

Case Study 1 Questions

Section One: Complete the Mortgage Application Form

Sample Mortgages Inc.

Source:

2175 Sheppard Avenue East, Suite 213,
North York, ON, M2J 1W8
Tel: (416) 555-1212

Mortgage Application Form

APPLICANT(S)

Name of Applicant in Full Jack Adams		DOB (MM/DD/YYYY) 05/22/1970 (15)	SIN 450-120-843 (1)
Contact Information Tel: 416-555-1492 (1) Cel: 647-555-1822 (1) Email: jadams@hotmail.com			
Name of Co-Applicant in Full Susan Adams (1)		DOB (MM/DD/YYYY) 04/08/1972 (15)	SIN 499-921-012 (1)
Contact Information Tel: 416-555-1492 (1) Cel: 647-555-1492 (1) Email: sus.adams@gmail.com (1)			
Present Address 123 Secord Street, Toronto, ON, M1S 1M1 (2)			No. of Years 2 years 11 months (2)
Previous Address 5678 Oakwoods Blvd, Toronto, ON, m1s 1n1 (3)			No. of Years 2 years (1)

DETAILS OF MORTGAGE REQUEST

Purpose of Mortgage Refinance existing mortgage and pay off certain debts and install in-ground pool (1)						
Amount \$748, 800 (6)	Rate 3% (7)	Term 60 mths (7)	Frequency Monthly (7)	Amortization 300 months (7)	Date Required February 1, 2020 (8)	Rank (1 st , 2 nd 3 rd) 1st (1)

PARTICULARS OF SECURITY

Lot # PT Lot 10R (9)	Plan # Plan M1234 (9)	Municipality Toronto (9)	Occupancy Owner occupied (1)	Rental Income None (1)
Civic Address (if different from Present Address) Same (10)				Lot size 626 m ² (9)

PROPERTY TYPE AND CONSTRUCTION

Date Acquired (MM/DD/YYYY) February 1 2017 (1)	Purchase Price \$850, 000 (1)	Down Payment \$200, 000 (4)	Present Value \$936, 000 (1)	Annual Taxes \$5097.48 (5)
<input checked="" type="checkbox"/> Detached <input type="checkbox"/> Duplex <input type="checkbox"/> Triplex <input type="checkbox"/> Semi <input type="checkbox"/> Condo (Mtc Fee: \$ _____) <input type="checkbox"/> Townhouse <input type="checkbox"/> Other				
Age of Bldg: 2 years 11 months (11)	Construction: TBD (13)	Storeys: TBD (13)	# of Bedrooms: TBD (13)	
Zoning: Residential (12)	Garage: TBD (13)	Heating: TBD (13)		
Property Extras (Describe) Remodeled kitchen and finished basement added since purchase (1)				

DETAILS OF EXISTING FINANCING

Rank	Current Balance	Rate (%)	Payment (P & I)	Lender	Renewal Date	To Remain?
1 st Mtg	\$595, 652. 80 (14)	3.09 (14)	\$3106. 20 (14)	Trusted Savings and Loan (14)	Feb. 1, 2020 (14)	No (1)
2 nd Mtg						

EMPLOYMENT INFORMATION

APPLICANT'S EMPLOYER'S NAME: T & J Manufacturing Inc. (16)		<input type="checkbox"/> SELF-EMPLOYED?	TEL: 416-555-1212 (16)
POSITION: Assembly Line Operator (16)	No. of Years: 15 (17)		FAX: 416-555-2121 (16)
ADDRESS: 1234 John Street, Toronto, ON, m4m 4m4 (16)			
INCOME: \$75,500 per year (16)			
APPLICANT'S EMPLOYER'S NAME: Uptown Accounting LLP (18)		<input type="checkbox"/> SELF-EMPLOYED?	TEL: 416-555-9998(18)
POSITION: Accountant (18)	No. of Years: 15 years, 10 months (19)		FAX: 416-555-9997 (18)
ADDRESS: 1105A King Street, Toronto, ON, M4M 181 (18)			
INCOME: \$82,000 per year (18)			
OTHER INCOME (SPECIFY SOURCE AND AMOUNT) None			

ASSETS AND LIABILITIES

ASSET TYPE	AMOUNT	LIABILITY TYPE	AMOUNT	PAYMENT	TO REMAIN?
House	\$936,000 (1)	Mortgage (14)	\$595,652.80	\$3,106.20 (14)	Y / N
2018 Ford Explorer	\$39,000 (1)	Loan (20)	\$33,300 (20)	\$900 (20)	Y / N
BMW X3	\$0 (21)	Lease (1)	\$6,024 (20)	\$869 (20)	Y / N
Cash in the bank	\$11,500 (1)				Y / N
Household goods	\$38,000 (1)				Y / N
RRSP	\$46,000 (1)				Y / N
		TD VISA (20)	\$6,200 (20)	\$186 (20)	Y / N
		BMO MasterCard (20)	\$8,500 (20)	\$255 (20)	Y / N
		BNS VISA (22)	\$0 (22)	\$0 (22)	Y / N
TOTALS	(A) \$1,070,500		(B) \$649,676.80		NET WORTH (A-B)=\$ (A-B)=\$420,823.20

NOTES

CONSENT

IN CONNECTION WITH MY APPLICATION FOR CREDIT, I/WE HEREBY AGREE TO YOU PROCURING ANY CREDIT OR OTHER REPORTS TO DETERMINE MY/OUR ABILITY TO OBTAIN MORTGAGE FINANCING AND SHARE THIS INFORMATION WITH OTHER CREDIT GRANTORS OR CONSUMER REPORTING AGENCIES. I/WE FURTHER AGREE THAT YOU MAY ASSIGN THIS APPLICATION TO THE LENDER OF YOUR CHOICE AND MAY DESIGNATE THE CLOSING LAWYER. I/WE ACKNOWLEDGE THAT YOU MAY RECEIVE A FINDER'S FEE FROM THE LENDER. I/WE FURTHER STATE THAT THE INFORMATION CONTAINED IN THIS APPLICATION IS ACCURATE TO THE BEST OF MY/OUR KNOWLEDGE. I/WE AUTHORIZE YOU TO USE THE INFORMATION CONTAINED WITHIN THIS APPLICATION AND AS OBTAINED THROUGH THIS TRANSACTION TO PROVIDE ME/US WITH INFORMATION THAT YOU BELIEVE MAY BE OF INTEREST TO ME/US IN THE FUTURE.

DATE: _____ APPLICANT'S SIGNATURE: _____

DATE: _____ CO-APPLICANT'S SIGNATURE: _____

Section Two: Short Answer Questions

1. What question(s) should you ask this couple regarding their previous credit?

You should ask about:

- Late payments on the BMO MC

2. When was their credit report first opened?

- Jack: May 1997
- Susan: May 1997

3. Who has a higher credit score?

- Susan has the higher score: **791** compared to Jack's **745**

4. When did they first get their TD Visa Card?

- Both reports show the TD Visa account opened in **December 1997**

5. Who has a higher outstanding balance?

- Jack: TD Visa \$6,200 + BMO Mastercard \$8,500 + BMW lease \$6,024
- Susan: TD Visa \$6,200 + BMO Mastercard \$8,500
- Jack has the higher outstanding balance

6. What do the following mean?

- **MR (Months Reviewed):** The number of months the account has been reported to the credit bureau.
- **DLA (Date of Last Activity):** When the account was last active or updated.
- **RPTD (Reported Date):** The date the creditor last reported information to the bureau

7. What two documents are required by the MBLAA to be left with your clients once they sign the Borrower Disclosure?

- A copy of the **Borrower Disclosure**.
- A copy of the **Mortgage Application**

8. Will having two children affect approval? Why or why not?

No. Children are not a factor in the lender's approval. Lenders assess based on **income, debts, property value, and credit history**. Family size is not a disqualifier

9. Finder's Fee

Step 1: Calculate the mortgage amount

\$936,000 x 80% loan to value

= \$748,800

Step 2: Apply the Finder's Fee to the mortgage amount

85 bps x \$748,800

= \$6,364.80

10. In whose name is the finder's fee cheque payable?

- **Sample Mortgages Inc.** (the brokerage)

11. Does SuperBank require the borrowers to pay their own property taxes, or will they be added?

- Taxes will be **added to the mortgage payment** (lender collects them)

12. Does SuperBank require Title Insurance?

- Yes, **title insurance is required** at the borrower's cost

13. Is SuperBank's mortgage fully open, partially open, or closed?

- Partially Open (found in the commitment letter, Schedule A, Prepayment Policies)

14. What are the prepayment privileges?

- Up to **20% per year** may be prepaid without penalty

15. How much is the default insurance premium?

- The mortgage is at **80% LTV**. Since default insurance is required only above 80% LTV, the **premium is \$0**

Section Three: Borrower Disclosure

a) What are the exact costs that must be disclosed?

- **Appraisal fee:** \$435 (paid by borrower).
- **Title insurance fee:** \$809 (if required, borrower cost).
- **Lender's fee:** \$550.
- **Lender's legal fees:** \$1,950.

b) How does the cost of borrowing have to be disclosed?

- As both a **dollar amount (exact cost in dollars and cents)** and a **percentage (APR)**, so the borrower can see the true cost of funds

List the specific risks that must be disclosed to the borrower

- Risk of **interest rate increases** after the 5-year term expires.
- **Penalty costs** for breaking the mortgage before maturity.
- Risk of **foreclosure/power of sale** if payments are missed.
- Property value risk (if home value falls, refinancing may be harder).
- Risk of **fees and charges** (NSFs, legal costs, etc.).
- Requirement to maintain **insurance and taxes** as a condition
- This is a partially open mortgage. The commitment calls this an open mortgage but when looking at the prepayment policies you can see that it is partially open. Therefore, the risk is that upon early prepayment there will be a penalty. The IRD may be so large that it may not be financially worthwhile to refinance the mortgage during the term, or pay it off completely, even if possible.

How long before closing must Borrower Disclosure be provided?

- At least **2 business days before closing**, unless waived by the borrower in writing.

If the borrower cancels after signing, how much do they owe you?

- **Nothing.** The disclosure is not a contract so even if the borrowers cancel, they're not legally obligated to pay anything to the brokerage.

How would you explain the cost of borrowing?

Anything like: *"The cost of borrowing represents the total amount you will pay, in addition to repaying the mortgage principal. It includes interest and any lender/broker fees. It is shown both as a dollar figure and as an annual percentage rate (APR), so you can compare this loan to others."*

Is the NSF fee included in the cost of borrowing?

- **No.** The NSF is a penalty/administrative charge, not part of the cost of borrowing calculation

Must prepayment privileges be disclosed in the Borrower Disclosure?

- **Yes.** Prepayment rights and penalties are material terms that must be disclosed

Does the number of lenders represented by the brokerage last year have to be disclosed?

- **Yes.** Under MBLAA rules, the brokerage must disclose how many lenders it dealt with to show independence and reduce conflicts of interest

Does the Investor/Lender Disclosure have to be completed?

- **No.** This is only required for private or MIC lending. SuperBank is a **regulated institutional lender**, so this form does not apply

Do conditions in the commitment letter have to be included in Borrower Disclosure?

- **Yes.** Any conditions that affect the borrower must be disclosed, because they form part of the obligations and risks of the mortgage

Section Four: Financial Calculations

1. LTV (Loan-to-Value)

- Appraised value: \$936,000
- Approved mortgage at 80% LTV:
 $936,000 \times 0.80 = 748,800$

2. GDS (Gross Debt Service Ratio)

- Mortgage payment (P+I): \$3,543.67
- Taxes: \$424.75
- Heat: estimate \$100
- Total shelter costs = $3,543.67 + 424.75 + 100 = \mathbf{\$4,068.42}$
- Annual income: Jack \$75,500 + Susan \$82,000 = **\$157,500**
- Monthly income = $157,500 \div 12 = \mathbf{\$13,125}$
- GDS = $(4,068.42 \div 13,125) \times 100 = \mathbf{31\%}$

3. TDS (Total Debt Service Ratio)

$$\text{TDS} = [(\text{PITH} + \frac{1}{2} \text{ Condo Maintenance Fee} + \text{Other Debts}) / \text{Income}] \times 100$$

$$\text{TDS} = [((\$3,543.67 \times 12 \text{ mortgage payments}) + (\$424.75 \times 12 \text{ Taxes}) + (\$100 \times 12 \text{ Heat}) + (\$869 \times 12 \text{ BMW Lease})) / 157,500] \times 100$$

The other debts are NOT included as they are being paid off from the proceeds.

$$\text{TDS} = ((\$42,524.04 + \$5,097.00 + \$1,200 + \$10,428) / \$157,500) \times 100$$

$$\text{TDS} = (\$59,249.04 / \$157,500) \times 100$$

$$\text{TDS} = 0.376184381 \times 100$$

$$\text{TDS} = 37.62 \text{ (rounded off to 2 decimal places)}$$