



# Strategy & Success Training Guide



## MODULE 02:

# UNDERWRITING AND INPUTTING THE APPLICATION

Continuous effort— not strength or intelligence— is the key to unlocking our potential.





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# Underwriting & Inputting the Application

## UNDERWRITING

Before you even input the deal into the Velocity delivery system, you should Google: the applicant's name, their current property address, the address of the property they are purchasing, and their current employer. If there is anything negative that shows up regarding any of the above, you need to consult your client for an explanation and include that information in your loan notes. If an underwriter tells you something about your client that they obtained just by doing a Google search, shame on you. This will only confirm to the underwriter that you have not done your due diligence.

## REPUTATIONAL RISK

How you conduct yourself with your underwriter and your client really comes down to reputational risk. When an underwriter has to touch your deal over and over because the proper information wasn't supplied upfront, that is not positive for your reputation within that underwriting center. Lender underwriters generally sit very closely together and are always discussing deals, along with good and bad experiences on a day-to-day basis; even remote underwriters are in constant contact. You want to be the professional agent/broker to deal with, not the problem. Lenders are always making changes for various reasons to underwriting teams and brokers assigned to those teams change. Seasoned underwriters who know their business and turn over a lot of deals in a day don't want to deal with agents or brokers who don't complete their due diligence. When you don't ask the correct questions upfront with your client, that results in continued phone calls back to your client requesting more information and possibly more documentation. This process will not give the client a sense of comfort, and they will begin to question your knowledge and professionalism.



*Again, the client experience will translate to either advocates, referrals, and repeat clients... or nothing.*



# The 5 C's Of Credit <sup>pt. 1</sup>

The underwriter will look at the whole application applying the following:

**Character / Credit / Capacity / Capital / Collateral**



## 1. CHARACTER

The underwriter will look at the applicant's personal information and immediately Google the client's name, checking to see if there is an issue they should be aware of, such as past/pending legal action. They will also check LinkedIn to ensure a job match; if not, they will question "why?". The next thing they will do is look at the overall picture - is their credit good? Is their net worth in line with their stage of life? Are they maxing out credit cards along with extended ratios and no future financial buffer? Having one of these issues doesn't necessarily mean a decline, however having a number of these issues could amount to a weak deal and, ultimately, a decline. The underwriter will always look at the overall picture and address any discrepancies or concerns they have.

Addressing these concerns in your loan notes upfront will hopefully give the underwriter a sense of comfort so they can proceed with underwriting the deal.

**TIP** Try to confirm as much information upfront as possible. If any of the information supplied turns out to be wrong on the application, the underwriter would look at this from a negative character point of view.

## 2. CREDIT

An underwriter will look at the client's credit bureau in a few ways. First, they will cross check the identification, confirming current address and marital status. Then they will look at the beacon score; most lenders look at a beacon score below 700 as a high credit risk and above 700 as a low credit risk. They will look for any previous bankruptcies, consumer proposals, or collections. They will also look at the repayment history, the length of time credit has been granted along with the total credit available vs. the outstanding balance. In recent years Equifax introduced a BNI (bankruptcy navigator index); this scoring system is predictive, unlike the beacon score, which looks at past behavior. The BNI is based on an algorithm that can forecast the probability of bankruptcy in the next two years. Scores range from 100 (low) to 950 (high) having a high BNI score is good, and lenders usually look for a minimum score of 400. So, you could in fact, be looking at a credit bureau with a beacon score over 700, no previous bankruptcies or collections, and all trades showing an R1 or I1 repayment history; however, every credit source issued is maxed to the limit, and the BNI score is 300. This would result in a decline as the underwriter would assess this borrower as a high risk for future bankruptcy.

**TIP** Address any credit concerns in your loan notes. Let the underwriter know why it happened and give them a sense of comfort that it won't happen again. The goal is to try and mitigate any negative thoughts immediately and bring the underwriter to a place of understanding.



# The 5 C's Of Credit pt. 2

## 3. CAPACITY

The underwriter will not only look at the borrower's capacity (ability) to repay the mortgage, but they will also look at their willingness to repay the mortgage based on trades lines and ratings on their credit bureau. The underwriter will look at their debt service ratios and if the borrow requires extended ratios to qualify for the mortgage and has no financial buffer in place should it be required; the underwriter will keep that in mind when looking at all other aspects of the deal. The applicant's job type, tenure and future employment stability will also be taken into consideration during this process. Total income will directly affect the GDS and TDS calculations; lenders have different policies and product guidelines depending on their tolerance for risk. Always ensure to confirm your lenders underwriting policies (calculations used).

**TIP** Google the employer yourself and try to confirm all employment and income documentation prior to submitting to the lender, once incorrect information is supplied to a lender it is next to impossible to correct it. Call the employer yourself and confirm the job letter and details.

## GROSS DEBT SERVICE (GDS)

The way GDS is calculated is by annualizing the monthly mortgage payment, tax payment and heat. If there are condo fees, you must include 50% of the annual payment and then divide that into the applicant's total annual salary; that ratio cannot exceed the GDS ratios in Figure A. The reason only 50% of condos fees are used in the calculation is that some common expenses/strata fees include a heating component, so you don't want to double calculate that expenses.

### FOR EXAMPLE:

**Mortgage Payment** \$1,000/month  
**Tax Payment** \$ 300/month  
**Heat** \$ 125/month  
**Condo fees (50%)** \$ 50/month  
**\$1,475/month**

**\$1,475/month**  
 x **12 months**

**\$17,700**  
 divided by annual salary of **\$60,000**  
**= 29.5% GDS**

**INSURED GUIDELINES** Loans in excess of 80% LTV or loans insured for other reasons.

Not all lenders will follow this; some will cut back the ratios depending on risk tolerance.

**CHMC Only (beacons under 680)**  
 GDS/TDS **35 - 42** | GDS/TDS **39 - 44**

**INSURABLE GUIDELINES** Loans below 80% LTV however meets all the insurers guidelines

**CHMC Only (beacons under 680)**  
 GDS/TDS **35 - 42** | GDS/TDS **39 - 44**

**UNINSURABLE (CONVENTIONAL) GUIDELINES** Loans below 80% LTV.

Most mortgage finance companies have guidelines based on the beacon score, the banks are definitely more flexible, and you should always confirm the guidelines of your lender.

**Beacons scores < 680: GDS/TDS 35 - 42**  
**Beacons scores > 680: GDS/TDS 39 - 44**

Figure A



# The 5 C's Of Credit pt. 3

## 3. CAPACITY (CONT.) | TOTAL DEBT SERVICE (TDS)

TDS is calculated by adding up your annualized GDS and all other o/s debt.

**TIP** If the deal you are underwriting is insured or you want an insurable response, the GDS/TDS cannot exceed 39/44. If the ratios are 39.01 or 44.01, this will result in a decline. This means the client will either have to put down more money, decreasing the GDS, or pay off debt decreasing the TDS.

### FOR EXAMPLE:

**Monthly GDS** \$1,475/month  
**Car Payment** \$ 300/month  
**Credit Card** \$100/month  
**Unsecured LOC** \$250/month

**\$2,175/month x 12 months**

**= \$26,100**

divided by annual salary  
 of **\$60,000**

**= 43.5% TDS**

**MINIMUM PAYMENTS** must be used for qualification purposes when your deal is insured or insurable. Always confirm your lender's calculations as they may be more conservative than outlined below.

### GDS – GROSS DEBT SERVICE

- **Mortgage Payment** Actual monthly mortgage payment plus 2% or benchmark - the greater of.
- **Taxes** Actual monthly taxes
- **Condo fees** 50% of the total monthly payment
- **Heat** Most insurers will accept \$125 monthly; however, it has to be reasonable based on the square footage.

### TDS – TOTAL DEBT SERVICE

- **Car Payment:** The actual payment reported on the credit bureau
- **Consolidation Loans:** The actual payment reported on the credit bureau
- **Credit Cards:** 3% of the balance or the actual minimum payment – the **greater** of.
- **Secured LOC:** The insurer will accept the lender's internal guidelines or amortize the balance over 25 years using the contract or BOC 5-year benchmark rate
- **Unsecured LOC:** 3% of the balance or the actual minimum payment – you must use the greater of.
- **Student Loans:** The actual payment or minimum 1.5% of the balance if it's not yet on a repayment schedule - lender dependent.
- **Owner-occupied/rental:** Mortgage payment, taxes, and heat – refer to lender guidelines
- **Stand-alone Rental:** Rental worksheet – refer to lender guidelines

### UNINSURED RENTAL PROPERTIES

- Purchase/refinance/switch
- Maximum 30-year amortization
- Subject to sliding scale
- Maximum LTV 80%
- Most lenders have a 4-property maximum – lender specific
- Down-payment must be from own resources
- Most lenders have a min. beacon score of 620
- Most lenders require a rental worksheet when a client has more than one property.
- Most lenders require rental income reported on T1-general.
- May be subject to minimum personal net worth.

## The 5 C's Of Credit pt. 2



### 4. CAPITAL

This is the total amount of down payment a client is investing in the deal, and the more skin clients have in the game, the less likely they are to default. Although down payments of less than 20% will be insured, no lender would ever make a credit decision based on the fact that they would be repaid any loss upon default. An insured loan is underwritten with the same procedures and weighted risk as an uninsured loan - the exception to this rule is property (see explanation under Collateral). All down payments must be confirmed via three months history of savings, whether it is coming from a savings or checking account, RSP, or investments.

If the down payment is coming from the sale of an existing house, you would need to provide a firm agreement of purchase and sale, including any schedules or amendments along with a current mortgage statement. The solicitor would also have to provide a copy of the disbursement of funds upon the sale of the existing property. If the down payment is coming from a gift, a gift letter is required along with the funds prior to closing. Some lenders also require proof of funds from the person providing the gift. Lenders are starting to see applications that include virtual, digital, and cryptocurrencies, which would also require a three-month history of savings.

### 5. COLLATERAL

This is the property that the lender will secure against the loan. A lot of lenders will not lend in rural areas with minimum populations or properties that do not meet the lender's guidelines. In situations where the property location is outside of the lender guidelines or the condition of the property is a concern, an example of this would be an MLS listing that reads "builders tear down" or "renovators delight". The lender will look at the application, and if the purchaser is renovating after close and bringing the property up to the lender's standards, a lender may choose to proceed with issuing a commitment; however, the lender may require the deal be insured regardless of the LTV.

When underwriting a purchase, refinance or switch, the lender will need to confirm the value of the property. The lender will either request an appraisal if warranted or try and obtain an automated online evaluation based on recent sales and similar property details in the same location. Always ensure you supply the correct postal code, square footage, and annual property taxes as this is the information the lender will input into their automated evaluation system to confirm the property value. If you misquote any of that information, you will not get a second chance for an auto evaluation, and you will need to arrange to get an appraisal regardless of the closing date.

**TIP** Most lenders require you to arrange the appraisal and have it forwarded to them. Always check to see if they have an approved appraiser list. If you order an appraisal from a company not approved by that lender, you will have to get another appraisal at your own cost, and this could become an issue against a COF (condition of financing) expiring. Requesting a second appraisal will also be a concern to your client; they will think there is a problem, and this will just add more stress to what could be an already stressful situation to them.



## Need To Know: Tips From The Pro's



**LOAN NOTES** The loan notes section is your opportunity to tell the story, and to help guide the underwriter's opinion in the right direction. You want to address any concerns in the application, explain why it happened, and why it won't happen again. The underwriter is going to see any issues that might be of concern, so not addressing them just leaves the underwriter to make certain assumptions, and these assumptions may not be correct. The problem is, now you have to get them to change their mind on their initial assessment, and that is a much harder position to be in (not to mention time-consuming). Always take the time to "tell the story"; guide your underwriter in the direction you want them to go and finish off your loan notes in a positive light.

### Tips:

- A lot of lenders using income claimed working at a family business must be supported by an NOA. A job letter will not be accepted as it is considered "non-arm's length." The same would apply to a family member paying rent; the lender would want to see the rent claimed on the applicants T1 -General.
- Most A-lenders will not allow the mortgage to be held in a corporate name or holding company.

# Documentation pt.1

The following documentation MAY be requested by your lender confirming the information supplied on the application. You can advise your client during the application process that they may have to supply some/all the documentation and to start putting this package to ensure they are not scrambling to find something at the last minute. NEVER send in more information than your underwriter requested.

**TIP** The documentation listed below is as per insurer's guidelines, although these are commonly requested documents, underwriters will follow their own company's policies.

## APPLICANT

- Signed Consent Form
- Void cheque
- Solicitor information
- Closing costs

## PROPERTY

- Agreement of Purchase and Sale along with and schedules and amendments.
- MLS Listing
- Property details for an automated evaluation or an Appraisal
- Coy of property insurance
- Property tax statement
- Potability Certificate or Title Insurance (well and septic, cistern system, lake intake)
- Agreement of Purchase and sale along with any schedules and amendments for the existing property
- Current mortgage statement on the existing property

### If Rental;

- Tenancy Agreement
- Confirmation rental unit is legal confirming or nonconforming/grandfathered
- Fire and Safety
- T1-General confirming rental income



## FULL-TIME EMPLOYMENT

- Current job letter on letterhead outlining the particulars of income along with a contact name and phone number (must be dated in the last 30 days)
- Current pay stub
- Previous years NOA or T4's (option will be lender specific)

## PART-TIME / SEASONAL / COMMISSION / CONTRACT

Must be minimum two years confirmable income

- Current job letter on letterhead outlining the particulars of hours and income along with a contact name and phone number
- If the contract is expiring in the near future, confirmation of renewal details could be required.
- Current contract particulars
- Current pay stub
- Two years previous NOA's

## Documentation <sup>pt.2</sup>

### Confirming BFS Tenure for a minimum of two years

1. Two-years Income Tax Returns supported by NOAs
2. Two-years of GST/HST Returns
3. Two-years audited Financial Statements
4. Two years Financial Statements prepared by a licensed accountant
5. Business license showing two years of history
6. Business credit report
7. Articles of Incorporation showing two years of history

**TIP** A lot of lenders will look to ensure there is a company website if they can't find a website; this would be a red flag.

### Confirming BFS Income for a minimum of two years

1. A two-year average from line 150 of the two most recent NOA's accompanied by T1 Generals.
2. If the annualized income from the most recent document varies from the annualized income from the previous year by more than 20%, a lender may choose to use the lower year's income for qualification purposes.
3. Small incorporated companies may elect to pay themselves a salary or dividend, which will show on Line 101 (T4 Income) and Line 120 (Dividend Income). Some lenders will use this income to qualify, provided it is consistent year over year.
4. Most lenders will gross up self-employed income (line 150) by 15% for qualification purposes

#### OR

As an alternative to the use of the 15% gross-up, most lenders will allow you to add back to the net business income of self-employed applicants any non-cash expenses, such as capital cost allowance, depreciation and business use of the home. In most cases with lenders, these add-backs are eligible if they are supported by the Statement of Business Activities attached to the T1 Generals or business Financial Statements and have been stated for the past two years.





# Documentation pt.3

## Rental Income

- Most lenders will want the rental income claimed on the client's T1 General and will use only the amount claimed on the tax return.
- Copies of leases supported by bank statements confirming rental deposits.
- In the case of a new purchase where there are no current renters, a lender may request an accredited appraiser from their approved list to provide a fair market value of rents.

## Investment Income

- Two years tax return confirming investment income
- Lenders will also look to see the total amount of investments and other income to ensure the longevity of that investment income.

## Confirming Spousal or Child Support

- Separation Agreement
- Child Support Documentation
- Divorce decree
- When child support is being paid, you must include 100% of that payment in the TDS. When child support is being used an income, most lenders will not allow that amount to exceed 30% of the total income being used to qualify – lender dependent.

## Disability Income

- Most lenders will use long term disability but will not use short term disability.
- Depending on whether taxes are deducted at source, some lenders will increase the annual income used if it is tax-free.

## Maternity Leave

- The client will have to supply a letter from their employer confirming a return to work date.
- Most A-lenders and all insurers will use 100% of the client's income while on mat leave.





# Documentation pt.4

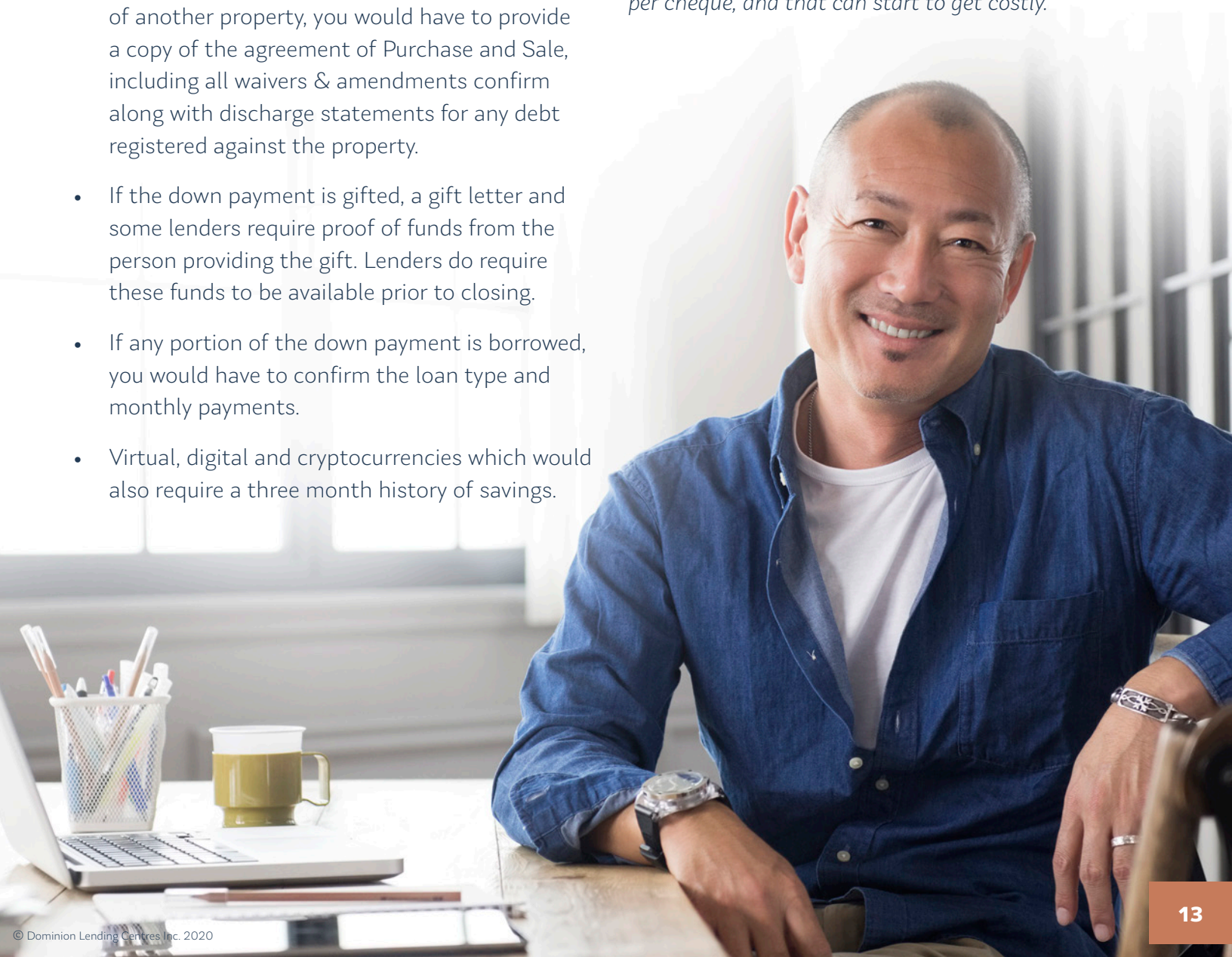
## Confirming Down Payment

- You will be required to provide the past three months of account history confirming savings. If any of the transactions have been blacked out, the lender will not accept the statements. RRSP statements, GIC certificates must have terms dating back longer than three months. Documents provided must show the client's name and account number.
- If the down payment is coming from the equity of another property, you would have to provide a copy of the agreement of Purchase and Sale, including all waivers & amendments confirm along with discharge statements for any debt registered against the property.
- If the down payment is gifted, a gift letter and some lenders require proof of funds from the person providing the gift. Lenders do require these funds to be available prior to closing.
- If any portion of the down payment is borrowed, you would have to confirm the loan type and monthly payments.
- Virtual, digital and cryptocurrencies which would also require a three month history of savings.

## Payout of Debt

- The commitment may condition any collections or judgments to be paid out prior to funding.
- The commitment may condition for specific debts to be paid in full and, in some cases, confirm that the credit availability has been closed.

**TIP** Get the client to pay out any requested debts themselves and, of course, get confirmation. If the solicitor pays out debts, they normally charge \$100 per cheque, and that can start to get costly.



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## MODULE 02: COMPLETE

