



FSCO Licence Number: 11616

POLICIES & PROCEDURES MANUAL SECTION 2

2017

Mortgage Underwriting is a very ambiguous field. The Rules and Lending criteria differ from one lender to another. Although there are specific guidelines as set forth by the Canada Mortgage and Housing Corporation (CMHC) and the Office of the Superintendent of Financial Institutions (OSFI), their application and implementation is at the discretion of the respective lender. Guidelines also differ whether the loan request is for a conventional or high-ratio insured mortgage.

In this section we are not trying to deliver to you, the reader, a complete and comprehensive set of Underwriting Guidelines, but merely an overview of protocols for you to apply in your daily mortgage brokering activities. Therefore it is up to you, the mortgage broker/agent, to learn the various lender nuances and expand on these underwriting notes in accordance with the lenders you deal with.

We are focusing on three areas, Income Verification, Down Payment Verification and Employment Verification. The documentation required in these areas is paramount and should be addressed in all sincerity.

Familiarize yourself with the following and speak to your lenders.

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2.1 Mortgage Underwriting

2.1.1 Fraud Prevention

When addressing a client's application, the broker/agent must always be conscious of potential fraud. The lender relies on the broker/agent to be the eyes and ears for each transaction whether institutional or private. Therefore, asking the right questions and collecting the applicable and current documentation is critical to the deal process. The broker/agent should examine the documents thoroughly for authenticity. Are the documents originals or photocopies? Do they look fresh or newly produced? Are these signatures real? Even after the transaction has closed, the broker/agent still bears the responsibility of having to be aware of any fraud, and if detected, it must be reported.

Although fraud techniques are becoming quite sophisticated, brokers/agents are required to perform their due diligence on every file. Prior to the submission of documents, the broker must verify and validate that the client documents are authentic. Most importantly, regulated lenders may have a NO tolerance policy on fraudulent documentation. At stake is the potential damage to the relationship with the lender and a reputational risk in the mortgage community.

Key questions to ask for fraud prevention

- 1. Is the client providing you with straight answers to your questions or are they being evasive?**
- 2. Is the income reasonable with what a person in that capacity does or should earn?**
- 3. Do these documents look real, do the signatures match, do the photos match, and do the addresses match?**
- 4. If this is a "last minute rush deal", ask why? Has this been shopped elsewhere and why was it turned down?**
- 5. If the applicant does show up with a complete package of documents, this should trigger suspicion.**

These are not all the key points of potential fraud, so therefore always be on the look-out and be cautious.

2.1.2 Down Payment

1. **Savings** - Obtain three months (or more) Bank Statements showing an accumulation of deposits and savings. If there are any bulk deposits, then verify the source and the reason (ie: bonus, sale of securities, sale of auto, loan re-pay etc.).
2. **Gift letters** - Provide a Gift Letter from an immediate family member specifying the funds as a non-repayable gift. The letter must outline the name of the donor(s), the amount, date and relationship of the donor. It is also necessary to see the funds deposited into the borrower's account.
3. **Sale of an asset** - Get a sale confirmation that an asset has been sold. For example, a Bill of Sale for a vehicle, confirmation from Securities Company of sale transaction or a security and for Real Estate, previous MLS Listing, accepted Offer of Purchase and Sale, as well as the lawyer's disbursement letter.
4. **Inheritance** - Obtain a copy of the will and funds distribution from the lawyer handling the estate.
5. **Separation or Divorce** - Copy of Separation Agreement and lawyer's distribution letter.
6. **Funds from privately-owned Company** - Documentation that shows the company has the funds and that the bank documentation shows the transfer of the funds from the company into the applicant's personal bank account. It is important to obtain documentation to verify the borrower is sole owner of the company.

There may be variations of the above; therefore the broker/agent is wise to check with the intended mortgage lending company for accurate confirmation verifications. In addition, confirm with the lender the required length of time the funds must be held in the client's account to be considered applicable.

If the applicant is borrowing funds to purchase a second property or recreational home, then offer proof that the applicant can carry the future debt load.

Additional Notes:

2.1.3 Income

1. **Salaried Employee** - Provision of a Notice of Assessment (NOA), pay stubs, or bank pay confirmations. An employment letter, on letterhead, showing: tenure, pay rate weekly, monthly or yearly, position and possibly a positive comment indicating that the client is a “good and valued employee”. In addition, obtain a contact person to reach for telephone confirmation. Bonuses and overtime are not considered wages unless a two year pattern can be proven. Some lenders will only use 50% of this as income and others may use as much as 100%, check your lender’s policy.
2. **Separation Agreement** - If support income is being used, then two month's bank statements would be required to support the income (this will vary from lender to lender).
3. **Business For Self** - Provide a minimum two years NOA’s possibly, three years (take an average of same). Send copies of any major Contracts and proof that they have been in business for at least two years by: business records, letters of Incorporation, Business Registrations, business cards, websites, Bank Accounts showing deposits and sources of deposits. Full T1 Generals, including Statement of Business Activities may be required (especially for borrowers who may own rentals).
4. **Sub-Contractors** - Are considered the same as BFS, therefore the above applies particularly, including copies of any contracts.
5. **Commission Sales Agents** - Are not generally considered BFS. Therefore, provable two or three years NOA’s are required. And generally averaged.
6. **Stated Income** - This program is suited for borrowers who are self-employed (business owners) who are unable to confirm income through traditional sources such as NOAs. This product is for borrowers with established credit and solid repayment history. The program is not available to any form of commission sales.

Borrowers must have owned the business for a minimum of two years. This would be confirmed by a Master Business License, GST/HST Returns, T1 Generals, 3rd party prepared supported by NOAs, or Audited Financial statements prepared by a CA for the last two years, and Articles of Incorporation.

The lender will want to see the borrower’s Line 150 from his/her most recent NOA, and also what the business generates in gross annual business revenue. Keep in mind the stated income being used should be reasonable relative to the gross business earnings and the nature of the business, size of the business, and length of time the business has been running, etc.

A usual beacon score requirement for conventional stated income mortgaging is 650, but again from lender to lender each may have a different requirement. Generally:

- no reported mortgage defaults in the last 7 years, no bankruptcies, and no installment or revolving credit issues for the last 12 months;
- GDS/TDS 35 / 42;
- Max 65% LTV;
- 5% must be from own resources, the remainder can be gifted. Borrowed funds are not usually acceptable; and
- some lenders will allow a second mortgage behind theirs, as long as the GDS/TDS guidelines are met.

High ratio insured stated income mortgaging is available through lenders as per the Insurers guidelines. Genworth Canada and Canada Guaranty offer these insurances, however, CMHC no longer offers this product.

Unless you are fully conversant in this field of lending, ask for advice from a broker/agent with experience, or call the lender for guidance.

Retired - Show Bank Statements (60-90 days) showing deposits, copies of any documentation of any private retirement Insurance payments. If a RIF, copies of the RIF showing monthly or yearly withdrawals. In addition, provide supporting documents such as T4a's, pension statements from CRA, and T1 generals supported by NOA's.

Additional Notes:

2.1.4 Confirming Income of the Applicants

FSCO expects that a brokerage will take steps to verify employment/income information, and document the steps taken in situations where it knows or ought to know that income information likely is incorrect. This includes, but is not limited to, situations where the borrower's income information is not consistent with the person's Notice of Assessment from the Canada Revenue Agency.

The steps to verify a borrower's employment income information may include, but are not limited to:

1. Asking the borrower for additional documents such as a business card or employer-issued building access card to demonstrate employment with the stated employer.
2. Verifying that the borrower's stated employer or place of employment exists.
3. Calling the borrower's stated employer to verify the content provided in the employment letter and pay stub.

Brokerages should adopt a process to verify employment income information that complies with applicable privacy legislation, including the Personal Information Protection and Electronic Documents Act. For example, by obtaining consent from a prospective borrower to verify such information with the stated employer.

Additional Notes:

2.1.5 Confirmation of Identification

The following are, but not limited to, acceptable forms of proof of Identification. The majority of lenders will ask for a minimum of two acceptable forms of positive identification. The documents must be verified and valid on the date the mortgage closes.

- Driver's license with photo
- Un-expired passport
- Nexus Card with photo
- Firearms license with photo
- Permanent Residence Card
- Canadian National Institute for the Blind (CNIB), bearing individual's name, photo and signature
- Major credit card
- Employee ID card
- Canadian University or College student ID card, bearing individual's photo and name
- Canadian Permanent Resident card (aka Maple Leaf card) bearing photo and signature

Your specific lender will inform you if what you provide is acceptable or not.

Additional Notes:

As you familiarize yourself with the lending guidelines of your lenders, it is recommended that you, the mortgage broker/agent, become conversant in the Standard Charge Terms of your respective lenders. Become knowledgeable of the IRD's, the pre-payment privileges, does the Mortgage Instrument encompass all other debts to that institution, the renewal terms, the late payment penalties, etc. This will assist you in representing your client with more professionalism and accuracy.