

Guidelines for Mortgage Broker Originated Applications

Guidelines at a Glance

Application—The mortgage broker must ensure that the application has been completed and addresses any inconsistencies in relation to the borrower's age, income, profession, accumulated assets, historical credit utilization or other material information.

Confirmation of Identity—Even though it is the lender's responsibility for confirming the identity of all mortgage applicants, many mortgage brokers confirm identities prior to submitting an application to a lender.

Credit Report—The mortgage broker must obtain a credit report on all applicants, including borrower, co-borrowers, and guarantors in all cases, except where the lender has provided a statement in writing that this is not a requirement.

Equity—Where the mortgage loan type requires confirmation of equity, the mortgage broker must obtain confirmation that the source of the down payment is from the applicant's own resources. Increased due diligence is required when the down payment is a gift.

Employment & Income—Where the mortgage loan type requires confirmation of employment, the mortgage broker must obtain documentary evidence to prove the borrower's employer, position, tenure, and income.

Offer to Purchase/Property Verification—The mortgage broker must provide a copy of the Offer to Purchase, and Real Estate Listing for all purchase transactions. All amendments, schedules and addenda must be accounted for, and copies provided to the lender.

Appraisal—The mortgage broker may be required by the lender to order an appraisal of the property. The lender will normally provide a list of authorized appraisers or appraisal management companies.

Mortgage Commitments—Mortgage broker must return the signed commitment and all supporting documentation to the lender, and should ensure, whenever possible, that all conditions have been satisfactorily met within a reasonable time prior to closing.

These guidelines represent the minimum standards of care and due diligence required for the acceptance, completion, and submission of mortgage loan applications during the normal course of business.

- All mortgage brokers and associates should comply with these guidelines unless advised in writing by the lender that one or more

of the standards contained herein will be completed at a later stage in the underwriting process or waived by the lender.

- These guidelines are not meant to define the legal responsibilities of the parties in a mortgage transaction. Legal responsibilities are best defined by contractual agreements between the parties and the laws of the applicable jurisdictions.

Definitions

"Applicant(s)" refers to all borrowers, co-borrowers, and guarantors on the mortgage loan.

"Insurer" refers to Canada Mortgage and Housing Corporation (CMHC), Sagen, and Canada Guaranty or as the context requires.

"Identification Attestation" is a document recording who completed the identity verification, what documents were reviewed and when the meeting took place. If there was not an in-person meeting, list the reasons and methods used to verify identification.

"Lender documentation" refers to the application and all supporting documentation provided by the mortgage broker to the lender. Wherever possible, all supporting documentation should be provided to the lender in one package.

"Lender" refers to the individual(s) and/or institution(s) responsible for underwriting, funding, and administering the mortgage loan. This may include private lenders and mortgage investment corporations.

"Loan file" refers to the file retained by the mortgage broker containing the application and all supporting documentation. Loan files must be retained by the mortgage broker for no less than three years for both funded loans and non-funded loans as per the Alberta *Real Estate Act* and Rules. Supporting documentation may be stored in hard copy or electronically. Mortgage brokers should also be aware of and comply with the storage requirements of other agencies governing their activities.

"Mortgage broker" refers to both broker and associate as defined in the Alberta *Real Estate Act* and Rules and must be licensed by the Real Estate Council of Alberta.

"Mortgage fraud" is defined as any material misstatement, misrepresentation or omission relied upon by a lender or insurer to underwrite, approve, fund, or insure a mortgage loan.

"Personalized cheque" refers to a cheque drawn on a Canadian financial institution that contains both the name and address of the account owner preprinted on the top left-hand side of the cheque, as well as the MICR-encoded account information on the bottom centre of the cheque.

"Supporting documents" refers to all brokerage information and communications with the lenders, borrowers, and other parties, concerning the verification of identity, employment, equity and/or property. All supporting documentation should be retained in the loan file. Retain copies of all documents. Generally, obtain the borrower(s) written or verbal consent prior to taking or retaining copies of supporting documentation. Where there is a concern about legibility or authenticity, best efforts must be made to view original documents.

"Title Insurers" provide insurance policies that protect policy holders against losses related to defects of title. There are two types of policies—lender's protection and owner's protection.

"Underwriter" refers employees of a lender or insurer responsible for verifying the application information and supporting documentation, assessing risk for both the applicant(s) and the property, and approving or declining the mortgage loan.

Application Information

The mortgage broker must ensure the application has been completed and addresses any inconsistencies in relation to the borrower's age, income, profession, accumulated assets, historical credit utilization or other material information.

Do not obtain the signature of the applicant(s) until the mortgage loan application is fully completed.

Where the mortgage loan application is completed in the applicant's presence, confirm the identity of the applicant(s) is the same as represented in the mortgage loan application. Compare signatures on the application with the identification provided and be alert for any suspicious behaviour such as scripted/recited answers, hesitations or difficulty remembering common details.

Where the mortgage loan application is not completed in the applicant's presence, a telephone interview is the minimum requirement. Ensure all inconsistencies in the application and/or credit report are discussed with the applicant(s), and an explanation is provided to the lender. Indicate on the application that the application interview was not held personally with all parties to the loan.

In all cases whether face-to-face or non-face-to-face, the mortgage broker must compare the information on the mortgage loan application with the information on the credit report. If any inconsistencies between the two documents are detected, make a notation, and provide an explanation to the lender.

Mortgage Loan File

Mortgage brokers must maintain a separate file for each mortgage loan application. The file should contain the signed application and all supporting documentation. Retain copies of all original documents viewed. Obtain the borrower(s) consent prior to taking or retaining copies of supporting documentation.

The file must be immediately accessible to RECA upon request and must be retained for not less than three years. Files for non-funded loans should be retained for a minimum of three years as well.

Verify:

- The purpose of the application, whether for purchase or refinance.
- If the property will be owner-occupied or rental (investment) and clearly indicate this on the application.
- That the client contact information e.g., phone numbers, email, is provided so that the lender can contact the client.
- The applicant(s) age, income, occupation, years of work and credit utilization are consistent and realistic.
- The credit card information provided by the applicant(s) corresponds to the last four digits of the account numbers on the credit report.
- The applicant(s) current address and length of time at current address is consistent with the address information contained in the credit report.
- The applicant(s) address is not a PO Box. A physical address must be obtained.

Inconsistencies

The mortgage broker is responsible for noting all inconsistencies on the lender documentation and providing an explanation for the inconsistency. Where the applicant(s) cannot provide a reasonable explanation and/or supporting documentation cannot be produced, the mortgage broker must advise the lender prior to submitting the application to the lender.

If an applicant, when questioned is unable to provide a satisfactory explanation for inconsistencies between the mortgage loan application and the credit report, the application should not be submitted to the lender. The applicant may wish to contact the credit reporting agency to inquire about the possibility of identity theft.

Verification of Identity

The lender is ultimately responsible for establishing the identity of all mortgage applicants. In situations where the lender does not personally meet with all applicants, the lender must contractually obligate either a mortgage broker or other designated third party (such as a lawyer or lawyer's representative) to meet face-to-face with the applicant(s) to physically verify the personal identification.

Where required by the lender, the mortgage broker must verify the client's identity by either (a) or (b).

Even when the lender does not require identity verification, doing so is considered a mortgage broker best practice to avoid wasting time and maintain lender relationships.

Identification for all applicants, including the borrower, co-borrowers, and guarantors, must be provided by each applicant personally unless it is not logistically possible to do so. If any of the applicants are not able to meet personally with the mortgage broker, the reason should be evident and noted in the lender documentation.

Additional care in the confirmation of application details must be taken if it is not possible to interview one or more of the applicants in person. Where the mortgage loan application is not completed in the applicant's presence, a telephone interview is the minimum requirement.

(a) Identification requirements where applicant(s) is present

The mortgage broker must examine two pieces of identification for each applicant, one issued by the Government or a Province of Canada and contains a photograph. These should be original documents, not copies.

Identification should be examined when the application is signed to compare the signature on the identification with the signature on the application and Offer to Purchase, if applicable.

- Closely examine each piece of presented identification for alterations or irregularities.
- Complete an Identification Attestation, copy and record details of the identification provided:
- Note on the application each piece of identification examined. (e.g., provincial driver's licence, bank credit card) and record the number and expiry date.
- Retain legible copies of front and back of each piece of identification in the loan file.
- Retain the loan file in a secure manner to protect the privacy of the borrower and ensure it is available if requested by the regulator.
- Where the applicant does not have acceptable photo identification, make a notation on the application, and refer to (b) for guidelines and additional identification requirements where applicant(s) is/are not present.
- The mortgage broker should not proceed with the application if there is any suspicion regarding the identity of the applicant(s) until the applicant(s) can provide the information required to verify their identity.

(b) Identification requirements where applicant(s) is/are not present

Where the applicant is not interviewed personally, the mortgage broker must perform additional verifications, normally in conjunction with the telephone interview, to establish proof of identity. Obtain and record the name, identification type, number, and expiry date of two pieces of identification for each applicant and perform two of the following:

- If possible, confirm the applicant's name, address, and telephone number if it appears in an electronic directory (e.g., www.canada411.ca). Copy or print the directory name, address and telephone number and provide this to the lender with the application documents.

Note This may not be possible as many people no longer have land lines.

- Examine a cleared personalized cheque. Compare the signature on the cheque with the signature on the mortgage application and Offer to Purchase, if applicable. Provide a copy of the cleared

cheque, front and back, to the lender with the application documents.

- Examine a utility bill with the applicant's name and address on the bill. The name and address on the utility bill should correspond with the name and address on the credit report and other documents. Provide the particulars or a copy of the item to the lender and retain a copy in the loan file.
- Examine a copy of the Social Insurance Card and ensure the number matched the SIN on the credit report.
- Obtain a list from the borrower of their credit card numbers. Ensure the credit card account numbers are accounted for and match the numbers on the credit report.
- Interview the borrower, asking questions that could not be answered by looking at information typically found in someone's wallet or online. Advise the applicant that you are confirming you are speaking to the right person. Apart from the standard identity verification questions (DOB, current address, etc.), ask two to three other questions such as:
 - Confirmation of previous addresses and/or employer. Cross reference this to the credit file.
 - Verification of credit limit of a specific credit card. Fraudsters typically don't know the credit limits attached to the cards. Cross reference the response to the credit file.
 - Determine whether there are any paid loans on the credit file. Ask the borrower to confirm the name of a lender where they previously held a loan.
 - Review the credit file and identify a financial relationship that the applicant does not have. Ask the applicant if they have a loan or credit card with that financial institution. If the answer is yes, you are likely not speaking to the right person.
 - Keep notes of the questions you asked, and answers provided by the applicant.

Credit Report

The mortgage broker must obtain consent and obtain credit report on all applicants, including the borrower(s), co-borrower(s) and guarantor(s) in all cases, except where the lender has provided a statement in writing that this is not a requirement.

The mortgage broker must verify that the information provided on the credit report corresponds to the information contained in the application (i.e., debt, date of birth, employment, previous/current residence) and the credit report is reflective of the applicant's stated age and income. Increased due diligence is necessary in the case of no credit report (no hit), a short report (no or few trade lines) or a recently established report.

The mortgage broker is responsible for carefully reviewing the credit report and must also:

- Ensure all non-evident aliases/AKA's are explained; note the explanation in the file.
- Ensure the credit report is reasonable considering the age and occupation of the applicant, such as:
 - number of trade lines and recent inquiries
 - length of time the report has been established and
 - amount of credit established; be wary of low "high" credit limits and small loan payments when the declared income is high.
- Verify credit report information corresponds with information in the mortgage application, for example:
 - The date of birth on the application/identification matches the date of birth on the credit report.
 - The address on the report, and the length of time at the current address matches the application information
 - Credit cards, loans, and assets (e.g., car loans) listed on the application are consistent with the credit report.
 - The employment information on the credit report is consistent with the applicant's stated employment.
 - All credit bureau alert messages are investigated, and an explanation provided.
- Be wary of recent credit seeking such as many new trades and/or current inquiries. Recent multiple inquiries could indicate activity of a straw buyer. Approach with caution and request an explanation from the applicant and record the explanation in the mortgage loan file. Associates should refer to their broker prior to proceeding.

The mortgage broker is expected to address all inconsistencies in the credit report and note the explanation in the mortgage loan file. Where a

satisfactory explanation cannot be provided, the application should not be submitted to the lender unless the lender has given the broker the authority to do so.

Down Payment

Where the mortgage loan type requires confirmation of down payment, the mortgage broker must obtain confirmation that the source of the down payment is supported by physical documentation and is from the applicant(s) own resources. Increased due diligence is required when the down payment is a gift or is borrowed. Care should be taken to ensure that evidence of the total down payment being provided has not been falsified by the movement of funds between accounts.

- The mortgage broker should consider whether the applicant's accumulation of assets is reasonable considering age and income.
- Where there is more than one source for the down payment, provide a summary of all sources to the lender, ensuring the total is equal to the amount of the down payment plus sufficient funds to cover closing costs. Include the receipt, canceled cheque copy as supporting documentation for the down payment.
- Provide documentary proof of the source(s) of the down payment to the lender. The mortgage broker should ensure the document(s) appears genuine and does not contain evidence of alteration. Where suspicion arises, the mortgage broker should ensure original documents are viewed.
- When the down payment is from foreign funds, lenders often have additional requirements showing the source, transfer, and receipt of the down payment.
- Obtain a gift letter where the down payment is to be provided by an immediate relative only.
 - The gift letter must contain the name, address, phone number, and relationship of the giftor(s).
 - Prior to closing, provide evidence to the lender of the validity of the down payment.
 - Lenders often request verification of the source of the gift.
- The equity summary and all supporting documentation should be provided to the lender in one package. Where the down payment is to be provided from multiple sources, care should be taken to ensure that account statement dates reflect the same time frame to ensure funds have not been transferred between accounts.

Employment and Income

Where the mortgage loan type requires confirmation of employment and income, the mortgage broker must obtain documentary evidence to prove the borrower's employer, position, tenure, and income. Where suspicion arises, the mortgage broker should ensure original documents are viewed.

Where the income source is from foreign funds the lender may request that the applicant provide documentation that clearly shows the flow of funds that make up the foreign income.

The following are examples of documents that may be used to confirm employment and income.

- employment letter, on company letterhead, signed with writer's name, title and contact phone number, indicating applicant's position, tenure, and income
- previous year's Notice of Assessment
- two years of T4's
- pay stub along with a bank account statement showing the payroll deposit
- three months of account statements showing regular payroll deposits

Where the borrower is self-employed, the following documents could be used to confirm the existence of the business:

- business credit report
- A copy of the business registration
- personal credit report with BFS name listed as employer
- copy of the business registration or licence
- copy of the previous two years GST returns or Income Tax returns
- copies of previous years financial statements, accountant's letter and/or NOA's

In all instances, the originator must have a reasonable degree of confidence that the business exists.

Where the property is used for rental purposes, obtain confirmation of rental income. Provide copies of leases including tenant names, expiry dates and rental amounts.

Other income sources (e.g., investment income) may be discussed with the lender.

Where the employment information on the credit report is different than the employment information provided by the borrower, obtain an explanation from the borrower, and make a notation on the mortgage loan file.

If suspicion exists as to the validity of the employment and income information, obtain more than one additional verification document. Other documents such as a business card or employer-issued building access card may be obtained and/or examined. The mortgage broker should also provide the lender with a copy/printout of a published or electronic telephone directory, or internet search showing the name, address, and phone number of the employer.

Offer to Purchase/Property Verification

The mortgage broker must provide a fully executed copy of the Offer to Purchase including all amendments, schedules, and addenda to the lender. An Offer to Purchase must be obtained for all sale transactions, whether MLS, Exclusive, Private or non-arm's length (i.e. family).

If the property was listed on the MLS, provide a copy of the MLS Listing. An electronic copy of the MLS listing is usually available from www.realtor.ca

If the sale is private, or no listing is available, mortgage brokers should provide as much information similar to a listing as possible

- Confirm that the property address and legal description on the Offer to Purchase are consistent with the listing, appraisal, commitment letter and all other documents identifying the property.
- Confirm the borrower(s) are the same in number as those on the application and that the spelling of name(s) is correct
- Confirm with the applicant there are no other contracts, obligations, or addendum(s) to the Offer to Purchase that have not been disclosed as part of the mortgage application.
- Make a notation of all legal or non-conforming suites.
- Make a note on the application if all or part of the property is commercial and indicate the associated square footage for commercial and residential.

- Ensure on MLS or Exclusive purchases, the Purchase and Sale Agreement indicates that the deposit is being held by the listing real estate office.
- For "Rent to Own" properties, refer to the lender and mortgage default insurer policies.
- On all private or non-arm's length sales, a title search should be performed with the appropriate Land Titles Office and forwarded to the lender for review. If discrepancies are noted, the broker may need to conduct an historical title search.

Appraisal

The mortgage broker may be required by the lender to order an appraisal of the property. The lender will provide the mortgage broker with a list of authorized appraisers or appraisal management companies.

In all cases, the appraisal must be addressed to the lender. The appraisal must be identified as "for mortgage financing purposes".

Where the appraisal has been prepared for another lender, it may be submitted to the current lender if it has been completed by an appraiser acceptable to that lender. The appraiser must also provide written authorization (a transmittal letter) that the appraisal may be provided to a substitute lender or mortgage default insurer.

Appraisals provided by the applicant(s) are generally not acceptable and should not be forwarded to the lender without prior approval by the lender.

Mortgage Commitments

Review the commitment with the borrower(s). It is a good practice to get an initial on each page in addition to required signature(s). This is a way to record the borrower has seen the entire commitment.

It is also a good practice to have the borrower(s) initial any special or unusual clauses such as extra fees or higher penalties for prepayment.

The mortgage broker must return the signed and dated commitment prior to the expiry date in the commitment letter.

Send all supporting documentation to the lender and ensure that all conditions have been satisfactorily met within a reasonable time prior to closing.