Mortgage Brokering In Ontario Cheat Sheet

by utkarsh121 via cheatography.com/127347/cs/24773/

Introduction

MBLAA	Mortgage Brokers, Lenders and Administrators Act, 2006
Mortgage Agent	A licensed individual to broker a mortgage - lowest in hierarchy - works under a mortgage broker
Mortgage Broker	A licensed individual to broker a mortgage - mid-level in hierarchy - may work under a principal broker (top guy at a brokerage - overseeing all operations and responsible/ accountable for them and to ensure compliance with legislations and regulations)
FSRA Ontario	Financial Services Regulatory Authority of Ontario
FSCO	Financial Services Commission of Ontario
Regulator	of mortgage brokering in Ontario changed from FSCO to FSRA on June 8 2019

Basic mortgage concepts

Use of mortgage	Purchase, refinance, equity take-outs (ETO), bridge financing
HBP - home buyer's program	First-time home buyers can use up to $35k from their RRSPs as a down payment without paying tax on withdrawal. Repayment in 15 years. Spouses/partners can withdraw $70k in total.
HBTC- Home buyer's tax credit	Enacted in 2009, the federal government provides a non-refundable tax credit, based on an amount of $5,000, for certain home buyers that acquire a qualifying home.

Basic mortgage concepts (cont)

Interest rate	Calculated semi-annually, not in advance J1 = Annually J2 = Semi-annually J4 = Qualrterly J12 = Monthly J26 = Bi-weekly >>**DO NOT Fuck this one up - never do (biweekly paymt. x2)x12 for annual conversion in calculations - you will miss on 2 weeks** J52 = Weekly J365 = Daily
Compound interest example	**100000 borrowed for 1 year at 6% :** for first six months: $100000 x 3% = 3000 (Interest) Principal+interest= $103000 for second half of year: 103000 x 3% = 3090 Interest) Principal+interest=$106090
Standard Charge Terms	The Standard Charge Terms is a document that is created by the lender and must be registered with the Director of Titles under the Land Titles Act. This document is the mortgage contract. It contains detailed information on the lender's and borrower's obligations, referred to as covenants, as well as the remedies available to the lender if the borrower does not meet these obligations. A covenant is a promise to do or not do something. In a mortgage contract, both the mortgagee, who is the lender, and mortgagor, the borrower, have covenants that each must abide by.

Basic mortgage concepts (cont)

Borrower's covenants	1. Repay the loan 2. Insure the property 3. Maintain the property 4. Not to commit waste 5. Pay property taxes 6. Follows the Standard Charge Terms
Lender's covenants	1. Certificate of discharge 2. Assignment of mortgage 3. Provide quiet possession
Mortgage ranks	1st mortgage, 2nd mortgage and so on. 2nd becomes 1st as soon as the first one gets paid off
High ratio mortgage	**LTV>80%** Need to be default insured unless provided by a non federally regulated bank. **Self-insured lender-**does not use default insurance but charges a lender's fee and pools this money for insurance.
Conventional mortgage	LTV<=80%

Mortgage options

Prepayment options	**Fully open** - allows borrower to repay, whole or in part, anytime without penalty or notice. Flexible but higher rate. **Partially open** - allows to pay whole with a penalty of either 3 month's worth of interest or the interest rate differential **Closed** - Doesn't allow full prepayment at anytime unless property being sold at arm's length. You can still increase monthly payment amounts.

Mortgage options (cont)

Repayment options	**Periodic payment increase** - borrower can increase payment **Accelerated mortgage payment** - only difference from periodic payment is that this can start even before the first payment is made **Lump sum payment** - paying a large amount in parts or whole - towards payment if the principal **Extended amortization** - Increasing mortgage duration to ease payments (e.g. from 25 to 30 years)
Cash back option	Borrower receives some cash back on closing - cash-back requires repayment
Combined/bundles option	Combining mortgage with another product - e.g. Line of credit. Scotiabank currently offers a **STEP Mortgage**
Portability option	Allows current homeowner to to take his/her current mortgage to new home
Assumability option	Allows a purchaser to take over a borrower's current homeowner's debt

Property ownership in Ontario

Real vs. personal property	Real property - land and everything affixed to it. Personal property - everything else than real. Short lived and movable. E.g. cars. Personal property is also called as **chattels**.
Ownership	Every piece of real property is owned by the crown. We pay taxes to use the property in our title.

Property ownership in Ontario (cont)

Fee simple estate	The fee simple estate is 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.
Leasehold estate	The leasehold estate, commonly referred to as a lease, is an interest in land created by a landlord and tenant, most commonly by a lease.
Life estate/Life lease	A life estate is defined as the right to use or occupy real property for the duration of one's life. At the end of that person's life, the life estate is over, and the fee simple ownership goes to the remainderman.
Condominium ownership	Condominiums combine fee simple ownership of individual units, referred to as strata lots, including all of the rights attached to that ownership, with a combined ownership of common areas, referred to as common elements. These common elements include the hallways, recreational facilities, elevators, lobby, and so on. Each unit pays a condominium maintenance fee on a monthly basis to the condominium corporation.

Property ownership in Ontario (cont)

Encumbrances	An encumbrance is 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. **Mortgage**- A mortgage is registered on title and has contractual obligations that prohibit the fee simple owner from having full control of his or her property. **Easements**- Easements are rights acquired for the benefit of real property, granting rights to use another property. The land giving the right is called the **servient tenement** while the land receiving the right is called the **dominant tenement**, where the term tenement simply refers to the real property. E.g. - Access to lake example in the book. **Restrictive covenants**- A restrictive covenant is a restriction of use placed on title of the servient tenement for the benefit of the dominant tenement. E.g. - not creating a structure taller than Mount Royal. **Building Schemes**- A building scheme is 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. E.g. limit the number of stories of properties in sub division.

Property ownership in Ontario (cont)

Co-ownership of real property	**Tenancy in common**- Shared ownership (distributed and individually owned shares) **Joint tenancy**- Collectively owning a property - demise of one passes the property to other. E.g. - Spouses usually own jointly.
Judgements	A judgment, as it relates to a debt, is a judge's decision that a debt is owed by a debtor to a creditor. In Ontario a creditor can, after obtaining a judgment, file a Writ of Seizure and Sale of land against a debtor in any county or district in which the debtor owns land. The writ will encumber any currently owned land in any county or district, or land which is purchased in the future by the debtor, by way of placing a lien against the property.
Liens	A lien is security against a property, either real or personal, for a debt. Legislation allows for the placing of a lien on a property for construction costs not paid, which is commonly referred to as a mechanic's lien.

Insurance in mortgage industry

Benefits	**To lender**- Allows the lender to make loans in excess of 80% loan to value and recover insured losses by making a claim to the insurer. **To borrower**- Allows the borrower to receive a high ratio mortgage with favourable terms and a favourable interest rate.

Insurance in mortgage industry (cont)

Mortgage creditor insurance	There are two types of mortgage creditor insurance. • The first is typically a life insurance policy provided to a borrower by an institutional lender. • The second is a life insurance policy provided to a borrower through a third party, such as the Mortgage Protection Plan (MPP), which is not affiliated with an institutional lender
Property insurance	Property insurance is a policy of insurance that provides coverage for the homeowner against covered risks.
Types of Insurance	**Home insurance** and **Condominium insurance**
Home Insurance	Covers for: - Building coverage - Named-Perils converage - Contents **A standard house policy provides for the Actual Cash Value (ACV) replacement of belongings. Replacement value coverage means that the contents of the policy owner's house are insured for the amount it costs to replace them.** - Detached private structure - Additional living expenses - Personal liability - Voluntary Payments for Medical Expenses - Rental Loss Insurance

Insurance in mortgage industry (cont)

Condominium insurance	**Reduced insurance liabilities for the owner.** A "master policy" is purchased and provided by the condominium board. This covers the common areas shared with others in the building like the roof, basement, elevator, heating room, lobby, swimming pool, parking garage, etc. for both liability and physical damage.
Title insurance	Title insurance is a policy of insurance that provides coverage for the title-related risks associated with real estate transactions. It is designed to cover the unpredictable or undetectable issues such as forgery, fraud, missing heirs, etc. that can affect rights of ownership. **Types of policies**- - Lender policy: This policy is normally taken at the request of the lender upon closing of a refinancing transaction. These policies may provide coverage to both the lender and the homeowner, which is recommended. - Homeowner's policy: This policy is normally taken by the new homeowner when purchasing a property; however, title insurance can be purchased at any time during the homeowner's ownership of the property.

Insurance in mortgage industry (cont)

Title insurance **protects against** -	• Defence of title • Fraud and forgery (including title fraud, the registration of a fraudulent mortgage, etc) • Unenforceability of the insured mortgage • Defects that would have been revealed by an up to date Survey • Errors in the Survey • Legal services, including lawyer negligence, lawyer fraud, lawyer death, disbarment or retirement • Defects in title such as liens, executions, adverse claims, encroachments, unregistered easements, mortgages and other encumbrances • Unmarketability of title • Hydro, tax, water and gas arrears • Executions against prior owners • Condominium status certificates • Septic system violations • Work orders, non-conforming zoning • Restrictive covenants • Municipal work orders and permits • Unregistered hydro easements • Other risks covered by the policy.

Insurance in mortgage industry (cont)

Title insurance **doesn't protect against** -	• Title issues that arise after the policy date that were not present before (other than fraud and other covered risks) • Title defects that the homeowner was aware of and to which the homeowner agreed • Title defects that the homeowner was aware of and about which the homeowner did not inform the insurer • Environmental hazards, unless noted on title • Legality or rents • Fire retrofit compliance • Costs of moving fences or boundary walls • Losses from failing to make a claim in a timely fashion • Other exclusions included in the policy.
Solicitor's Opinion on Title	A "Solicitor's Opinion on Title" is a report by the lender's real estate lawyer outlining the condition of the title of the mortgaged property and covers issues up to closing.
Errors and Omissions Insurance (E&O)	Errors and Omissions insurance is an insurance policy that covers the professional from claims made against him or her due to negligence in the form of errors committed in a transaction. Insurance policies prior to 2008 did not have a fraud provision.

Insurance in mortgage industry (cont)

IMPORTANT	As FSRA states, "All mortgage brokerages and administrators are required by law to carry errors and omissions (E&O) insurance in a form approved by the FSRA, with extended coverage for fraudulent acts. This E&O insurance must cover a minimum of $500,000 in respect of any oneoccurrence and $1 million in respect of all occurrences in a given year. The legal requirements about E&O insurance are in Ontario Regulations 188/08 and 189/08 under the Mortgage Brokerages, Lenders and Administrators Act, 2006 (MBLAA).

Chapter 10: Getting your first client

Ask open ended questions

Read through the **inbound/outbound scripts** in the textbook

This chapter is **NOT IN THE EXAM** but is good to help with real-life scenarios

Initial Consultation

Required documentation	**Documentation for all Transactions** • Employment Verification Employment documentation requirements vary from lender to lender; however, the following is a list of documentation that is typically acceptable for an employee: - T4 - Pay Stubs - NOA (Notice of Assessment – often requested when there is commission income) - Letter of employment - Tax Return (also may be requested when there is commission income) For a self-employed individual the following may be required: - Financial Statements - Business License - Business Cheque • PIPEDA Consent This document allows the mortgage agent to use the applicant's personal information for the purposes contained within the consent form. • Photo Identification Photo identification is required to prove the identity of the applicant. The original document should be viewed, and a photocopy obtained for the file.

• Divorce/Separation Agreement (if applicable)
If applicable this document outlines the terms and conditions of the separation or divorce and will typically include any payments that are required to be made for alimony.

• Child Support Order/Agreement (if applicable)
If applicable this document outlines the terms and conditions of child support, including any payments that are required to be made.

Specific Documentation for a Purchase
The following is a list of documentation that is typically required when a client is purchasing a property:
- Purchase and Sale Agreement
- MLS Listing (for resale properties)
- Proof of Down payment
- Rental Letter (if applicable)
- Real estate salesperson Information

Specific documentation for a Refinance, Equity Take-Out and Switch The following is a list of documentation that is typically required when a client is refinancing his or her current mortgage, taking equity out of his or her property or switching lenders on renewal:
• Current mortgage statement
• Charge/Mortgage
• Transfer/Deed
• Property tax statement
• Property insurance policy
• Mortgage repayment history (if applicable)

Initial Consultation (cont)

Meeting the client	There are three basic places where a mortgage agent can meet a client: • The client’s home • The mortgage agent’s office • Another outside location. **Read through the textbook on how to handle and steer conversations**
Application form	Must read through the textbook to understand
Determining the applicant's needs	Must read through the textbook to understand

Application analysis - RATIOS

LTV =	**loan/value**
Max Mtgg. from LTV =	**LTV x Value of property**
LTV of 2nd Mtgg. =	(1st mtgg amt. + proppposed 2nd mtgg.)/ Value
GDS and TDS	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.
PITH	**P**rincipal + **I**nterest + Property **T**axes + **H**eat

Application analysis - RATIOS (cont)

GDS	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). **Industry Standard – 35% (as per July 2020)**
GDS =	**[(PITH + ½ Condo Maintenance fee) / Gross Income] x 100**
TDS	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. **Industry Standard - 42%**
For pre-qualification	**Maximum Mortgage Payment = (Income x Max TDS / 100) – (Property Taxes + Heat + ½ Condo Maintenance Fee + Other Debts)**

Application analysis - RATIOS (cont)

TDS includes	• Loans • Mortgage payments • Credit cards • Child support • Alimony • Any payment that, if discontinued, would result in a balance owing.
TDS does NOT include	• 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
Outstanding balance or credit limit in the TDS?	Lenders will typically use 3% of the outstanding balance on a credits 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.
TDS (interpolation of the given formula)	**TDS = [(PITH + ½ Condo Maintenance fee + Other Debts) / Income] x 100**

Application analysis - Borrower Credit

Credit Bureaus	**Equifax** and **Transunion**
Sample credit reports	Report Examples https://www.canada.ca/en/financial-consumer-agency/services/credit-reports-score/understand-credit-report.html
Credit analysis	Interpreting a Credit Report https://youtu.be/QfS6G0ex-vU

Application analysis - The property

Purpose of appraisal - To determine:	• The cost to rebuild the home in case of damage, such as by fire (insurable value) • A value so that a municipality can apply its property tax rate (taxation purposes) • The price that a real estate investor would pay for a property based on his or her preferred rate of return (investment value) • The amount that the property can obtain if sold (selling price) • The future value of a property under construction (future price) • The value of a property being expropriated by the Crown (expropriation value) • The market value of a property for a lender to decide on an appropriate loan amount for mortgage financing.

Application analysis - The property (cont)

Accreditations	• **Appraisal Institute of Canada (AIC)** - Offers AACI and CRA - Accredited Appraiser Canadian Institute, Professional Appraiser (AACI, P.App) - Highest - can assess all types of properties - residencial, commercial, rural. - Canadian Residential Appraiser (CRA) - Has completed the reqiorements of being AIC. Can only assess and valuate individual or undeveloped residential dwellings • **Appraisal Institute of Canada (AIC)** - Offers AACI and CRA - DAR (Designated Appraiser Residential) - DAC (Designated Appraiser Commercial) - DAC (with a Specialty in Agricultural) - CMAR (Certified Mortgage Appraisal Reviewer) - CAR (Certified Appraisal Reviewer) • **Appraisal Institute of Canada (AIC)** - Offers AACI and CRA - Fellow of the Real Estate Institute (FRI)
Calculating Market value of a property	**Income approach** **Cost approach** **Direct comparison approach**
Types of appraisals	**Desktop Apprasisals** - uses AVMs and MLS **Drive-by Apprasisals** **Full Apprasisals**

Borrower disclosure

Borrower's disclosure is NOT a contract

Borrower's disclosure should include	The MBLAA states that the borrower disclosure must include the following information: 1. Fees and payments associated with the mortgage 2. The relationship between the brokerage and lender under the proposed mortgage 3. The role of the brokerage 4. The number of lenders the brokerage represented during the previous year 5. Potential conflicts of interest 6. Risks associated with the proposed mortgage 7. Terms and conditions of the proposed mortgage 8. Estimated costs 9. The cost of borrowing

<< Read this chapter from the book - crucial details covered >>

Closing the transaction

Common Closing Costs	- Mortgage default insurance - Land Transfer Tax (All of Ontario) - Municipal Land Transfer Tax (City of Toronto) - Home inspection - purchase - Appraisal fee - Legal Fees **(read chapter for breakdown)** - Registration of a Mortgage Only - Title Insurance - Property InsuranceInterest Adjustment Amount - New Home Warranty - New Hydro Account - Status Certificate Fee - Condos only - Closing adjustment - (due taxes, utilities, bills etc.) - HST (on - a new home) - PST on Default insurance

Closing the transaction (cont)

Electronic Land Registration	The province of Ontario, through the Province of Ontario Land Registration Information System (POLARIS), in partnership with Teranet Land Information Services Inc., a private sector corporation created in 1991, has developed e-reg. 1994 saw the provincial legislature pass legislation creating the statutory framework for e-reg, and Teranet has developed the software, called Teraview, used to access and use the e-reg system.
Through Teraview,	the lawyer can complete the following pre-closing and closing procedures: • Automated title searching • Writ searching • Subsearching • Creation of drafts and documents ready to be registered • Calculation and payment of land transfer taxes • Electronic registration of documents, as well as other procedures.

ENDING CHAPTERS

Contract law	Requires detailed Study from the book
Mortgage remedies	Power of sale/foreclosure - requires detailed Study from the book
Mortgage fraud	Types of fraud and fraud prevention - requires detailed Study from the book
Ethics and mortgage brokering	Applying core value principles to the professional activities :

Key Participants

Mortgage Brokerage	The mortgage brokerage is the licensed mortgage brokering entity.
Principal Broker	The Principal Broker is a licensed mortgage broker who is designated by the brokerage to be its chief compliance officer. Under the MBLAA, the brokerage is licensed, and it must have one licensed mortgage broker designated as the Principal Broker.
Institutional lender	Institutional lenders consist of Schedule 1, 2 and 3 banks, credit unions, loan and trust companies, finance companies or other corporations constructed to lend money on real estate.
Private lender	A Private lender is typically an individual investor with funds who would like to invest in mortgages.
Borrower	The borrower is called the mortgagor and is the individual or individuals who are taking the mortgage loan and pledging their property as security.
Mortgage Default Insurer	The Mortgage Default Insurer provides mortgage default insurance policies to lenders typically offering high ratio mortgages, although default insurance can be provided on a mortgage loan of any loan to value. Canada Mortgage and Housing Corporation (CMHC) and the two private insurers, Genworth Financial Canada and Canada Guaranty Mortgage Insurance Company (Canada Guaranty).

Key terms

Mort-gage	"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.
Collateral mortgage	a promissory note with a lien on the property for the total amount registered. You can register more debt against the property than the property is worth since normal regulatory limitations on loan to values do not apply.
Line of credit (LOC)	Is an amount of credit made available to a borrower but not advanced on closing.
B20 Stress Test	From Jan 1 2018, OSFI is setting a new minimum qualifying rate, or "stress test," for uninsured mortgages. Guideline B-20 now requires the minimum qualifying rate for uninsured mortgages to be the greater of the five-year benchmark rate published by the Bank of Canada or the contractual mortgage rate +2%.
Loan to value	***MOST IMPORTANT***: Sum of loan(s) and borrowings divided by the value of the property

Repayment plans

Blended payment	means each payment instalment goes towards both principal and interest (in different proportions)
Partially Amortized, Blended Constant Payment Mortgage - Fixed rate	**Partially amortized**: There is a term (usually 5 years) involved. Rate of interest remains throughout the term **Merits** Security - buyer can plan the budget. Good for 1st timers **Risks** Potential lack of savings

Repayment plans (cont)

Partially Amortized, Blended Constant Payment Mortgage - Variable rate	Same as above, rate varies through the term. As the payment is constant (fixed amount), the times when interest rate is low, more money goes towards the principal payout. **Merits** •Savings - good for risk takers - interest rates are usually lower than fixed type •Ability to switch to a fixed rate **Risks** •Volatility - rates might increase and cause stress •Negative Amortization - if rate goes high, the payment might increase to cover the excess interest
Partially Amortized, Blended Variable Payment Mortgage - Variable rate	Similar to above, but payment will vary each time. **Merits** •Savings - Lowest rates in the market - more savings if rates drop further • Maintain amortization - helps borrower to finish off paying mortgage in a fixed number of years irrespective of rate **Risks** •Volatility •Payemnt fluctuations
Interest Only Mortgage	Paying the interest only. **Merits** - Increased cash flow, increased purchasing power, good for investments. **Risks** - no principal reduction
Home equity line of credit (HELOC)	OSFI limits interest only HELOCs to LTV of 65%

Repayment plans (cont)

Interest accruing mortgage	Nothing is paid ever. Borrower needs to be super sure of the increase in value of property. Good for investments only. **Merits** - Cash flow **Risks** - increasing debt, reduced equity over time
Reverse mortgage	Provided to seniors (55 or older), given 55% of the value of property in lump sum cash. Tax free
Straight line principal reduction mortgage	Fixed amount of principal paid each time. Not common in Ontario and Canada
Graduated payment mortgage	Lower payments in the beginning, increasing later.

Regulation and legislation

Disclosure	The act of revealing something, or making something evident. Several types of disclosure are required under the MBLAA and Regulations.
Regulate	To govern or direct according to rule, to make regulations for or concerning an industry.
FSRA	Financial Services Regulatory Authority of Ontario is responsible for enforcing the current legislation and regulating the mortgage brokerage industry, among others.

Regulation and legislation (cont)

MBLAA regulations	• **Mortgage Brokerages** 408/07 Mortgage Brokerages: Licensing 188/08 Mortgage Brokerages: Standards of Practice • **Principal Brokers** 410/07 Principal Brokers: Eligibility, Powers and Duties • **Mortgage Brokers and Agents** 409/07 Mortgage Brokers and Agents: Licensing 187/08 Mortgage Brokers and Agents: Standards of Practice • **Cost of Borrowing and Disclosure** 191/08 Cost Of Borrowing and Disclosure to borrowers • **Mortgage Administrators** (note: this is not covered on the exam as it does not apply to mortgage agents) 406/07 Regulated Activities: Additional Prescribed Activities 411/07 Mortgage Administrators: Licensing 189/08 Mortgage Administrators: Standards of Practice • **Licensing Exemptions** 407/07 Exemptions from the Requirement to be Licensed • **Reporting Requirements** 193/08 Reporting Requirements for Licensees • **General** 190/08 General • **Penalties** 192/08 Administrative Penalties

Regulation and legislation (cont)

Activities that are Regulated	The MBLAA regulates the following activities: • dealing in mortgages in Ontario • trading in mortgages in Ontario • carrying on business as a lender in Ontario, and • carrying on the business of administering mortgages in Ontario
Licensure	1. a brokerage license 2. a mortgage broker’s license 3. a mortgage agent’s license 4. mortgage administrator’s license.
Vendor take-back	A vendor take-back, also known as a VTB, is where the seller of the property provides all or some of the financing to the purchaser in order to sell the property
*Trust funds**	Trust funds are those monies received by a brokerage or Administrator on behalf of or payable to another party.
Administrative penalties	An administrative penalty may not exceed $10,000 in the case of a contravention or failure to comply by a mortgage broker or agent or $25,000 in the case of a contravention or failure to comply by a brokerage, Mortgage Administrator or any other person or entity, or such lower amounts as may be prescribed.

Regulation and legislation (cont)

Advance payment regulation	As per Sections 37 – 39 of Regulation 188/08, a brokerage cannot accept an advance payment from the borrower on transactions where the principal amount of the mortgage is $400,000 (as of January 1, 2016; it was previously $300,000) or less.
READ CHAPTER 5 FROM THE BOOK	**THERE ARE DETAILS WHICH WOULD HAVE MADE THE CHEAT SHEET UNNECESSARILY LONG, HENCE INSTEAD OF COPY-PASTING THE WHOLE CHAPTER, I SUGGEST TAKING A THOROUGH READING.**

Transaction Overview

Mortgage broker	A practicing professional who assesses a borrower’s financial goals with respect to real estate financing and after detailed analysis provides solutions to meet those goals by acting as an intermediary with the appropriate lending source. a mortgage agent has **two clients**: the **borrower** and the **lender**.
Lender Expectations	1. Provide borrowers who are suitable for the lender 2. Provide appropriate protection against fraud 3. Facilitate the transaction to its successful completion (funding).
Borrower Expectations	1. Act in the borrower’s **best interests** 2. Completely analyze the borrower’s needs 3. Make appropriate recommendations based on the borrower’s needs 4. Facilitate the transaction to its successful completion (funding).

Transaction Overview (cont)

Steps in a brokered transaction	1. Attracting a client 2. First contact 3. The initial consultation 4. File creation and management 5. Application analysis: Borrower income and GDS/TDS ratios 6. Application analysis: Borrower Credit 7. Application analysis: The property and LTV ratio (includes ordering an appraisal if applicable) 8. Choosing a lender 9. Submitting the application 10. Obtaining the commitment 11. Preparing disclosure documents 12. Presenting the commitment and disclosure documents 13. Meeting conditions 14. Instructing the lawyer 15. The lawyer/client meeting 16. Funding the transaction 17. File submission to the brokerage 18. Receiving commissions 19. Record keeping

Calculate Mortgage Payment

Balloon payment =	Outstanding balance
Mortgage origination software	This software performs the calculations required to determine a borrower’s mortgage payment and various other financial components of a mortgage without the broker having to perform these calculations manually.
Present Value (PV)	For the purposes of mortgage finance, the present value is the monetary value of a loan at a specific point in time.

Calculate Mortgage Payment (cont)

Future Value (FV) (and Outstanding Balances)	For the purposes of mortgage finance both the future value and outstanding balance is the monetary value of a loan at a future point in time. The main difference is simply that the future value is the value of the mortgage as an asset to the lender, while the outstanding balance is what is owing at a point in time by the borrower. For our purposes the future value and outstanding balance will typically be the same number.
Amortization Period	The amortization period tells us how long it will take to fully repay the mortgage amount. The amortization period is expressed in years. A fully amortized mortgage is one in which there is no term, and a partially amortized mortgage is one in which there is a term.
Interest Rate	The interest rate tells us how much the lender is receiving in interest in return for providing the mortgage amount.
Compounding Frequency	The compounding frequency tells us how often the annual rate of interest compounds, which in turn tells us the precise amount of interest that is being charged. This exact amount must be known to be able to calculate the mortgage payment. **Revisit the J1, J2, J4 ...*

Calculate Mortgage Payment (cont)

CHAPTER 8 In the textbook	Mortgage Payment Calculation - This chapter is based on HP, SHARP and Texas Instruments Calculator models. This same calculation can be done using algebra too. Calculators on the websites are based on these formulas. **This chapter can be skipped as it is not on the online proctored exam**

Marketing

Introduction	The activities available to attract a client are numerous, and many are impacted by legislation and other industry guidelines. Legislation and industry guidelines are designed to prevent such practices as misleading advertising, the 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), false advertising and so on.
Public Relations Materials: Agents and Brokers	(a) any advertisement by the broker or agent in connection with his or her status as a licensee or his or her dealing or trading in mortgages that is published, circulated or broadcast by any means, or (b) any material that a broker or agent makes available to the public in connection with his or her status as a licensee or his or her dealing or trading in mortgages. O. Reg. 187/08, s. 1 (2).

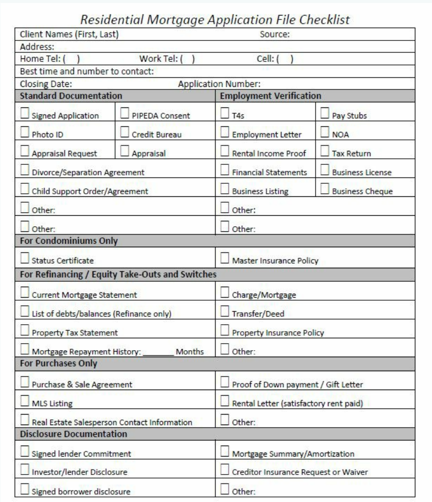
Marketing (cont)

MUST be included in all Public Relations Materials of Agents and Brokers	To summarize, the following must be included in all public relations materials that an agent or broker is using. 1. Brokerage name (if a franchise state that it is independently owned and operated) 2. Brokerage license number 3. Agent or Broker Name as registered with FSRA 4. Agent or Broker title – for example, mortgage agent or mortgage broker
False advertising and misleading terms	 Have access to all / work with all lenders - impossible: RBC and BMO don't deal with brokers Access to over 50 lenders No job? No credit? No problem!", "Good credit, bad credit or no credit...all are approved!, "Guaranteed approval" Lowest rates in town Quoting teaser or discounted rates without advising of other costs or details Quoting payments based on extended amortizations that appear to be less expensive than regular amortized mortgage Bait and switch

Marketing (cont)

PIPEDA	Personal Information Protection and Electronic Documents Act *requires you to*: • obtain the clear consent of an individual before you collect, use or disclose personal information about that individual • use the information only for the purposes for which you have consent • protect the information from unauthorized access and use • keep the information up to date and correctly filed so that decisions are based on correct information • destroy information when you no longer need it for the original purpose and • implement accountability mechanisms in your organizations to ensure compliance with the above.
CASL	Canadian Anti-Spam Law

Application file checklist



Residential Mortgage Application File Checklist

Client Names (First, Last)		Source:	
Address:			
Home Tel: ( )	Work Tel: ( )	Cell: ( )	
Best time and number to contact:			
Closing Date:	Application Number:		
Standard Documentation		**Employment Verification**	
☐ Signed Application	☐ PIPEDA Consent	☐ T4s	☐ Pay Stubs
☐ Photo ID	☐ Credit Bureau	☐ Employment Letter	☐ NOA
☐ Appraisal Request	☐ Appraisal	☐ Rental Income Proof	☐ Tax Return
☐ Divorce/Separation Agreement		☐ Financial Statements	☐ Business License
☐ Child Support Order/Agreement		☐ Business Listing	☐ Business Cheque
☐ Other:		☐ Other:	
☐ Other:		☐ Other:	
For Condominiums Only			
☐ Status Certificate		☐ Master Insurance Policy	
For Refinancing / Equity Take-Outs and Switches			
☐ Current Mortgage Statement		☐ Charge/Mortgage	
☐ List of debts/balances (Refinance only)		☐ Transfer/Deed	
☐ Property Tax Statement		☐ Property Insurance Policy	
☐ Mortgage Repayment History: _______ Months		☐ Other:	
For Purchases Only			
☐ Purchase & Sale Agreement		☐ Proof of Down payment / Gift Letter	
☐ MLS Listing		☐ Rental Letter (satisfactory rent paid)	
☐ Real Estate Salesperson Contact Information		☐ Other:	
Disclosure Documentation			
☐ Signed lender Commitment		☐ Mortgage Summary/Amortization	
☐ Investor/lender Disclosure		☐ Creditor Insurance Request or Waiver	
☐ Signed borrower disclosure		☐ Other:	

Application analysis : Borrower's documents

Income Documentation	Validate to prevent potential fraud

Application analysis : Borrower's documents (cont)

T4A	A T4A is a document provided to an individual by his or her employer which summarizes income from various sources and is used by the individual for submitting an annual income tax return. The types of income that are reflected in a T4A include: • pension or superannuation; • lump-sum payments; • self-employed commissions; • annuities; • retiring allowances; • patronage allocations; • registered education savings plan (RESP) accumulated income payments; • RESP educational assistance payments; • fees or other amounts for services; or • other income such as research grants, payments from a Registered disability savings plan (RDSP); wage-loss replacement plan payments if you were not required to withhold Canada Pension Plan (CPP) contributions and employment insurance (EI) premiums, death benefits, or certain benefits paid to partnerships or shareholders Employers must also prepare a T4A slip if they provided group term life insurance (taxable benefits) for former employees, or retirees, even if the total of all benefits paid in the calendar year was $500 or less. In addition, the employer must prepare a T4A slip if they are theAdministrator or trustee of a multi-employer plan and they provided taxable benefits under the plan to employees, former employees, or retirees, if the total of all benefits paid exceeded $25.

Application analysis : Borrower's documents (cont)

T4	A T4 is a document provided to an individual by his or her employer to summarize income for a given one-year period. This document is typically obtained by a broker/agent when the applicant has employment income such as salaried or hourly income. {{NL}} Every employer (resident or non-resident) must provide a T4 slip to employees if it has paid its employees any of the following types of income: • employment income • taxable allowances and benefits • fishing income or any other payments for services rendered during the year • salary, wages (including pay in lieu of termination notice,) tips or gratuities, bonuses, vacation pay, employment commissions, gross and insurable earnings of self-employed fishers, and all other remuneration paid to employees during the year • deductions withheld by the employer during the year and • pension adjustment (PA) amounts for employees who accrued a benefit for the year under the employer's registered pension plan (RPP) or deferred profit-sharing plan (DPSP)
Job Letter, Paystub, Stated income declaration letter	See examples in the book

Application analysis : Borrower's documents (cont)

Notice of assessment (NOA)	An NOA is issued by the federal government 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 due. **See example in the book**
Financial Statements	Read the examples from the book. **Assets = Liabilities + Owner’s Equity** **Net income = Revenues - Expenses**

Application analysis : Borrower's documents (cont)

Acceptable forms of identification	**Primary identification** • A valid driver's licence issued in Canada; • Current Canadian Passport; • Nexus/ CANPASS card; • A Federally issued Firearms Licence A Certificate of Canadian Citizenship (containing your photograph) or Certification of Naturalization (containing your photograph); • A Federally issued Permanent Resident Card; • A Certificate of Indian Status issued by the Government of Canada; • or A Provincial Government issued Photo ID Card. **Secondary identification** • An employee identity card with a photograph from an employer well known in the community; A signed automated banking machine (ABM) card or client card issued by a member of the Canadian Payments Association; • A signed credit card issued by a member of the Canadian Payments Association; • A signed Canadian Institute for the Blind (CNIB) client card with a photograph; • A birth certificate issued in Canada; • A Social Insurance Number (SIN) card issued by the Government of Canada; • A Certificate of Canadian Citizenship; • Métis Nation ID Card; • or FAST ID Card.

Application analysis : Borrower's documents (cont)

Multiple Listing Service (MLS)	MLS allows real estate salespeople to see properties being sold by other agents, a benefit to both buyers and sellers of real estate. The Multiple Listing Service efficiently distributes information so that, when a real estate salesperson is introduced to a potential home buyer, the salesperson may search the MLS system and retrieve information about all homes for sale in a given area or price range, whether under a listing contract by that salesperson's brokerage or by any of the other participating brokers.
Agreement of purchase and sale	The agreement of purchase and sale is a document used when real estate in Ontario is being purchased or sold. In all cases, where the applicant is applying for a mortgage to purchase a new or resale home, the lender will require a fully completed purchase and sale agreement.

Application analysis : Borrower's documents (cont)

Other documentation	• **Gift letter** - indicating monetary gifts received • **Property assessment** - indicating assessed value of the porperty • **Mortgage statement** - detailing the current financial standing of the mortgage, including its outstanding balance, interest rate, time remaining in the term and other important financial information • **Tax bill** - A tax bill is a document provided to a homeowner by the municipal tax authority in the jurisdiction in which the property is located. • **Condo status certificate** - A Status Certificate, formerly known as an Estoppel Certificate, is a document provided by a condominium corporation (the entity that runs the condominium) to the owner of the condominium unit. This document is required by lenders to confirm that the condominium corporation has sufficient reserve funds for its continued operation; and reveals the amount of the condominium maintenance fee, and whether there are any legal proceedings against the condominium corporation, among other information. • **Certificate of Independent Legal Advice (ILA)** - states that the lawyer has met with the client, explained the terms and conditions of the mortgage, and that the client attests that he or she is not taking the mortgage under duress or undue influence. • **Creditor insurance application** - This is a document used by an Insurance Company to determine the eligibility of an applicant for creditor insurance.

Choosing a lender

Types of lenders	**Prime mortgage lending** - for prime customers (having a good and verifiable credit/income) - usually comprises of chartered banks and financial institutions **Sub-prime mortgage lending** - Also called as Self-insured lending **Private lending**
Product sheets	A product sheet is designed to inform the mortgage agent of the terms and conditions that must be met for approval, as well as the features of the mortgage being described, including the maximum LTV, the amortization and so on.
Rate sheets	A rate sheet is designed to inform the mortgage agent of the rate charged on a product, based on such factors as the LTV and the Beacon or credit score.

Submitting application and obtaining commitment

Only submit to one lender	Once an application has been submitted, the lender will, if everything goes according to plan, approve the application and provide a commitment letter. If declined, the mortgage agent must choose a different lender and begin the process anew. Given an approval, the commitment letter will contain conditions that must be met. This chapter will discuss meeting those conditions and preparing for the closing process.
How to submit	Using Origination Software
Areas of review:	**C**redit, **P**roperty, **E**mployment

Submitting application and obtaining commitment (cont)

Credit	If the applicant has any derogatory credit such as missed payments in the past or is currently in arrears on any of his or her debts, the mortgage agent must inquire as to the reason for this derogatory credit and include this explanation in his or her notes. Explanations are required if the applicant’s credit report contains: • Current or previously missed payments • Current accounts currently listed as an R9 with or without an outstanding balance • Accounts closed by the credit grantor • Account balances exceeding credit limits • Excessive recent inquiries • Any judgments • One or more previous bankruptcies • Any accounts now or previously in collections • Any accounts currently listed as an R7 (which indicate a consumer proposal) • Any accounts rated a 2 or higher (i.e. R2 or higher, or I2 or higher)

Submitting application and obtaining commitment (cont)

Prop erty	If there are any issues with the property, the mortgage agent must note them in his or her application submission. The property provides the lender with security for its loan. If that security is compromised, the lender's position is weakened. If the property has been valued by an AVM or through CMHC's or Genworth's automated underwriting systems and no physical inspection of the property has occurred, any defects in the property will have been omitted. If the mortgage agent learns of any defects, he or she must investigate and include that information in the application submission. Possible defects or areas of concern may include: • The property having renters or boarders (if the client has not indicated that this is a rental) • Water damage in the basement – this may be a sign of a crack in the foundation • Water damage in the ceiling or walls - this may be a sign of a burst water pipe • Excessive interior or exterior wear and tear that might impact the value of the property • Evidence of UFFI or insulbrick • Signs of insect or rodent infestation • Signs of improper use of the property such as the presence of commercial machinery in or on the property that may indicate that the property is being used for business purposes.

Submitting application and obtaining commitment (cont)

Employment	The applicant's employment affects his or her ability to repay the mortgage. Items requiring explanation include: • Having several jobs over the past two or three years • Any periods of unemployment • Additional income • If the mortgage agent cannot verify employment.
INVESTOR / LENDER DISCLOSURE	**IMPORTANT SEGMENT - please read in the book - crucial information to cover - cannot be summarized here**
Commitment Letter	This document explains the terms and conditions of the mortgage that the lender is committed to providing along with the conditions that must be met before the lender will fund the mortgage. The following is a list of information commonly found in a commitment letter: • Applicants' names • Property address (address of the security) • Mortgage amount • Interest rate • Payment amount • Payment frequency • Term • Closing date • Prepayment privileges • Conditions of approval • Terms of the approved mortgage (such as fees, appraisal requirements, etc.).