissions in the land registration system and real estate fraud

### **Money laundering**

The practice of performing a financial transaction with the intent to conceal the source of money, typically obtained through a criminal activity. The result is that the money appears to have been legitimately obtained.

### **Mortgage fraud**

The deliberate omission of information, use of misstatements or misrepresentations to obtain, purchase or fund a mortgage loan

### **Straw borrower**

A straw borrower is typically an individual who is paid to use his or her identity to obtain mortgage financing, or who is a victim of identity theft.

### **Title fraud**

The fraudulent transfer of title of a property



**Value fraud**

A misstatement of the value of a property

## **22.9 Review Questions**

Answers to the Review Questions are found at [www.REMIC.ca](http://www.REMIC.ca)

### **Short Answer Questions**

1. Define mortgage fraud.
2. What factors contribute to mortgage fraud?
3. Explain the difference between fraud for criminal activities and fraud for profit.
4. In your opinion, is fraud for shelter harmful? If so, to whom and why?
5. What is the most common factual misstatement made under fraud for shelter, according to Fannie Mae?
6. What are the impacts of mortgage fraud on industry participants?
7. What steps can a mortgage agent take to assist in mortgage fraud prevention?
8. List and describe the typical fraud warning signs.
9. How does the Land Titles Assurance Fund assist homeowners who are victims of fraud?
10. What ways can consumers protect themselves from fraud?

### ***23.7 Key Terms and Definitions***

**Core value or belief**

A belief which one cannot contravene. In other words, if it is truly a core value you cannot go against it, or do anything that contravenes that belief

**Decision making model**

The model used to determine whether potential solutions to a problem pass the test of the individual's core values

**Ethics (in relation to the mortgage industry)**

The process of applying the core values of the mortgage industry to a practitioner's daily conduct

**Honesty**

Merriam-Webster's dictionary defines honesty as: "fairness and straightforwardness of conduct; adherence to the facts"

**Integrity**

The adherence to a core set of values, from which all decisions are based. If one has integrity, he or she adheres to their core values

## **23.8 Review Questions**

Answers to the Review Questions are found at [www.REMIC.ca](http://www.REMIC.ca)

### **Short Answer Questions**

1. Define the term “ethics”
2. What are the core values of the mortgage industry?
3. What are the steps in the Decision-Making Model?
4. Why should an individual review the Decision-Making Model process before making his or her final decision?
5. What are some options for an individual to ensure that he or she has obtained all of the facts?
6. What should an individual do if he or she can’t obtain all of the facts?
7. If two or more possible solutions make it to the final step, how would you choose the best option?
8. List your core values and compare them to the industry’s core values. How does the Decision Making Model that you would use for your personal decisions differ from those of your business decisions, if at all?
9. Is it possible for an individual to determine all of the potential solutions to a scenario? If not, how else might he or she develop additional solutions?
10. Ask your friends or family members not in the mortgage industry what they believe the core values of the industry are. Write them down and compare them to those listed in this chapter. What did you find? Is the perception of the mortgage industry similar to this chapter’s core values or different? If different, how might the industry change this perception?

## Case Study

### Scenario and Supporting Documents

Today is January 20<sup>th</sup>, 2012.

You are a mortgage agent at Sample Mortgages Inc., registration number 12345, located at 2175 Sheppard Avenue East, Suite 213, North York Ontario, M2J 1W8. Your clients, a married couple named Jack and Susan Adams have responded to an ad that you had placed in the Toronto Star. They've told you that they would like to refinance their existing mortgage for \$400,000 on their owner-occupied house, which is coming up for renewal shortly.

In speaking with them, you have learned that they purchased this home on February 1st, 2009, after living at their previous address for two years. They wish to pay off their credit cards and their loan. The purchase price was \$450,000, and they obtained a \$400,000 1<sup>st</sup> mortgage from REMIC's Savings and Loan. Approximately one year after buying the home, Jack and Susan remodeled their kitchen and finished the basement.

The property taxes have not changed since they purchased the home. You have determined the best course of action is to refinance their mortgage with SuperBank because it is offering better rates and pre-payment privileges. Included in the next several pages are the appropriate supporting documents that you've gathered from the clients.

His social insurance number is 450-120-843 while hers is 499-921-012. They have provided their contact information, which is as follows:

Home Telephone Number: (416) 555-1492; Jack: c: (647) 555-1822; e: [jadams@hotmail.com](mailto:jadams@hotmail.com);  
Susan: c: (647) 555-1492; e: [sus.adams@gmail.com](mailto:sus.adams@gmail.com)

You have learned that they have a 2010 Ford Focus, which they value at \$13,000; an RRSP with a value of \$26,000; \$11,500 cash in the bank and household goods valued at \$21,000. They have informed you that their first mortgage is currently up to date and they have never missed a mortgage payment.

The lender required an appraisal by Wonderful Appraisals Inc. On January 19th, 2012 that appraisal was completed, valuing the Adams' house at \$506,000. The cost of this appraisal, which the clients paid, was \$435 including tax. If required, the title insurance policy will cost \$450. On January 17th, 2012, SuperBank provided you with an approval. Please refer to the approval in the following pages for its terms and conditions before completing your calculations.

You have decided that you will not charge a brokerage fee because SuperBank pays a finder's fee of 85 bps. You completed filling out the borrower disclosure today, January 20th, 2012 and are meeting with the clients tomorrow, January 21st, 2012, at which time they will sign the borrower disclosure.

**Please complete the following tasks using all information in this Case Study.**

1. Section 1: Fill in the Mortgage Application
2. Section 2: Answer the Short Answer Questions
3. Section 3: Answer questions on the Borrower Disclosure
4. Section 4: Compute Financial Calculations

# REMIC's Savings and Loan

December 30, 2011

Mr. and Mrs. Adams  
123 Secord Street,  
Toronto, ON, M1S 1M1

Mortgage Number: 1155667898

## Mortgage Statement

Statement Period: February 1, 2011 to February 1, 2012  
Property Address: 123 Secord Street, Toronto, ON, M1S 1M1

## Mortgage Details

Maturity Date	February 1, 2012
Interest Rate (as at statement date)	6.89%
Payment Frequency	Monthly
Principal and interest payment	\$2,774.55
Principal, interest and tax payment	\$2,966.81

## Transaction Summary

Opening Principal Balance	\$386,924.66
Advances During Statement Period	\$0.00
Principal Paid (including any privilege payments)	\$7,232.73
Closing Principal Balance	\$379,691.92
Interest Paid (during statement period)	\$26,061.87

## Tax Account Summary

Opening Tax Balance	\$0.00 CR
Tax Payments Received	\$2,307.12
Taxes Paid to Authority	\$2,307.12
Closing Tax Balance	\$0.00 CR

Please Note: DR is a Debit = Minus to your account. CR is a Credit = Plus to your account

If you have any questions, please feel free to contact our  
Customer Service Toll-Free Number at 1-866-555-9900

If any of the balances, interest rates or other financial data appear  
incorrect, please contact our auditors detailing any discrepancies:

Pricewaterhouse  
Suite 1000, 123-53<sup>rd</sup> Ave  
Toronto, ON  
Attention: Joseph Blank  
Tel: (416) 555-9900  
Fax: (416) 555-9911

# T & J Manufacturing Inc

1234 John Street,  
Toronto, ON  
M4M 4M4  
Tel: (416) 555-1212  
Fax: (416) 555-2121

January 10, 2012

Re: Employment Verification of Mr. Jack Adams

To Whom It May Concern,

As requested by Mr. Jack Adams this letter is to verify that Mr. Jack Adams is employed at T & J Manufacturing Inc. as a salaried Assembly Line Operator. He has been employed in this position since January 17<sup>th</sup>, 2005 and earns a salary of \$75,500 per year.

If you have any questions, please do not hesitate to contact the undersigned.

Sincerely,

*Sarah Clifford*

Sarah Clifford  
HR Assistant  
T & J Manufacturing INC.

# *Uptown Accounting LLP*

1105A King Street,  
Toronto, ON  
M4M 1B1  
Tel: (416) 555-9998  
Fax: (416) 555-9997

January 12, 2012

Re: Employment Verification of Susan Adams

To Whom It May Concern,

As requested by Susan Adams this letter is to verify that she is employed at Uptown Accounting LLP. as a salaried Accountant. She has been employed in this position since March 20<sup>th</sup>, 2004 and earns \$82,000 per year in salary.

If you have any questions, please do not hesitate to contact the undersigned.

Sincerely,

*P.J. Persaud*

P.J. Persaud  
HR Manager  
Uptown Accounting LLP



NM – ADAMS, JACK

CA - 123 Secord Street, Toronto, ON, M1S 1M1

FA - 5678 Oakwoods Boulevard, Toronto, ON, M1S 1N1

ID - BDS-05-22-1970, SSS-450-120-843, SSC-499-921-012

ES – T & J Manufacturing Inc., Assembly Line Operator

Equifax and Affiliate Bureaus - Refer Consumer inquiries to 1-800-465-7166

FN 00-0008095-07-265 UN 2060576929 01/16/2012

RISK SCORE: 745

ADAMS, JACK, SUSAN SINCE 01/05/1997 FAD 01/16/2012

123 Secord Street, Toronto, ON, M1S 1M1 ,RPTD 02/2009

5678 Oakwoods Boulevard, Toronto, ON, M1S 1N1, RPTD 09/2007

933, Mountainview RD, KELOWNA, BC C1C 1C1

BDS-05/22/1970, SSS-450-120-843

INQS-SUBJECT SHOWS 1 INQUIRY SINCE 01/2011

01/11/2011	ROGERS VIDEO	(555) 111-1111
09/16/2010	TD CANADA TRUST	(555) 222-2222
09/10/2010	ROYAL BANK	(555) 333-3333
01/22/2009	FORD CREDIT	(555) 444-4444
01/12/2009	MBNA	(555) 555-5555

# INQS – 36

ES – Assembly Line Operator, T & J Manufacturing Inc., TORONTO, ON, EMP 01/2005

EF – Assembly Line Operator, Western Automotive, KELOWNA, BC, EMP 12/02,VR 02/03, LEFT 01/2004

EC - Accountant, Uptown Accounting LLP, TORONTO, ON, EMP 03/2004, VER 10/2005

SUMMARY 05/1997 - 12/2011, 1-PR/OI, FB-NO, TOTAL-3, HC\$5K-10K, 3-ONE

04/2005 SECLN CENT REG TOR, FP CASE NO-HONDA CREDIT, TOR, MATURE 04/2010

#### TRADE INFORMATION SECTION

BUS/ID CODE	RPTD	OPND	H/C	TRMS	BAL	P/D	RT	30/60/90	MR	DLA
TD VISA										
(555)555-1212										
J650DC16	12/2011	12/1997	8000	186	6200	0	R1	00/00/00	168	12/2011
BMO MASTERCARD										
(888)555-1212										
J6500N28	12/2011	12/2003	10000	255	8500	0	R1	02/00/00	96	12/2011
PREV HI RATES: R2 06/2011, R2 08/2011										
CIBC										
(555)555-2981										
J650AT12	12/2011	12/2007	5000	420	1260	0	I1	00/00/00	48	12/2011

NM – ADAMS, SUSAN

CA - 123 Secord Street, Toronto, ON, M1S 1M1

FA - 5678 Oakwoods Boulevard, Toronto, ON, M1S 1N1

ID - BDS-04-08-1972, SSS-499-921-012, SSC-450-120-843

ES – UPTOWN ACCOUNTING LLP., Accountant

Equifax and Affiliate Bureaus - Refer Consumer inquiries to 1-800-465-7166

FN 00-0008095-07-265 UN 2060576929 01/16/2012

RISK SCORE: 791

ADAMS, SUSAN, JACK SINCE 01/05/1997 FAD 01/16/2012

123 Secord Street, Toronto, ON, M1S 1M1 ,RPTD 01/2009

5678 Oakwoods Boulevard, Toronto, ON, M1S 1N1, RPTD 09/2007

933, Mountainview RD, KELOWNA, BC C1C 1C1

BDS-04/08/1972, SSS-499-921-012

INQS-SUBJECT SHOWS 1 INQUIRY SINCE 01/2009

01/11/2011	ROGERS VIDEO	(555) 111-1111
15/12/2010	BNS VISA	(555) 111-1222
09/16/2010	TD CANADA TRUST	(555) 222-2222
09/10/2010	ROYAL BANK	(555) 333-3333
01/22/2009	FORD CREDIT	(555) 444-4444
01/12/2009	MBNA	(555) 555-5555

# INQS – 37

ES – Accountant, Uptown Accounting LLP, TORONTO, ON, EMP 03/2004, VER 10/2005

EF – Accountant, Mountain Financial, KELOWNA, BC, EMP 12/02, VR 02/03, LEFT 02/2004

EC - Assembly Line Operator, T & J Manufacturing Inc., TORONTO, ON, EMP 01/2005

SUMMARY 05/1997 - 12/2011, 1-PR/OI, FB-NO, TOTAL-4, HC\$5K-12K, 4-ONE



04/2005 SECLN CENT REG TOR, FP CASE NO-HONDA CREDIT, TOR, MATURE 04/2010



#### TRADE INFORMATION SECTION

BUS/ID CODE	RPTD	OPND	H/C	TRMS	BAL	P/D	RT	30/60/90	MR	DLA
TD VISA										
(555)555-1212										
J650DC16	12/2011	12/1997	8000	186	6200	0	R1	00/00/00	168	12/2011
BMO MASTERCARD										
(888)555-1212										
J6500N28	12/2011	12/2003	10000	255	8500	0	R1	02/00/00	96	12/2011
PREV HI RATES: R2 06/2011, R2 08/2011										
CIBC										
(555)555-2981										
J650AT12	12/2011	12/2007	5000	420	1260	0	I1	00/00/00	48	12/2011
BNS VISA										
(555)555-3000										
650AT20	12/2011	12/2010	12000	0	0	0	R1	00/00/00	12	12/2011

	<b>123 Secord Street</b>			<b>\$450,000 For Sale</b>			
	<b>Toronto, Ontario M1S1M1</b>						
	<b>Pt Lt 10R Plan M1234</b>			<b>Taxes: \$2,307.12/2008</b>			
	<b>City of Toronto</b>			<b>SPIS: N</b>			
				<b>Last Status: New</b>			
Semi-Detached						<b>Fronting On:</b> E	<b>Rooms:</b> 6+2
2-Storey						<b>Acreage:</b> < .49	<b>Bedrooms:</b> 3
<b>Dir/Cross St:</b> Jane/King						<b>Washrooms:</b> 3	
<b>Lot:</b> 6.85X34 Meters						2x4, 1x2	
<b>Lot Irreg:</b> Backs Westerly Sun							
<b>MLS#: W12345</b>							
<b>Open House:</b> Oct 1 <b>From:</b> 9 am <b>To:</b> 5 pm <b>DOM:</b> 10 <b>Holdover:</b> 90				<b>Occup:</b> Owner <b>Possession:</b> February 01/Tba/Flx			
<b>Open House Notes:</b> Please leave shoes on porch				<b>PIN#:</b>			
<b>Kitchens:</b> 1			<b>Exterior:</b> Brick			<b>Zoning:</b> Residential	
<b>Fam Rm:</b> N			Other			<b>Cable TV:</b> <b>Hydro:</b>	
<b>Basement:</b> Finished Full			<b>Drive:</b> Mutual			<b>Gas:</b> <b>Phone:</b>	
<b>Fireplace/Stv:</b> N			<b>GarType/Spaces:</b> Attached/1			<b>Water:</b> Municipal	
<b>Heat:</b> Gas Forced Air			<b>Parking Spaces:</b> 2			<b>Water Supply:</b>	
<b>CAC:</b> Y			<b>UFFI:</b> No			<b>Sewers:</b> Sewers	
<b>Apx Age:</b> 6-15			<b>Pool:</b> None			<b>Spec Desig:</b> Unknown	
<b>Apx Sqft:</b> 1100-1500			Sloping			<b>Farm/Agr:</b>	
<b>Assessment:</b>			Public Transit				
			Rec Centre				
<b>#</b>	<b>Room</b>	<b>Level</b>	<b>Dimensions (ft)</b>				
1	Living	Ground	10.99 x	14.8	Hardwood Floor	Open Concept	Overlook Patio
2	Dining	Ground	9.91 x	11.38	Hardwood Floor	Combined W/Living	Open Concept
3	Kitchen	Ground	9.88 x	10.01	Ceramic Floor	B/I Dishwasher	Ceramic Back Splash
4	Breakfast	Ground	10.5 x	10.1	Ceramic Floor	Family Size Kitchen	W/O To Deck
5	Master	2Nd	18.01 x	10.1	Semi Ensuite	His/Hers Closets	Broadloom
6	2nd Br	2Nd	10.99 x	10.01	Wainscotting	Broadloom	Large Closet

7 3rd Br	2Nd	10.01 x 9.55	Closet Organizers	Window	Broadloom
8 Rec	Bsmt	15.49 x 10.2	Finished	Stucco Ceiling	Broadloom
9 Laundry	Bsmt	9.42 x 6.33	Partly Finished	Fluorescent	4 Pc Bath
<p>Immaculate&amp;Clean Thru-Out Home&amp;Area,Bright Home,Upgrades Galore, Beautiful Strip Hdwd Flrs&amp;Ceramics,Outstanding Finished Bsmt With Rec Romm&amp;4 Piece Bath&amp;Lndry Area&amp;Cantina,Interlocking Stone Front Walkway&amp;Front&amp;Rear Gardens*Front Porch,Huge Private Rear Deck*Wroght-Iron Gate Fridge,Stove,Bi Dw,Bi Microwave,Cac,El.Grg.Opener&amp;2 Remotes,All Shutters&amp;Blinds&amp;Window Coverings,Elfs,High Eff Furn&amp;Hwt,Surrond-Sound Spkrs,Mirr.Clst.Drs,Bi Shelves,Hot&amp;Cold H2O Outside Frnt&amp;Back,Brss&amp;Glss Door Insrt,Shower&amp;Closet Valences</p> <p>Excellent Layout,Completely Finished Top2Bottom With Quality Extras&amp;Upgrades Thru-Out,Quiet Street,Walk To Pub/Sep School,Excellent Home&amp;Neighbourhood,Great Family Home,Easy To Show&amp;Sell*Lockbox*</p>					
<b>Contract Date:</b> 5/10/2008			Sunil Lister 416-555-1212		
<b>Expiry Date:</b> 9/30/2009			REMIC REAL ESTATE Brokerage <b>Tel:</b> 416-555-1212 <b>Fax:</b> 416-555-2121		

		Driver's License Permis de conduire	
	NUMBER / NUMERO <b>A1234-41087-00522</b>		
	ADAMS, JACK 123 SECORD STREET, TORONTO, ON M1S 1M1		
	CLASS / CATEGORIE G	DAT OF BIRTH / DATE DE NAIS <b>1970 • 05 • 22</b>	SEX/SEX <b>M</b>
	COND. / REST. X	HT. / TAILLE <b>180</b>	<b>*124567* CANADA</b>
END. AUT.			

		Driver's License Permis de conduire	
	NUMBER / NUMERO <b>A1234-41087-20408</b>		
	ADAMS, SUSAN 123 SECORD STREET, TORONTO, ON M1S 1M1		
	CLASS / CATEGORIE G	DAT OF BIRTH / DATE DE NAIS <b>1972 • 04 • 08</b>	SEX/SEX <b>F</b>
	COND. / REST.	HT. / TAILLE <b>168</b>	<b>*124567* CANADA</b>
END. AUT.			

<b>Mortgage Commitment</b>		
Response: January 17, 2012		Page 1 of 3
<b>Broker Information</b>		
Name:	Sample Mortgages Inc.	
Address:	2175 Sheppard Avenue East, Suite 213, North York, ON, M2J1W8	
Attention:	Your Name	Application Reference Number: 1213456-789
<b>Lender Information</b>		
Name:	SuperBank	
Address:	2750 Yonge Street, Suite 6500, Toronto, ON, M1M 1M1	
Lender Reference #:	1213456-789	Mortgage Insurance Reference #: N/A
<b>Applicant Information</b>		
Applicant(s): Jack Adams, Susan Adams		
<b>PROPERTY INFORMATION</b>		
Address: 123 Secord Street, Toronto, ON, M1S 1M1		
With reference to the above noted property SuperBank is pleased to provide the following mortgage loan offer, subject to the following terms and conditions:		
<b>Loan</b>	<b>Terms</b>	<b>Payment</b>
Value: \$506,000.00	Mortgage Type: First	Principal and Interest: \$2,134.77
Down payment/Equity: \$106,000.00	Term Type: Fixed Rate Open	Taxes (Estimated) \$192.26
Amount: \$400,000.00	Interest Rate: 5%	Taxes Paid By: Lender
Insurance Premium: N/A	Term (months): 60	Total Installment: \$2,327.03
Total Loan: \$400,000.00	Compound Frequency: Semi-Annually	
Other Mortgages: N/A	Amortization (months): 360	
Product: Supersizer	Frequency: Monthly	Commitment Expires 4/01/12
Cashback: N/A		
Closing Date: 02/01/12		
<b>LENDER AUTHORIZATION</b>		
All of our normal requirements and, if applicable, those of the mortgage insurer must be met. All costs including legal, survey, mortgage insurance, etc. are for the account of the applicant(s). The mortgage insurance premium (if applicable) will be added to the mortgage. This mortgage is subject to the details and terms outlined as well as the conditions described in the attached Schedule A.		
Approved by: John Underwriter, SuperBank Signature: _____ Date: _____		
<b>CLIENT ACCEPTANCE</b>		
I/We the undersigned applicant(s) accept the terms of this mortgage as stated above and agree to fulfill the conditions of approval as outlined in the attached Schedule A to the lender's satisfaction. I/We further certify that the information given on the mortgage application is true and correct.		
Applicant: Jack Adams	Signature: _____	Date: _____
Applicant: Susan Adams	Signature: _____	Date: _____

**Mortgage Commitment – SCHEDULE A****ASSUMPTION POLICIES**

Page 2 of 3

☒ Assumption Option: The transferee or purchaser may, upon completion of a mortgage application which meets our mortgage approval criteria then in effect, personally assume (with the consent of his or her spouse where required by law) all of your obligations under your mortgage by executing an assumption agreement in the form required by us.

**CONDITIONS**

☒ Mortgage: The mortgage loan to be made to you shall be subject to all extended terms set forth in SuperBank's standard form of mortgage contract, and loans insured by a mortgage insurer will be subject to the requirements of the Certificate of Insurance issued by the mortgage insurer.

☒ Property Taxes: If stipulated by us, you will pay us monthly, an amount which in our opinion is sufficient to enable us to pay the annual property taxes on your behalf by the due date for the first installment of the tax bill in each year, based on the estimated annual taxes. We shall withhold a tax holdback from our mortgage advance sufficient to accumulate the required credit in your tax account. Any tax bills issued and unpaid at the interest adjustment date shall be paid from the proceeds of the mortgage loan.

☒ Fire Insurance: We shall require evidence of replacement cost all-risk insurance coverage acceptable to us, taken with an insurer not disapproved by us. Such policy must contain the standard Insurance Bureau of Canada mortgage clause and must indicate our interest as mortgagee.

☒ Title Insurance: A title insurance policy acceptable to us and obtained by our solicitor at your cost.

☒ Processing Fee and Costs: Whether or not this loan is funded, you agree to pay the processing fee specified herein, if any, and all legal, appraisal and survey costs incurred by you or us in this transaction.

☐ CMHC/GEMICO/AIG Insurance Fee: Insurance Fee: You agree to pay any mortgage insurance fee, as indicated, and all applicable federal or provincial taxes thereon.

☒ Interest Adjustment: Interest shall accrue from the date the first advance is made. Interest due to the interest adjustment date will be simple interest calculated daily and will be deducted from the first advance

☒ Pre-authorized Cheque Plan: You agree to make repayment under the mortgage by a 'pre-authorized cheque plan' or by such other means as may be requested by us.

☒ Commitment: This commitment is not transferable by you and the benefit may not be assigned by you. It may be assigned by us.

☒ Representation and Warranty: You warrant to us, and it is a condition of this loan, that all information submitted by you or your broker to us in connection with your loan application is true and accurate, and you agree to supply promptly, on request, any further information concerning yourself, your financial standing or the property to be mortgaged, which may be required by us.

☒ Title: You represent and warrant to us, and it is a condition of this loan, that you have a good and marketable title to the property to be mortgaged, satisfactory in all aspects.

☒ Zoning and Work orders: It is a condition of this loan that the mortgaged property and the use thereof comply with all applicable government laws and regulations and that there are no outstanding work orders, notices or directives against the property.

☐ Construction Loan: In the case of a construction loan, advances will be made at our discretion and we will always retain sufficient funds to complete construction.

☐ New Homes: If this mortgage loan is for the purchase of a newly constructed home, our solicitor will be required to obtain a certified copy of the New Home Enrolment endorsed by HUDAC (or the equivalent enrolment in any governmental new home warranty programme in provinces other than Ontario) before making any mortgage advances.

☒ No agency: You acknowledge that we may assign this commitment or the mortgage to a third party and may receive a fee in connection with such assignment. We may also receive a fee in connection with the servicing of this loan. We are not acting as your agent or otherwise in any fiduciary capacity in relation to you in connection with the loan described herein.

<input checked="" type="checkbox"/> Solicitor and Documentation: The solicitor specified by us will act on our behalf in this transaction. You agree to deliver to our solicitor your title documents, insurance policy and survey as soon as possible.
<input checked="" type="checkbox"/> Entire Agreement: This commitment, when accepted by you, will constitute the entire agreement and understanding between you and us with respect to this loan and will supercede all other agreements or understandings, whether oral or written.
<input checked="" type="checkbox"/> Survival: You agree that the terms, conditions & covenants contained in this commitment shall survive and will not merge upon registration of the mortgage and the advance of funds thereunder but will remain valid and subsisting obligations.
Date: _____ Initials: _____ Initials: _____

Mortgage Commitment – SCHEDULE A	
<b>CONDITIONS continued</b>	Page 3 of 3
<input checked="" type="checkbox"/> Information: You agree that we may conduct credit checks with consumer reporting agencies and make such other investigations and collect such other information concerning you as we may deem advisable, all such information to be used for the purpose of underwriting, assessing the risk associated with, and administering this mortgage loan.	
<input checked="" type="checkbox"/> Privacy: You agree that we may share information concerning you with (a) any proposed assignee of this commitment or the mortgage loan, (b) our duly authorized agents and representatives who are engaged in the processing or servicing of your mortgage, (c) any parties necessary or desirable in connection with any sale or securitization of this mortgage loan and (d) organizations with which the lender has strategic alliances who may use such information to provide you from time to time with information on financial products which may be of interest to you. If you prefer that your personal information not be shared with any party referred to in this document or future documents, you may so advise us in writing at any time and we will not share the information with them.	
<b>PAYMENT FLEXIBILITY OPTIONS</b>	
<input checked="" type="checkbox"/> Circle Payment Option: Weekly Bi-weekly Semi-monthly <b>Monthly</b>	
<b>INSTRUCTIONS</b>	
<input checked="" type="checkbox"/> The terms and conditions of this mortgage commitment will form part of the solicitor's instructions.	
<b>OTHER</b>	
<input checked="" type="checkbox"/> Borrower Disclosure required prior to funding	
<input checked="" type="checkbox"/> Title to be taken in the name of Jack Adams and Susan Adams	
<input type="checkbox"/> Subject to satisfactory confirmation of down payment.	
<input checked="" type="checkbox"/> Subject to satisfactory confirmation of income.	
<input type="checkbox"/> Subject to CMHC approval	
<input checked="" type="checkbox"/> Subject to signed and dated mortgage application	
<input type="checkbox"/> Receipt of satisfactory purchase agreement including all addendums and MLS listing.	
<input checked="" type="checkbox"/> Subject to no secondary financing.	
<b>PORTABILITY OPTIONS</b>	
<input checked="" type="checkbox"/> If the mortgagor is not in default and has entered into an agreement to sell or transfer title to the mortgaged property, the mortgagor may exercise the Portability Option.	
<b>PREPAYMENT POLICIES</b>	
<input checked="" type="checkbox"/> Privileges: 20% Per Year	
<input checked="" type="checkbox"/> The Mortgagor, when not in default of any terms or conditions contained in the Mortgage, may prepay the whole of the principal sum then outstanding without notice upon payment to the Mortgagee of the greater of i) three months' interest at the interest rate on the principal sum outstanding; or	



ii) the amount, if any by which interest at the Interest rate exceeds interest at the Mortgagee's current interest rate for reinvestment calculated on the principal sum outstanding. Such amount to be calculated from the date of prepayment to the maturity date of the mortgage.

**RATE ADJUSTMENT POLICIES**

☒ If five days prior to closing our interest rate is lower than the guaranteed interest rate, upon request, the lower rate will prevail.

**ADMINISTRATION AND SERVICE FEES**

☒ NSF's, Stopped Payment, Returned Items: \$150.00

☒ Lender's Fee: \$550

☒ Lender's Legal Fees: \$1,250.00

Date: \_\_\_\_\_ Initials: \_\_\_\_\_ Initials: \_\_\_\_\_

## Case Study 1 Questions

### Section One: Complete the Mortgage Application Form

# Sample Mortgages Inc.

Source:

2175 Sheppard Avenue East, Suite 213,  
North York, ON, M2J 1W8  
Tel: (416) 555-1212

## Mortgage Application Form

APPLICANT(S)						
Name of Applicant in Full				DOB (MM/DD/YYYY)		SIN
Contact Information						
Tel:		Cel:		Email:		
Name of Co-Applicant in Full				DOB (MM/DD/YYYY)		SIN
Contact Information						
Tel:		Cel:		Email:		
Present Address					No. of Years	
Previous Address					No. of Years	
DETAILS OF MORTGAGE REQUEST						
Purpose of Mortgage						
Amount	Rate	Term	Frequency	Amortization	Date Required	Rank (1 <sup>st</sup> , 2 <sup>nd</sup> 3 <sup>rd</sup> )
PARTICULARS OF SECURITY						
Lot #	Plan #	Municipality	Occupancy		Rental Income	
Civic Address (if different from Present Address)					Lot size	
PROPERTY TYPE AND CONSTRUCTION						
Date Acquired (MM/DD/YYYY)		Purchase Price	Down Payment	Present Value	Annual Taxes	
<input type="checkbox"/> Detached	<input type="checkbox"/> Duplex	<input type="checkbox"/> Triplex	<input type="checkbox"/> Semi	<input type="checkbox"/> Condo (Mtc Fee: \$_____)		<input type="checkbox"/> Townhouse <input type="checkbox"/> Other
Age of Bldg:		Construction:		Storeys:		# of Bedrooms:
Zoning:		Garage:		Heating:		
Property Extras (Describe)						
DETAILS OF EXISTING FINANCING						
Rank	Current Balance	Rate (%)	Payment (P & I)	Lender	Renewal Date	To Remain?
1 <sup>st</sup> Mtg						
2 <sup>nd</sup> Mtg						

EMPLOYMENT INFORMATION					
APPLICANT'S EMPLOYER'S NAME: <input type="checkbox"/> SELF-EMPLOYED?				TEL:  FAX:	
POSITION:		No. of Years:			
ADDRESS:					
INCOME:					
APPLICANT'S EMPLOYER'S NAME: <input type="checkbox"/> SELF-EMPLOYED?				TEL:  FAX:	
POSITION:		No. of Years:			
ADDRESS:					
INCOME:					
OTHER INCOME (SPECIFY SOURCE AND AMOUNT)					
ASSETS AND LIABILITIES					
ASSET TYPE	AMOUNT	LIABILITY TYPE	AMOUNT	PAYMENT	TO REMAIN?
					Y / N
					Y / N
					Y / N
					Y / N
					Y / N
					Y / N
					Y / N
					Y / N
					Y / N
TOTALS	(A)		(B)	NET WORTH (A-B)=\$	
NOTES					
CONSENT					

IN CONNECTION WITH MY APPLICATION FOR CREDIT, I/WE HEREBY AGREE TO YOU PROCURING ANY CREDIT OR OTHER REPORTS TO DETERMINE MY/OUR ABILITY TO OBTAIN MORTGAGE FINANCING AND SHARE THIS INFORMATION WITH OTHER CREDIT GRANTORS OR CONSUMER REPORTING AGENCIES. I/WE FURTHER AGREE THAT YOU MAY ASSIGN THIS APPLICATION TO THE LENDER OF YOUR CHOICE AND MAY DESIGNATE THE CLOSING LAWYER. I/WE ACKNOWLEDGE THAT YOU MAY RECEIVE A FINDER'S FEE FROM THE LENDER. I/WE FURTHER STATE THAT THE INFORMATION CONTAINED IN THIS APPLICATION IS ACCURATE TO THE BEST OF MY/OUR KNOWLEDGE. I/WE AUTHORIZE YOU TO USE THE INFORMATION CONTAINED WITHIN THIS APPLICATION AND AS OBTAINED THROUGH THIS TRANSACTION TO PROVIDE ME/US WITH INFORMATION THAT YOU BELIEVE MAY BE OF INTEREST TO ME/US IN THE FUTURE.

DATE: \_\_\_\_\_ APPLICANT'S SIGNATURE: \_\_\_\_\_

DATE: \_\_\_\_\_ CO-APPLICANT'S SIGNATURE: \_\_\_\_\_

## Section Two: Short Answer Questions

1. What question(s) should you ask this couple regarding their previous credit?
2. When was their credit report first opened?
3. Who has a higher credit score?
4. When did they first get their TD Visa Card?
5. Who has more credit?
6. What do the following mean?
  - a) MR
  - b) DLA
  - c) RPTD
7. What two documents are required by the *MBLAA* to be left with your clients once they sign the Borrower Disclosure?
8. You have just learned that this couple has two children, one a 6 year-old-daughter and the other a three-year-old son. Will this have any impact or effect on this application being approved by the Lender? Why or why not?
9. What is the amount of the finder's fee, in dollars, that SuperBank will pay?
10. In whose name does the Lender make the finder's fee cheque payable?

11. Were the property taxes included in the REMIC's Savings and Loan mortgage payment or did the borrowers pay it themselves?
12. Does SuperBank require the borrowers to pay their own property taxes or will they be included in their mortgage payment?
13. Does SuperBank require Title Insurance on this mortgage?
14. Is SuperBank's mortgage fully open, partially open or closed?
15. What are the prepayment privileges of SuperBank's mortgage?

### **Section Three: Borrower Disclosure**

1. The Borrower Disclosure requires that all costs associated with the mortgage be disclosed.
  - a) What are the exact costs that must be disclosed in this particular transaction?
  - b) How does the cost of borrowing have to be disclosed (i.e. dollars and cents, a percentage, etc.)?

2. Describe the specific risks that must be disclosed to the borrower with regards to **this** mortgage.
3. How long before this mortgage transaction closes must the Borrower Disclosure document be provided to the borrower?
4. If the borrower decides to cancel the application after signing the Borrower Disclosure document, how much will the borrower owe you?
5. You are at the point in the borrower disclosure where you are explaining the cost of borrowing. How would you explain it?

6. Is the NSF included in the cost of borrowing? Explain your answer.
7. Must the prepayment privileges be disclosed in the Borrower Disclosure document? Explain your answer.
8. Does the number of lenders that your brokerage represented last year have to be disclosed? Explain your answer.
9. Does the Investor/Lender disclosure have to be completed in this transaction? Explain your answer.
10. Do the conditions as listed in the commitment letter have to be included in the Borrower Disclosure document? Explain your answer.

#### **Section Four: Financial Calculations**

1. LTV. Based on SuperBank's approval, what is the total LTV of this proposed mortgage?  
**Show all of your work.**

- 
2. GDS Calculation. Based on SuperBank's approval and the clients' income, what is their GDS?  
**Show all of your work.**

3. TDS Calculation. Based on SuperBank's approval and the clients' income, what is their TDS?  
**Show all of your work.**



## NOTES

[illegible]

## NOTES

[illegible]

## NOTES

[illegible]

## Case Study 1 Answer Guide

### Section One: Complete the Mortgage Application Form

# Sample Mortgages Inc.

Source: TORONTO STAR AD

2175 Sheppard Avenue East, Suite 213,  
North York, ON, M2J 1W8  
Tel: (416) 555-1212

## Mortgage Application Form

APPLICANT(S)						
Name of Applicant in Full JACK ADAMS			DOB (MM/DD/YYYY) 05/22/1970		SIN 450-120-843	
Contact Information Tel: 416-555-1492   Cel: 647-555-1822   Email: JADAMS@HOTMAIL.COM						
Name of Co-Applicant in Full SUSAN ADAMS			DOB (MM/DD/YYYY) 04/08/1972		SIN 499-921-012	
Contact Information Tel: 416-555-1492   Cel: 647-555-1492   Email: SUS.ADAMS@GMAIL.COM						
Present Address 123 SECORD STREET, TORONTO, ON, M1S 1M1					No. of Years 3 YEARS	
Previous Address 5678 OAKWOODS BLVD, TORONTO, ON, M1S 1N1					No. of Years 2	
DETAILS OF MORTGAGE REQUEST						
Purpose of Mortgage REFINANCE AND CONSOLIDATE CREDIT CARDS AND LOAN						
Amount \$400,000	Rate 5%	Term 5 YEARS	Frequency Monthly	Amortization 30 YEARS	Date Required February 1, 2012	Rank (1 <sup>st</sup> , 2 <sup>nd</sup> 3 <sup>rd</sup> ) 1ST
PARTICULARS OF SECURITY						
Lot # 10R	Plan # M1234	Municipality TORONTO	Occupancy OWNER OCCUPIED		Rental Income N/A	
Civic Address (if different from Present Address) SAME AS ABOVE					Lot size 6.85 M X 34 M	
PROPERTY TYPE AND CONSTRUCTION						
Date Acquired (MM/DD/YYYY) 02/01/2009		Purchase Price 450,000	Down Payment 50,000	Present Value 506,000	Annual Taxes 2,307.12	
<input type="checkbox"/> Detached <input type="checkbox"/> Duplex <input type="checkbox"/> Triplex <input checked="" type="checkbox"/> Semi <input type="checkbox"/> Condo (Mtc Fee: \$ ) <input type="checkbox"/> Townhouse <input type="checkbox"/> Other						
Age of Bldg: 10-19 YEARS		Construction: BRICK		Storeys: 2	# of Bedrooms: 3	
Zoning: RESIDENTIAL		Heating: FORCED AIR GAS				
Property Extras (Describe) Remodelled kitchen and finished basement						
<div style="border: 1px solid black; border-radius: 50%; padding: 10px; width: fit-content; margin: 10px auto;">           In the MLS the age was 6-15 years, but that was 4 years ago (as of the MLS contract date). Now it would be 10-19.         </div>						
Rank	Current Balance	Rate (%)	Payment (P & I)	Lender	Renewal Date	To Remain?
1 <sup>st</sup> Mtg	379,691.92 (as of Feb 1, 2012)	6.89	\$2,774.55	REMIC's Savings and Loan	February 1, 2012	NO
2 <sup>nd</sup> Mtg						

EMPLOYMENT INFORMATION					
<b>APPLICANT'S EMPLOYER'S NAME:</b> <input type="checkbox"/> SELF-EMPLOYED? NO T & J MANUFACTURING				TEL: 416-555-1212  FAX: 416-555-2121	
POSITION: ASSEMBLY LINE OPERATOR		No. of Years: 7 years			
ADDRESS: 1234 JOHN STREET, TORONTO, ON, M4M 4M4					
INCOME: 75,500 / YEAR					
<b>APPLICANT'S EMPLOYER'S NAME:</b> <input type="checkbox"/> SELF-EMPLOYED? NO UPTOWN ACCOUNTING LLP				TEL: 416-555-9998  FAX: 416-555-9997	
POSITION: ACCOUNTANT		No. of Years: 7 years, 10 mos			
ADDRESS: 1105A KING STREET, TORONTO, ON, M4M 1B1					
INCOME: 82,000 / YEAR					
OTHER INCOME (SPECIFY SOURCE AND AMOUNT) No					
ASSETS AND LIABILITIES					
ASSET TYPE	AMOUNT	LIABILITY TYPE	AMOUNT	PAYMENT	TO REMAIN?
2010 Ford Focus	13,000.00	TD VISA	6,200.00	186.00	NO
RRSP	26,000.00	BMO M/C	8,500.00	255.00	NO
HOUSEHOLD GOODS	21,000.00	CIBC LOAN	1,260.00	420.00	NO
HOUSE	506,000.00	MORTGAGE	379,691.92	2,774.55	NO
BANK ACCOUNT	11,500.00	BNS VISA	0.00	0.00	Y / N
					Y / N
					Y / N
					Y / N
					Y / N
TOTALS	(A) 577,500.00		(B) \$395,651.92	NET WORTH (A-B)=\$181,848.08	
NOTES					
<b>Clients have remodelled their kitchen and finished their basement. Also include the explanation on the late payment here.</b>					
CONSENT					

IN CONNECTION WITH MY APPLICATION FOR CREDIT, I/WE HEREBY AGREE TO YOU PROCURING ANY CREDIT OR OTHER REPORTS TO DETERMINE MY ABILITY TO OBTAIN MORTGAGE FINANCING AND SHARE THIS INFORMATION WITH OTHER CREDIT GRANTORS OR CONSUMER REPORTING AGENCIES. I/WE FURTHER AGREE THAT YOU MAY ASSIGN THIS APPLICATION TO THE LENDER OF YOUR CHOICE AND MAY DESIGNATE THE CLOSING LAWYER. I/WE ACKNOWLEDGE THAT YOU MAY RECEIVE A FINDERS FEE FROM THE LENDER. I/WE FURTHER STATE THAT THE INFORMATION CONTAINED IN THIS APPLICATION IS ACCURATE TO THE BEST OF MY/OUR KNOWLEDGE. I/WE AUTHORIZE YOU TO USE THE INFORMATION CONTAINED WITHIN THIS APPLICATION AND AS OBTAINED THROUGH THIS TRANSACTION TO PROVIDE ME/US WITH INFORMATION THAT YOU BELIEVE MAY BE OF INTEREST TO US IN THE FUTURE.

DATE: \_\_\_\_\_ APPLICANT'S SIGNATURE: \_\_\_\_\_

DATE: \_\_\_\_\_ CO-APPLICANT'S SIGNATURE: \_\_\_\_\_

## Section Two: Short Answer Questions

1. What question(s) should you ask this couple regarding their previous credit?  
Why do they have late payments on the BMO MC? (found in the credit report, Trade Information Section)
2. When was their credit report first opened?  
01/05/97 (found in the credit report, SINCE)
3. Who has a higher credit score?  
Susan Adams does at 791 (found in the credit report, RISK SCORE)
4. When did they first get their TD Visa Card?  
12/1997 (found in the credit report, TRADE INFORMATION SECTION, TD Visa, OPND)
5. Who has more credit?  
Susan Adams. All other accounts are joint while Susan also has a BNS Visa. (found in the credit report, TRADE INFORMATION SECTION)
6. What do the following mean? (found in Chapter 14: Application Analysis – Borrower Credit, Equifax Credit Report Legend)
  - a) **MR** Months Reviewed – the number of months that the creditor has reviewed the account
  - b) **DLA** Date of Last Activity
  - c) **RPTD** Reported
7. What two documents are required by the *MBLAA* to be left with your clients once they sign the Borrower Disclosure? (found in Chapter 18: Borrower Disclosure, section 18.5 Borrower Disclosure – How disclosure must be made)
  1. Borrower Disclosure
  2. Amortization Schedule
8. You have just learned that this couple has two children, one a 6-year-old daughter and the other a three-year-old son. Will this have any impact or effect on this application being approved by the Lender? Why or why not?  
No. Expenses associated with children are not included in the GDS or TDS. (found in Chapter 13: Application Analysis – Application Ratios, section 13.2 Gross Debt Service (GDS) and Total Debt Service (TDS), TDS: Included and excluded items)
9. What is the amount of the finder's fee, in dollars, that SuperBank will pay? (found in Chapter 1: Market Overview, section 1.2 A Career as a Mortgage Agent)  
Convert .85% to its decimal equivalent:  $85 / 100 = .0085$   
 $.0085 \times 400,000 = \$3,400.00$
10. In whose name does the Lender make the finder's fee cheque payable? (found in Chapter 6: Transaction Overview, section 6.3 The Steps in a Brokered Transaction, 18. Receiving Commissions)  
Sample Mortgages Inc.

11. Were the property taxes included in the REMIC's Savings and Loan mortgage payment or did the borrowers pay it themselves?  
It was included in the mortgage payment (found in the Mortgage Statement, Tax Account Summary)
12. Does SuperBank require the borrowers to pay their own property taxes or will they be included in their mortgage payment?  
Included in the mortgage payment (found in the commitment letter, Payment section)
13. Does SuperBank require Title Insurance on this mortgage?  
Yes (found in the commitment letter, Schedule A, Conditions)
14. Is SuperBank's mortgage fully open, partially open or closed?  
Partially open (found in the commitment letter, Schedule A, Prepayment Policies)
15. What are the prepayment privileges of SuperBank's mortgage?  
20% per year (found in the commitment letter, Schedule A, Prepayment Policies)

### Section Three: Borrower Disclosure

1. The Borrower Disclosure requires that all costs associated with the mortgage be disclosed.
  - a) What are the exact costs that must be disclosed in this particular transaction?
    1. Lender's Legal Fees: \$1,250.00 (found in the lender's commitment, Administration and Service Fees)
    2. Lender's Fee: \$550 (found in the lender's commitment, Administration and Service Fees)
    3. Appraisal fee: \$435 (found in the Case Study, Scenario and Supporting Documents)
    4. Title insurance fee: \$450 (required as per lender's commitment, Schedule A, Conditions. The amount is found in the Case Study, Scenario and Supporting Documents)
  - b) How does the cost of borrowing have to be disclosed (i.e. dollars and cents, a percentage, etc.)? The cost of borrowing must be disclosed in both dollars and cents and as a percentage. Refer to Chapter 18: Borrower Disclosure, Pause for clarification – The cost of borrowing: dollars and cents.
2. Describe the specific risks that must be disclosed to the borrower with regards to **this** mortgage. (found in Chapter 18: Borrower Disclosure, section 18.2 Borrower Disclosure – What must be disclosed, 6. Risks associated with the proposed mortgage)
  - a) **This is a partially open mortgage.**  
The commitment calls this an "open" mortgage but when looking at the prepayment policies you can see that it is partially open. Therefore, the risk is that upon early prepayment there will be a penalty. The IRD may be so large that it may not be financially worthwhile to refinance the mortgage during the term, or pay it off completely, even if possible.

**b) This is an extended amortization of 30 years**

By having an extended amortization, the borrower will pay more in interest during the term of this mortgage and may pay substantially more in interest if the borrower does not lower the amortization upon renewal.

**c) NSF Fee**

If the borrower fails to have funds to make a payment and the payment is returned NSF, the fee is \$150

**d) Standard Charge Terms**

The borrower must abide by the Standard Charge Terms. Failure to meet the requirements of this document may result in penalties imposed by the lender. The borrower should ask their lawyer at closing to explain in detail the responsibilities contained in this document.

**e) All mortgages carry risk**

Because this is a debt secured by your property, any failure to meet the obligations of this debt, including making payments and abiding by the standard charge terms may result in significant financial loss as well as the loss of your property.

3. How long before this mortgage transaction closes must the Borrower Disclosure document be provided to the borrower?

At least 2 business days before closing unless waived by the borrower in writing (found in Chapter 18: Borrower Disclosure, section 18.6 Borrower Disclosure – When disclosure must be made)

4. If the borrower decides to cancel the application after signing the Borrower Disclosure document, how much will the borrower owe you?

Nothing because the Borrower Disclosure is not a contract, only disclosure. The borrower is not legally bound by anything in this document. (found in Chapter 18: Borrower Disclosure, section 18.2 Borrower Disclosure – What must be disclosed, Pause for clarification – Borrower disclosure is NOT a contract)

5. You are at the point in the borrower disclosure where you are explaining the cost of borrowing. How would you explain it? (found in Chapter 18: Borrower Disclosure, section 18.3 Cost of Borrowing – Expanded explanation)

Anything similar to, “When the total cost of borrowing is expressed as a percentage this means the total of all costs, payable up front or over the term of the mortgage, combined with the rate of interest being charged during the term, expressed as a percentage. When the total cost of borrowing is expressed in dollars and cents this means the total of all costs, payable over the term of the mortgage, expressed in dollars and cents. “

6. Is the NSF included in the cost of borrowing? Explain your answer.

No, the NSF (non-sufficient funds) is a fee that would be charged if the borrower’s mortgage payment is returned as NSF. Therefore, this is not a payment that is made to obtain the mortgage. (found in Chapter 18: Borrower Disclosure, section 18.3 Cost of Borrowing – Expanded Explanation, Cost of Borrowing – Included and excluded costs)



7. Must the prepayment privileges be disclosed in the Borrower Disclosure document? Explain your answer.  
Yes (found in Chapter 18: Borrower Disclosure, section 18.2 Borrower Disclosure – What must be disclosed, 7. Terms and conditions of the proposed mortgage)
8. Does the number of lenders that your brokerage represented last year have to be disclosed? Explain your answer.  
Yes (found in Chapter 18: Borrower Disclosure, section 18.2 Borrower Disclosure – What must be disclosed, 4. The number of lenders the brokerage represented during the previous year)
9. Does the Investor/Lender disclosure have to be completed in this transaction? Explain your answer.  
No, because the lender is an institution (found in Chapter 17: Submitting the Application and Obtaining a Commitment, section 17.2 Investor/Lender Disclosure)
10. Do the conditions as listed in the commitment letter have to be included in the Borrower Disclosure document? Explain your answer.  
Yes (found in Chapter 18: Borrower Disclosure, section 18.2 Borrower Disclosure – What must be disclosed, 7. Terms and conditions of the proposed mortgage)

## Section Four: Financial Calculations

**PLEASE NOTE: ALL CALCULATIONS MUST BE BASED ON THE MORTGAGE APPROVAL**

1. LTV. Based on SuperBank's approval, what is the total LTV of this proposed mortgage? (found in Chapter 13: Application Analysis – Application Ratios, Calculating the LTV of a 1<sup>st</sup> Mortgage)
2. GDS Calculation. Based on SuperBank's approval and the clients' income, what is their GDS? (found in Chapter 13: Application Analysis – Application Ratios, section 13.2 Gross Debt Service (GDS) and Total Debt Service (TDS) Ratios, Calculating the Gross Debt Service Ratio (GDS))

$$\begin{aligned} \text{LTV} &= (\text{Mortgage amount} / \text{Property value}) \times 100 \\ \text{LTV} &= (400,000 / 506,000) \times 100 = .790513834 \\ \text{LTV} &= 79.0513834\% \end{aligned}$$

$$\begin{aligned} \text{GDS} &= [(\text{PITH} + \frac{1}{2} \text{ Condo Maintenance fee}) / \text{Gross Income}] \times 100 \\ \text{GDS} &= [(2,134.77 \times 12 \text{ MTG PAYMENT}) + (100 \times 12 \text{ HEAT}) + 2,307.12 \text{ TAXES} / 157,500] \times 100 \\ \text{GDS} &= [(25,617.24 + 1,200 + 2,307.12) / 157,500] \times 100 \\ \text{GDS} &= [29,124.36 / 157,500] \times 100 \\ \text{GDS} &= 0.18491657142857 \times 100 \end{aligned}$$

Now we multiply the answer by 100 to convert the decimal to a percentage.

$$0.18491657142857 \times 100 = 18.491657142857$$

Now we round the number **off** to 18.49

3. TDS Calculation. Based on SuperBank's approval and the clients' income, what is their TDS? (found in Chapter 13: Application Analysis – Application Ratios, section 13.2 Gross Debt Service (GDS) and Total Debt Service (TDS) Ratios, Calculating the Total Debt Service Ratio (TDS): Verifying)

$$\text{TDS} = [(\text{PITH} + \frac{1}{2} \text{ Condo Maintenance fee} + \text{Other Debts}) / \text{Income}] \times 100$$

$$\text{GDS} = [((2,134.77 \times 12 \text{ MTG PAYMENT}) + (100 \times 12 \text{ HEAT}) + 2,307.12 \text{ TAXES}) / 157,500] \times 100$$

$$\text{TDS} = [(25,617.24 + 1,200 + 2,307.12) / 157,500] \times 100$$

$$\text{TDS} = [29,124.36 / 157,500] \times 100$$

$$\text{TDS} = 0.18491657142857 \times 100$$

The debts are NOT included in the TDS because they are being paid off. This is a debt consolidation mortgage.

Now we multiply the answer by 100 to convert the decimal to a percentage.

$$0.18491657142857 \times 100 = 18.491657142857$$

Now we round the number **off** to 18.49