

# Guidelines for Mortgage Broker/Associate Originated Applications

## Guidelines at a Glance

**Application** - The mortgage broker/associate 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** - The lender is responsible for ensuring that the identity of all mortgage applicants is confirmed.

**Credit Report** - The mortgage broker/associate 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/associate 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/associate must obtain documentary evidence to prove the borrower's employer, position, tenure and income.

**Agreement for Purchase & Sale/Property Verification** - The mortgage broker/associate must provide a copy of the Agreement for Purchase and Sale, and MLS or 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/associate may be required by the lender to order an appraisal of the property. The lender will normally provide a list of authorized appraisers.

**Mortgage Commitments** - Mortgage broker/associate 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.

In the absence of written instructions from the lender modifying the instructions contained in this document, these 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 altogether.
- 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) and Genworth Financial Canada or as the context requires.

*"Lender documentation"* refers to the application and all supporting documentation provided by the Mortgage broker/associate 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/associate containing the application and all supporting documentation. Loan files must be retained by the mortgage broker/associate 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. It is widely understood that Customs & Revenue Agency requires retention of all files for a minimum of seven years.

*"Mortgage broker/associate"* 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. Record particulars of the documentation or retain photocopies of all documents. As a general rule, obtain the borrower(s) written or verbal consent prior to taking or retaining photocopies of supporting documentation. Where there is a concern about legibility or authenticity, best efforts must be made to view original documents.

*"Underwriter"* refers to individual(s) employed by a lender or insurer who is/are

responsible for verifying the application information and supporting documentation, making an assessment of risk for both the applicant(s) and the property and approving or declining the mortgage loan.

### **Application**

The mortgage broker/associate 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 document is fully complete.

Where the mortgage loan application is completed in the applicant's presence, confirm that the identity of the applicant(s) is the same as that 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/associate must compare the information on the mortgage loan application with the information on the credit report. If any inconsistencies between the two

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documents are detected, make a notation and ensure that an explanation is provided to the lender.

### **Mortgage Loan File**

Mortgage brokers/associates must maintain a separate file for each mortgage loan application. The file should contain the application and all supporting documentation. Record particulars of the documentation or retain photocopies of all original documents viewed. As a general rule, obtain the borrower(s) consent prior to taking or retaining photocopies of supporting documentation.

The file must be immediately accessible to the regulator 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.

Ensure:

- A copy of the mortgage loan application is maintained in the loan file.
- The purpose of the application, whether owner-occupied or rental (investment) is clearly indicated on the application.
- The applicant(s) age, income, occupation, years of work and credit utilization are consistent and realistic.
- 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/associate 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/associate 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 applicant(s), the lender must contractually obligate either a mortgage broker/associate or other designated third party (such as a lawyer or lawyer's representative) to meet face-to-face with the applicant(s) in order to physically verify the personal identification.

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

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

The mortgage broker/associate must examine two pieces of identification for each applicant, one of which is issued by the Government or a Province of Canada and contains a photograph. Original documents must be viewed. Identification should be examined at the same time the application is signed in order to compare the signature on the identification with the signature on the application and Agreement for Purchase and Sale, if applicable.

- Closely examine each piece of presented identification for alterations or irregularities.
- Complete the Identification Attestation, photocopy and record details of the identification provided:
- Make a notation on the application of each piece of identification examined. (e.g. provincial driver's licence, bank credit card) and record the serial number and expiry date.
- Retain legible photocopies 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 also in the event that it is requested by the regulator at a later date.
- Where the applicant does not have acceptable photo identification, make a notation on the application and refer to (b) for guidelines

and additional requirements on identification requirements where applicant(s) is/are not present.

- The mortgage broker/associate should not proceed with the application if there is any suspicion regarding the identity of the applicant(s) until such time as 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/associate must perform additional verifications, normally in conjunction with the telephone interview, in order to establish proof of identity. Obtain and record the name, identification type, serial number and expiry date of two pieces of identification for each applicant and perform two of the following:

- Ensure the applicant's name, address and telephone number appears in the telephone book or an electronic directory.
- Examine a cleared personalized cheque. Compare the signature on the cheque with the signature on the mortgage application and Agreement © November 2006 Real Estate Council of Alberta 6 for Purchase and Sale, if applicable. Provide a photocopy 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.
- 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.

**Credit Report**

The mortgage broker/associate must obtain a 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/associate 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/associate is responsible for carefully reviewing the credit report and must also:

- Verify credit report information against the mortgage application information.
- Ensure all non-evident aliases/AKA's are explained; note the explanation on the report or in the file.
- Ensure the credit report is reasonable considering the age and occupation of the applicant, such as:
  - number of trade liens and recent inquiries

- number of trade liens 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.
- Ensure:
  - 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

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explanation provided.

- Be wary of recent credit seeking such as a large number of 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 same in the mortgage loan application file or on the credit report.

Associates may want to refer to their broker prior to proceeding.

The mortgage broker/associate is expected to address all inconsistencies in the credit report and note the explanation in the mortgage loan application file or on the credit report. Where a satisfactory explanation cannot be provided, the application should not be submitted to the lender unless the lender has given the broker/associate the authority to do so.

## Equity

Where the mortgage loan type requires confirmation of equity, the mortgage broker/associate 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*. Care should be taken to ensure that evidence of the total equity being provided has not been falsified by the movement of funds between accounts.

- The mortgage broker/associate should consider whether the applicant’s accumulation of assets is reasonable considering age and income.
- Where there is more than once 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 or 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/associate should

ensure the document(s) appears genuine and does not contain evidence of alteration. Where suspicion arises, the mortgage broker/associate should ensure original documents are viewed.

- 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.
- The equity summary and all supporting documentation should be provided to the lender in one package. Where the down

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payment is to be provided from multiple sources, care should be taken to ensure that account statement dates reflect the same time period 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/associate must obtain documentary evidence to prove the borrower's employer, position, tenure and income. Forward a copy of the document(s) to the lender and retain a copy of the document(s) in the loan file. The following are examples of documents that may be used to confirm employment and income. Where suspicion arises, the mortgage broker/associate should ensure original documents are viewed.

- 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 T-4'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
- 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

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 (i.e. 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 application.

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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/associate should also provide the lender with a photocopy/printout of a published or electronic telephone directory showing the name, address and phone number of the employer.

### **Agreement for Purchase and Sale/Property Verification**

The mortgage broker/associate must provide a copy of the Agreement for Purchase and Sale to the lender. All amendments, schedules and addenda as well as MLS Listing (if available) must be accounted for and attached.

- Confirm that the property address and legal description on the Agreement for Purchase and Sale are consistent with the listing, appraisal, commitment letter and all other documents identifying the property.
- 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, the amount of the rent above market should be clearly displayed. The Rent to Own Agreement should be dated when the tenant began renting and should be included with the information forwarded to the lender.
- On all private or non-arms 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/associate may need to conduct an historical title search.

### **Appraisal**

The mortgage broker/associate may be required by the lender to order an appraisal of the property in Alberta. The lender will provide the mortgage broker/associate with a list of authorized appraisers.

### **Mortgage Commitments**

The mortgage broker/associate must return the signed commitment and all supporting documentation to the lender and should ensure that all conditions have been satisfactorily met within a reasonable period of time prior to closing.