



Glossary – AMP1: Residential Mortgage Underwriting from a Lender’s Perspective

Term	Definition
B-20	See Guideline B-20
GDSR	See Gross Debt Service Ratio
IRD	See Interest Rate Differential
LTV	See Loan-to-Value Ratio
MBS	Mortgage-Backed Securities. See Securitization
PIPEDA	See Personal Information Protection and Electronic Documents Act
RMUP	See Comprehensive Residential Mortgage Underwriting Policy
TDSR	See Total Debt Service Ratio
Action for Payment on the Covenant	An action for payment on the covenant occurs when a property is sold and there is still a balance on the loan. Although the new home owner receives a document stating they legally own the property, the lender who is still owed money, will not give a discharge document to the original borrower until the debt is paid.
Action for Possession	Action for possession is part of the foreclosure and power of sale process where a lender may, upon default by the borrower, take possession of the mortgaged property. The borrower still has the right of redemption.
Application for Appointment of a Receiver	An application for appointment of a receiver allows the mortgage lender to apply to the court for the appointment of a receiver. The receiver takes possession, collects revenues, and pays any expenses. This remedy is often chosen for commercial properties when there is a business operated on the mortgaged property and active management is required to preserve the property.

Assignment of Mortgages	An assignment of mortgage involves a request from a borrower to have a mortgage being transferred from one lender to another without the mortgage being discharged and re-issued.
Attornment of Rents	Attornment of rents is a notice to tenants to pay the rents from a revenue-producing property to the lender.
Capital Reserve Requirement	Capital reserve requirements are specified amounts of capital Federally Regulated Financial Institutions (FRFIs) and provincially-regulated credit unions must set aside to cover estimates of potential losses on their loan portfolio.
Commitment Letter	A commitment letter is prepared when the lender determines that they can offer a mortgage to a prospective borrower. The commitment is conditional, and requires the fulfillment of specific actions and/or provision of certain documentation.
Comprehensive Residential Mortgage Underwriting Policy (RMUP)	A comprehensive residential mortgage underwriting policy, required by Principle 1 of Guideline B-20, establishes limits regarding the level of risk the federally-regulated financial institutions (FRFI) is willing to accept, and should reflect the size, nature, and complexity of a FRFI's residential mortgage business.
Conforming Lenders	Conforming lenders represent the top tier of lending, who require good credit history, adequate verifiable income, traditional verifiable down payment sources, and debt servicing ratios that fall within conservative guidelines.
Credit Analysis	A credit analysis evaluates the applicants' ability to meet the terms of a mortgage, and the amount of their income available for future mortgage payments.
Credit Report	A credit report is a record identifying an applicant's habits regarding his or her financial commitments, and a comment on the borrower's historical ability to keep within their budget.
Credit Score	A credit score is a statistical means of assessing the risk of extending credit to an individual borrower.
Demand Letter	A demand letter is a letter from the lender's lawyer to the borrower and guarantors (if any), requesting payment of the outstanding mortgage amount.

Five Cs of Credit	The five Cs of credit are character (Will the borrower repay the loan?), capital (How much money will the borrower personally invest in the property?), capacity (Can the borrower repay the loan?), credit (What is the borrower's credit/repayment history?), and collateral (What is the additional security for the loan in case a borrower is unable to repay it?).
Foreclosure	Foreclosure is the process where the mortgage holder obtains possession of the property and sells it to pay off the loan. The lender retains the surplus amount, if applicable.
Gross Debt Service Ratio (GDSR)	The gross debt service ratio is the percentage of a borrower's income that is needed to pay all required monthly housing costs including mortgage payments, property taxes, heat, and 50% of condo fees. The acceptable GDSR ratio is 32%.
Guideline B-20	Guideline B-20, <i>Residential Mortgage Underwriting Practices and Procedure</i> , was created and released by OSFI in June 2012 to set out the expectations for prudent residential mortgage underwriting.
Interest Rate Differential (IRD)	The interest rate differential is the difference between the amount the lender would earn on the borrower's remaining mortgage principal outstanding over the remainder of the term and the amount the lender could earn on a new mortgage of the same size as the repayment amount, as of the prepayment date.
Judicial (Tender) Sale	A judicial sale is the auction of a property overseen by the courts where the lender does not ask for foreclosure. Any excess above the mortgage debt is distributed to the borrower after other lien holders have been paid their debt in order of priority.
Lawyer's Report	The lawyer's report sets out the mortgage details, including the results of the title search relating to any easements or other restrictions on the property, tax details, fire insurance and other related insurance coverage, verification that title insurance has been obtained (if applicable), and any other attachments.
Letter of Instruction	The Letter of Instruction requests the borrower's lawyer to act for the lender in the preparation and registration of the mortgage instrument and to supervise the disbursement of the mortgage funds. The lender's commitment letter is included with the letter of instruction to provide the lawyer with the details required to draft the final mortgage document.

Liquidity	Liquidity refers to cash and assets which are easily convertible into cash, available to meet immediate needs (e.g. funds to meet withdrawals, operating expenses, loans).
Loan Portfolio Diversification	Loan portfolio diversification refers to the balance or mix of one or more elements lenders may consider to avoid concentration of any one particular risk. Elements include the type of loan, type of borrower, mortgage insurers, geographic distribution of loans, and distribution channels.
Loan-to-Value Ratio (LTV)	The loan-to-value ratio is the amount of the mortgage loan compared to the value of the property. The ratio = $1 - (\text{down payment} / \text{property value})$. The higher the LTV, the higher the risk that the value of the property will be insufficient to cover the remaining principal of the loan.
Mortgage-Backed Securities (MBS)	See securitization.
Mortgage Default Insurance	Mortgage default insurance provides for reimbursement to the insured and the lender in the event of a loss.
Non-Conforming Lenders	Non-conforming lenders generally operate under prudent, yet more flexible qualification guidelines than conforming lenders.
Opinion of Title	See Lawyer's Report
<i>Personal Information Protection and Electronic Documents Act (PIPEDA)</i>	The <i>Personal Information Protection and Electronic Documents Act</i> (PIPEDA) is federal legislation that sets out regulations for private sector organizations that collect and electronically transmit personal information about individuals.
Power of Sale	Power of sale is the process where the mortgage holder would obtain legal possession of the property and sell it to pay off the loan. If there is a surplus, it would be directed to the borrower.
Pre-Approval	Pre-approved mortgages let potential borrowers know how much money they can afford to borrow to buy a home or to draw equity from their properties. They are based on a full application being processed by the lender.

Pre-Qualification	Pre-qualified mortgages let potential borrowers know how much money they can afford to borrow to buy a home or to draw equity from their properties. They are based solely on the information provided by the borrower with little or no documentation to support the borrower’s credit status and no property that can be valued.
Quit Claim	A quit claim is a voluntary transfer of a property from the borrower to the mortgage lender, relieving the borrower of any outstanding debt. Most lenders will not accept a quit claim as it leaves the lender with no further recourse should there be a shortfall.
Securitization	Securitization of mortgages is the process by which financial institutions package pools of mortgages into new securities (Mortgage-Backed Securities [MBS]), which can then sold to investors. Mortgage-backed securities offer lenders a source of accessing cost-effective funding from a broad range of investors.
Survey	The survey sets out the legal description of the mortgaged property, allowing the lawyer to confirm that the house sits within the described boundaries of the land.
Total Debt Service Ratio (TDSR)	The total debt service ratio is the percentage of a borrower’s income that is needs to cover housing costs (GDSR) plus other monthly obligations such as credit card and car payments. The acceptable TDSR ratio is 40%.
Underwriting	Underwriting is the process of assessing the risk of a proposed mortgage loan, and making the decision to accept, reject, or modify the proposed terms in order to structure a loan acceptable to both the lender and the borrower.