

CANADA GUARANTY UNDERWRITING GUIDELINES



**CANADA
GUARANTY**

Service you deserve. People you trust.

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CANADA GUARANTY UNDERWRITING GUIDELINES

Thank you for choosing Canada Guaranty Mortgage Insurance Company ("Canada Guaranty") as your mortgage default insurer.

Our Underwriting Guidelines are intended as a reference for Canada Guaranty's underwriting standards for mortgage default insurance. These underwriting guidelines should be used in conjunction with our Product Sheets which provide additional requirements and guidelines.

Since its inception, mortgage insurance has played an increasingly integral role in the Canadian housing market for the following reasons:

- Mortgage insurance assumes a portion of the Lender's risk and losses related to high loan-to-value home purchases.
- It helps provide stability in economic downturns while maintaining the safety and soundness of the housing finance system.
- It provides homeownership access to a greater number of Canadians.

Canada Guaranty is committed to insuring quality loans that make sense for lenders and homebuyers alike. Even so, we recognize that certain loans submitted to Canada Guaranty may exceed our standard guideline requirements. When this happens, we are committed to identifying any compensating factors that may offset additional risk.

If you have any questions concerning these guidelines, please contact the Canada Guaranty National Underwriting Centre at 1.877.244.8422 or your dedicated Account Executive.

Thank you for choosing Canada Guaranty.

TABLE OF CONTENTS

1. LENDERS' RESPONSIBILITIES	6
1.1 On Submissions	6
1.2 Underwriting Documentation	6
1.3 Referring Applications to Canada Guaranty	6
1.4 Acknowledgement and Consent by Borrower	7
1.5 Changes to an Application After Approval	7
1.6 Enhanced Due Diligence	8
1.7 Reporting of Misrepresentation	8
2. POST FUNDING CHANGES	9
2.1 Release of Covenant and Assumptions	9
2.2 Re-borrowing of Mortgage Prepayment	9
2.3 Partial Release of Land	9
3. COVENANT UNDERWRITING	10
3.1 Borrower Requirements	10
3.1.1 Borrower with Concurrently Insured Loans	10
3.1.2 Loans to Corporations, Partnerships or Trusts	11
3.1.3 Guarantors	11
3.1.4 30-Year Amortization	11
3.1.5 Credit Report Analysis	11
3.1.6 Mortgage Delinquency	12
3.1.7 Judgments, Tax Liens, Collections	12
3.1.8 Credit Counselling	12
3.1.9 Bankruptcy/Consumer Proposal	12
3.1.10 Mortgage Foreclosure / Power of Sale	12
3.1.11 Prior Canada Guaranty Claim	12
3.2 Debt Servicing	13
3.2.1 Maximum Gross Debt Service (GDS) and Total Debt Service (TDS) Ratios	13
3.2.2 GDSR & TDSR Calculations	13
3.2.3 Canada Guaranty's Qualifying Rate	13
3.2.4 Heat Payment	13
3.2.5 Property Taxes	13
3.2.6 Condo Fees	13

3.2.7	Closing Costs	14
3.2.8	Installment Debt	14
3.2.9	Revolving Debt	14
3.2.10	Child/Spousal Support Obligation	14
3.2.11	Mortgage Debt	14
3.2.12	New Immigrants to Canada	15
3.3	Qualifying Income	15
3.3.1	Fixed Income	15
3.3.2	Variable Income	15
3.3.3	Support Income	16
3.3.4	Rental Income	16
3.3.5	Self-Employed (Provable) Income	18
3.3.6	Self-Employed (Low Doc)	18
3.3.7	Pension Income	20
3.3.8	Car Allowance	20
3.3.9	Relocation Subsidies	20
3.3.10	Investment Income (e.g., dividend, interest)	21
3.3.11	Foreign Income	21
3.3.12	Disability Income	21
3.3.13	Non-Taxable Income	21
3.3.14	Foster Care Income	21
3.3.15	Parental Leave	22
3.3.16	Canada Child Benefit and Provincial/Territorial Programs	22
3.3.17	Trust Income	22
3.3.18	Other Income Sources	22
3.3.19	Ineligible Income Sources	22
3.3.20	Additional Guidance on Supporting Documentation	23
3.4	Equity Guidelines	23
3.4.1	Cash (Savings, Investments)	23
3.4.2	Gifted Funds	24
3.4.3	Deposit on Purchase and Sale Agreement	24
3.4.4	Borrowed Against Secured Assets	24
3.4.5	Government Homeownership Grant or Affordable Housing Programs	24
3.4.6	Registered Retirement Savings Plan (RRSP)	24

3.4.7	Equity from the Sale of Another Property	25
3.4.8	Rent to Own	25
3.4.9	Lot Equity	25
3.4.10	Sweat Equity on New Construction	25
3.4.11	Builder and Seller Contributions	25
3.4.12	Income Tax Refund	25
4.	PROPERTY UNDERWRITING	26
4.1	Basic Property Requirements	26
4.2	New Construction Properties.....	27
4.3	New Home Warranty	27
4.4	Final Inspections on New Construction Properties.....	27
4.5	Private Sales	27
4.6	Buyout of Coborrower's Interest	27
4.7	Ineligible Properties	28
4.8	Environmental Conditions	28
4.9	Social Housing	28
4.10	Mobile Homes	29
4.10.1	Mobile Home Property Requirements.....	29
4.10.2	Ineligible Mobile Home Property Types.....	29
4.10.3	Ineligible Mobile Home Transactions	30
4.11	Prefabricated (Including Modular/Panelized) Housing.....	30
4.12	Mixed-Use Properties	30
4.13	Leasehold Land	30

1. LENDERS' RESPONSIBILITIES

1.1 On Submissions

Canada Guaranty relies on its trusted lender partners to ensure:

- Loan applications are prudently reviewed and meet both their internal and Canada Guaranty underwriting standards
- Information submitted through Vantage is accurate and has been verified and due diligence applied as applicable
- Changes to application characteristics are resubmitted to Canada Guaranty. A list of changes that do not require resubmission are noted in section "Changes to an Application After Approval"
- Canada Guaranty is notified of any material Lender underwriting policy changes
- Performance of Know Your Customer (KYC) and Anti-Money Laundering (AML) compliance requirements
- Thorough mortgage documentation review is conducted (see next section)

1.2 Underwriting Documentation

Standard underwriting documents and verification (as applicable) include, but are not limited to:

- Signed mortgage application including borrower consent
- Purchase and sale agreement
- MLS listing
- Income and employment verification
- Down payment confirmation
- Documentation to support liabilities
- Appraisal/final inspection report
- Mortgage approval/commitment
- Solicitor's final report
- Homeowners insurance binder or policy

1.3 Referring Applications to Canada Guaranty

Material risk that is not captured in the data transmission to Canada Guaranty should be documented in the submission notes and the application should be referred to Canada Guaranty for manual underwriting.

Information that typically warrants underwriter review includes, but is not limited to:

- Applications previously declined by another insurer
- Private sales between related parties
- Income treatment that falls outside of Canada Guaranty and lenders' standards
- Material property issues

1.4 Acknowledgement and Consent by Borrower

The lender must obtain signed acknowledgement from each borrower and guarantor that they understand that the approval of mortgage loan insurance does not represent confirmation of the underlying property's value or condition, or any borrower's or guarantor's ability to pay the mortgage loan.

The lender must obtain consent from each borrower and guarantor allowing Canada Guaranty to use their information, including credit bureau information, for any purpose related to mortgage loan insurance once an application is submitted to us.

1.5 Changes to an Application After Approval

Changes to a mortgage application may occur after approval and prior to loan advance. The following table details the changes permitted without resubmission:

Change to:	Acceptable change without resubmission:
Building Size (Above grade livable floor area)	Max $\pm 5\%$
Lot Size	Max $\pm 5\%$
Property Age	Max $\pm 20\%$
Closing Date	Existing: Closing date change up to 30 days New Construction: Closing date change up to 60 days except where there is a builder delay. For builder delays, closing date cannot exceed 36 months from last mortgage insurance approval date.
Contract Interest Rate	Max one percentage point decrease in contract interest rate. Where possible, receipt of the updated contract rate is preferred. For variable rate mortgages, if there is an increase to the contract rate due to an increase in the Lender prime rate prior to funding, resubmission of the VRM contract rate for requalification is not required, provided that there are no other material changes made to the application.
Gross Debt Service Ratio	Max $\pm 5\%$ * to any one component in the ratio where the ratio is not impacted by more than two percentage points
Total Debt Service Ratio	Max $\pm 5\%$ ** to any one component in the ratio where the ratio is not impacted by more than two percentage points
Borrower employment tenure	Change in tenure not greater than 2 years if the tenure is greater than 2 years

*E.g., a property tax payment change from \$200 to \$208 (i.e., 4% increase), resulting in the GDSR to increase from 35% to 36.5% does not need to be resubmitted.

**E.g., a loan payment change from \$100 to \$103 (i.e., 3% increase), resulting in the TDSR to increase from 42% to 43.8% does not need to be resubmitted.

1.6 Enhanced Due Diligence

As required, Canada Guaranty may request enhanced due diligence on an application. This means the lender should conduct a fulsome review for irregularities in the information presented and reasonably validate such information and supporting documentation. Lenders should report back to Canada Guaranty with their enhanced due diligence review.

1.7 Reporting of Misrepresentation

Lenders must report instances of suspected misrepresentation (pre- and post-funding) as early as possible to Canada Guaranty by emailing fraudwatch@canadaguaranty.ca

Misrepresentation may be related, but not limited to:

- Income/employment
- Offer to purchase
- Property value
- Property attributes
- Down payment
- Identity of borrower/guarantor
- Intended use of property
- Occupancy

2. POST FUNDING CHANGES

2.1 Release of Covenant and Assumptions

Release of covenant and assumptions are permitted (without submission to Canada Guaranty), provided the following are met:

- No arrears in the past 12 months
- Terms and conditions of the mortgage have not changed
- Remaining/new borrowers must be of at least comparable quality to the existing insured borrowers, and meet the lender's lending guidelines
- Documentation must be retained to support the transaction

2.2 Re-borrowing of Mortgage Prepayment

Re-borrowing of mortgage prepayment (optional payments in excess of the scheduled payments detailed in the original mortgage contract) is permitted, subject to the following:

- Note this is not for default management purposes
- Loan is not in arrears and property taxes are paid up to date
- Loan must maintain the original approved amortization
- Prepayments may not be borrowed by the new borrower of a Canada Guaranty insured assumed mortgage

2.3 Partial Release of Land

Canada Guaranty does not need to be advised of a partial release on an insured mortgage. It is the lender's responsibility to verify the following:

- The loan has been paid as agreed
- A survey showing the portion to be released and the portion remaining must be obtained
- A full appraisal stating the value of the land released and the impact on the value of the remaining insured property must be obtained
- The release does not cause an increase to the current LTV
 - If compensation is received up to 10% of the purchase price or \$15,000 (lesser of), the borrower may keep the compensation provided the new LTV does not exceed the origination LTV
- The remaining lot must be fully serviced and any additional costs to achieve this may not be added to the mortgage balance
- The release must not adversely affect the marketability of the remaining security
- The remaining side yards, setbacks, or lot area must conform to the municipal or provincial requirements
- Adjacent lands acquired by the borrower must be made subject to the mortgage

3. COVENANT UNDERWRITING

3.1 Borrower Requirements

Canada Guaranty requires that borrowers exhibit the following characteristics:

- Canadian citizen or permanent resident (see below for Non-Permanent Residents)
- Lawfully work and reside in Canada
- Sustain stable income
- Establish adequate credit history (see below for Canadian citizens or permanent residents with no credit history)

Canada Guaranty may consider Canadian citizens or permanent residents with no credit history. At times, we may ask the lender to confirm consistent and timely payments using the following alternative forms of establishing creditworthiness:

If the borrower pays rent, obtain the following:

- Rent payment (or room and board) over the past 12 months.
- Payment of an additional financial obligation (or documented regular savings) over the past 12 months.*

If the borrower does not pay rent, verify any 3 obligations:

- Financial obligations over the past 12 months.*
- Documented regular savings over the past 12 months.

No more than one 30-day late payment is permitted on non-rent obligations.

*Examples of financial obligations include: utilities, cable, childcare, or insurance premiums.

Canada Guaranty requires that the following requirements be met for applicants with Non-Permanent Resident status:

- Must be legally entitled to work in Canada
- Must have a valid work permit
- Must have established willingness to pay
- Those with diplomatic status (including all other foreign appointed individuals) are ineligible for mortgage insurance
- See Maple Leaf Advantage™ product sheet for full requirements
- Must be permitted to purchase residential property in Canada in accordance with the Prohibition on the Purchase of Residential Property by Non-Canadians Act

3.1.1 Borrower with Concurrently Insured Loans

A maximum of two Canada Guaranty insured loans are permitted per borrower

- No more than one primary residence
- A maximum of one insured loan is eligible for the following products:
 - Rental Advantage™
 - Low Doc Advantage™
 - Lifestyle Advantage™

3.1.2 Loans to Corporations, Partnerships or Trusts

Canada Guaranty will consider insuring loans to corporations under its Rental Advantage™ program if the applicant provides a personal guarantee. Loans to partnerships or trusts are ineligible for mortgage insurance.

3.1.3 Guarantors

A guarantor is someone who provides a promise to pay the mortgage loan though is not on title to the property. The following conditions apply to use of guarantors for qualification purposes:

- Guarantors must be an immediate family member (mother, father, child, legal guardian/dependent, brother, sister, grandparent, grandchild)
- Guarantor's debts must be included in the debt-servicing ratios
- Guarantors must add credit and financial strength to the transaction
- Guarantees must be valid and enforceable in the event of default and must survive any amendment or renewal to the mortgage
- Guarantor income not permitted on Rental Advantage

3.1.4 30-Year Amortization

Maximum 30-year amortization is available subject to the following requirements:

- The home must be owner-occupied by the borrower, by someone related to the borrower through marriage, common-law partnership, or any legal parent-child relationship on a rent-free basis; and,
- The total loan to value is greater than 80 per cent; and,
- The borrower is either: (i) a first-time homebuyer; or (ii) purchasing a [newly constructed home](#).

The lender may determine the appropriate verification required to confirm that the borrower meets the first-time homebuyer requirements. To be considered a first-time homebuyer, the borrower must meet **one** of the following criteria:

- The borrower has never purchased a home in Canada before; **or**,
- In the current calendar year or at any time in the four preceding calendar years, the borrower has not occupied a home in Canada as a principal place of residence that either they themselves or their current spouse or common-law partner owned; **or**,
- The borrower is living separate and apart from their spouse or common-law partner because of a breakdown of their marriage or common-law partnership, or has been living separate and apart from their spouse or common-law partner for a period of at least 90 days, and began living separate and apart from their spouse or common-law partner in the calendar year in question or at any time in the four preceding calendar years.

3.1.5 Credit Report Analysis

Canada Guaranty insures loans to borrowers who have demonstrated the ability and willingness to pay prior credit obligations in a timely and responsible manner. Considerations include the following:

- If the borrower has a history of late payments or major delinquencies, the age, frequency, severity, and explanation of the derogatory credit will be evaluated to determine the borrower's willingness to pay credit obligations.
- In some cases, the borrower may need to re-establish an acceptable credit history for a period of no less than two years.
- Generally, the borrower will have re-established acceptable credit if at least two trades with activity are reported for the past 24 months, and no late payments have occurred within that 24-month period.
- The lender should obtain an explanation from the borrower for any material derogatory credit, bankruptcy and/or foreclosure. Canada Guaranty may ask the lender to provide documentation to support a willingness to pay.

3.1.6 Mortgage Delinquency

For Canada Guaranty to consider mortgage insurance coverage, borrowers should not be currently past due on any mortgage payment.

3.1.7 Judgments, Tax Liens, Collections

Canada Guaranty requires that judgments, tax liens and collections are paid in full prior to closing, with payment documented in the lender's file.

3.1.8 Credit Counselling

Borrowers who have completed credit counselling should have a minimum of 12 months of re-established credit, with no late payments following the conclusion of all counseling.

3.1.9 Bankruptcy/Consumer Proposal

Borrowers are eligible for consideration for mortgage insurance coverage two years after bankruptcy discharge or a completed consumer proposal with two years of re-established credit.

Borrowers who have declared bankruptcy more than once are ineligible for mortgage insurance.

3.1.10 Mortgage Foreclosure / Power of Sale

Canada Guaranty does not insure loans to borrowers who have gone through a foreclosure / power of sale proceeding on a previously owned property.

3.1.11 Prior Canada Guaranty Claim

Canada Guaranty will not insure a loan for a borrower who was a debtor on a loan for which it has previously paid a claim.

3.2 Debt Servicing

3.2.1 Maximum Gross Debt Service (GDS) and Total Debt Service (TDS) Ratios

The maximum ratios permitted are 39% GDS and 44% TDS for all applications.

3.2.2 GDSR & TDSR Calculations

Gross Debt Service Ratio (GDSR): The percentage of gross annual income required to cover payments associated with shelter costs. The GDSR includes mortgage principal, interest, property taxes, heat, and applicable fees (50% of condo fees, 100% of ground rent for leasehold properties, 50% of homeowner association fees). Calculated as:

$$GDSR = \frac{\text{Principal} + \text{Interest} + \text{Tax} + \text{Heat} + \text{Applicable Fees}}{\text{Gross Annual Income}}$$

Total Debt Service Ratio (TDSR): The percentage of gross annual income required to cover payments associated with shelter costs and all other debt obligations, such as payments on car loans, credit cards, personal loans, etc. Calculated as:

$$TDSR = \frac{\text{Principal} + \text{Interest} + \text{Tax} + \text{Heat} + \text{Applicable Fees} + \text{Payments on other debt obligations}}{\text{Gross Annual Income}}$$

3.2.3 Canada Guaranty's Qualifying Rate

Mortgage qualification is calculated by applying the greater of the borrower's mortgage contract rate plus 2 per cent, or 5.25 per cent.

3.2.4 Heat Payment

Where available, lenders should submit the actual heat amount using sources such as a property listing, utility bill or builder estimate. If the actual heat payment cannot be confirmed, the lender may use their own internal heat calculation method.

3.2.5 Property Taxes

Property taxes may be confirmed using sources such as: a property listing, tax bill, builder estimate or appraisal report. If these are not available, the lender may use their own internal calculation that reasonably reflects local levels.

3.2.6 Condo Fees

50% of condo fees may be confirmed using sources such as: a property listing, builder estimate or appraisal report. If these are not available, the lender may use their own internal calculation that reasonably reflects local levels.

3.2.7 Closing Costs

Lender must confirm availability of funds for closing costs or include a payment in the TDSR if borrowed. The lender may use their internal guideline when determining a reasonable closing cost.

3.2.8 Installment Debt

The payment based on the loan agreement or credit bureau must be included in the TDSR.

- Installment debts that will be repaid within 90 days of advance may be excluded from the TDSR.

3.2.9 Revolving Debt

Secured Lines of Credit

Lenders should include a monthly payment based on the outstanding balance amortized over 25 years using the contract rate. If the contract rate is not known, lenders should use the minimum mortgage qualifying rate.

Alternatively, lenders may apply their own internal guidelines, provided the monthly payment is no less than the above calculated value. Should the lender have an internal validation method to help determine whether the line of credit is secured vs. unsecured, this may be applied.

Unsecured Revolving Debt

The monthly payment for unsecured revolving debt should be the greater of the minimum payment or 3% of the outstanding balance.

Unsecured Student Lines of Credit

Lenders should include a payment based on the loan agreement repayment terms. If unavailable, the lender may use their own internal guideline for calculating the monthly payment.

3.2.10 Child/Spousal Support Obligation

Child and spousal support payment should be based on the separation agreement and included in the TDSR.

3.2.11 Mortgage Debt

If the client owns another property with a mortgage obligation, the principal, interest, and taxes should be included in calculating debt servicing ratios. Lenders may use a combination of the following to confirm mortgage agreement, mortgage statement, bank statements, credit report, or property tax statement.

3.2.12 New Immigrants to Canada

All foreign payment obligations, including mortgages, must be included in the debt servicing ratios.

3.3 Qualifying Income

Lenders must confirm borrower income and employment through independent, third-party sources and should take reasonable steps to ensure that the income is stable and likely to continue.

The following section provides guidance on the use of various income sources. Where an income source is not listed below, lenders may prudently apply their own internal policies and procedures.

3.3.1 Fixed Income

The fixed income amount received regularly (includes salary, part-time with guaranteed hours, etc.) is to be confirmed as follows:

Primary Source	Secondary Source
Obtain any 1 of: - Letter of employment - Recent paystub 2 months of direct deposit history	Obtain any 1 of: - Previous year-end paystub - Most recent T4 - Most recent NOA

- If letter of employment and one other primary source is obtained, secondary source not required
- Verbal verification of employment recommended
- If a borrower is employed by a relative, the previous two years signed personal income tax returns should be obtained with supporting NOAs

3.3.2 Variable Income

For variable income (e.g., part-time, or casual income without guaranteed hours, overtime, bonus, seasonal employment, secondary employment, commission, contract, etc.), a minimum 2-year history must be obtained. The lesser of the most recent year's income or 2-year average should be used for qualification purposes. If the most recent full year's income is within 20% of the 2-year average, the 2-year average may be used.

Primary Source	Secondary Source
Obtain any 1 of: - Letter of employment - Recent paystub	Obtain any 2 of (or any relevant combination) to support 2-year income: - Previous year-end paystub - T4/T4A - NOA

- Verbal verification of employment recommended

3.3.3 Support Income

Support income (child, spousal) should be expected to continue based on details outlined in the court order, separation agreement or divorce agreement. Where the income represents more than 50% of the total used to qualify, the application should be referred to Canada Guaranty.

Primary Source	Secondary Source
Obtain any 1 of: ▪ Court order ▪ Separation agreement ▪ Divorce agreement	Obtain any 1 of: ▪ Most recent NOA ▪ Recent bank statements confirming receipt as agreed

3.3.4 Rental Income

Qualifying rental income must meet the following conditions unless otherwise specified:

- From properties that comply with zoning and applicable by-laws*
- From residential properties in Canada only

*Rental income from an unauthorized suite may be considered on a case-by-case basis.

Eligible Rental Income

The following table outlines the amount of rental income permitted for each scenario:

Scenario	Rental Income Permitted	Notes	Additional Requirements
2-unit owner-occupied subject property	Gross rental income up to 100%	Tax and heat may be excluded	Confirmed via signed lease agreement OR fair market rent confirmed by appraisal report Where a fair market rent is utilized, lenders should apply a market vacancy rate according to lender's internal policy
2-4-unit non-owner-occupied subject property (Rental Advantage)	Gross rental income up to 50%	Tax and heat may be excluded	Confirmed via signed lease agreement OR fair market rent confirmed by appraisal report
3-4-unit owner occupied subject property	Gross rental income up to 50%	Tax and heat may be excluded	Confirmed via signed lease agreement OR fair market rent confirmed by appraisal report
2-4-unit owner-occupied non-subject property	Gross rental income up to 50%	Tax and heat may be excluded	Confirmed via signed lease agreement OR fair market rent confirmed by appraisal report
	Net rental income calculation according to lender's internal policy		Confirmation of rental income according to lender's internal policy Surplus may be added to income Deficit may be added to liabilities or deducted from income
Non-owner occupied non-subject property	Net rental income calculation according to lender's internal policy		Confirmation of rental income according to lender's internal policy Surplus may be added to income Deficit may be added to liabilities or deducted from income

Rental income used must be the lesser of the actual rent confirmed by lease agreement or fair market rent confirmed by an appraisal report.

3.3.5 Self-Employed (Provable) Income

A borrower with 25% or more interest in a business is considered self-employed. This includes sole proprietorships, partnerships, and corporations.

Income Confirmation Requirements

- The borrower should have been operating the same business for a minimum of two years. Recently self-employed borrower's with less than 2 years operating the same business may also be considered. Examples include (but are not limited to):
 - Acquisition of an established existing business.
 - The applicant is operating a business in the same line of work as previous employment, or, has previous training and education.
 - Predictable earnings can be reasonably established.
- Income must be confirmed by most recent Notice of Assessment (NOA) accompanied by the T1 General for the past two years. The lesser of the most recent year's income or 2-year average should be used for qualification purposes.
- The most recent year's NOA is required to confirm no tax arrears. For Quebec, the provincial NOA is also required to confirm no tax arrears.
- As an alternative to the NOA the Canada Revenue Agency's Proof of Income statement may be used to confirm income and/or personal income taxes are paid up to date. Note: If multiple sources of income exist, the T1 General should be obtained to assess the breakdown and treatment.
- A 15% gross-up of the two-year average income is permitted for sole proprietorships and partnerships. Line 15000 of the NOA and T1 General may include other sources of income; the gross-up should be calculated on the self-employment income only.
 - As an alternative to the permitted 15% gross-up, "add-backs" for capital cost allowances, business use of home and motor vehicle expense are permitted.
- Business tenure and ownership may be confirmed through third party sources, such as:
 - Business credit report
 - GST returns
 - Business account statements
 - Audited financial statements
 - Articles of incorporation
 - Business license
 - Corporate search from public business registry

3.3.6 Self-Employed (Low Doc)

The Low Doc Advantage™ program from Canada Guaranty is designed for borrowers who are self-employed and have established a strong credit profile.

Documentation Requirements

Documentation should provide proof of the following:

- Minimum 2 years self-employment.
- Must clearly identify the borrower as the primary business owner (if partnership or corporation).
- At a minimum, one piece of documentation is required from the following list of acceptable documentation to confirm self-employment. Please note that in the case of corporations, more than one document may be necessary to satisfy the above conditions.

Sole Proprietorship or Partnership	Corporation
▪ Business License ▪ Business Credit Report ▪ GST/HST Return ▪ T1 Generals with a Statement of Business Activities ▪ Corporate search from public business registry ▪ Financial Statements signed by a CA	▪ Business License ▪ Business Credit Report ▪ Articles of Incorporation ▪ Financial Statements signed by a CA ▪ T2 Corporate Tax Returns ▪ Corporate search from public business registry

- Borrower's income on a signed mortgage application.
- Notice of Assessment from the most recent tax year to confirm no tax arrears. For Quebec, the provincial NOA is also required to confirm no tax arrears.

Borrower Income Requirements

Canada Guaranty recognizes that a self-employed borrower's income from their Notice of Assessment does not always represent the actual income available for mortgage repayment. Canada Guaranty supports assessing the reasonability of the application income by considering the nature and tenure of the business, and factors such as the overall credit profile, financial position, and current shelter payment of the borrower(s).

The following income requirements must be met for each self-employed borrower:

- **Reasonability**
The borrower's income must be reasonable for the nature and tenure of the business and must align with the credit profile and current financial position of the borrower.
- **Submission Notes**
To appropriately assess the reasonability of the borrower's income, the submission notes must include the following information for each self-employed borrower:
 - The amount of the income confirmed by line 15000 on the NOA from the most recent tax year at the time of application
 - The stated gross revenue of the borrower's business
 - The type of business being owned and operated (e.g., landscaping, bookkeeping, etc.)
 - The ownership structure (e.g., sole proprietor) and the percentage of ownership

Any additional borrower with standard income verification does not need to submit the above information to Canada Guaranty. For higher incomes, additional information and/or documentation may be requested.

Additional Information on Low Doc Advantage™

Low documentation income applies to employment income from a self-employed individual only. Other forms of income such as rental income, pension, etc. must be confirmed and documented according to standard guidelines (full documentation). Any co-borrowers on the application who are not self-employed must provide income and employment confirmation according to standard guidelines (full documentation).

3.3.7 Pension Income

Pension income is to be confirmed as follows:

Employer Pension	Public Pension
Obtain any 2 of: ▪ Most recent T4A ▪ Most recent NOA ▪ Most recent pension stub/pension statement ▪ Recent bank statements confirming 3 months of receipt ▪ Letter from employer/pension administrator confirming amount	Obtain any 1 of: ▪ Most recent T4A ▪ Most recent NOA ▪ Most recent pension stub/pension statement ▪ Recent bank statements confirming receipt

3.3.8 Car Allowance

Guidelines for using car allowance:

- The car allowance can only be used as income if it is a taxable benefit.
- The car allowance can be used as an offset to the borrower's car loan/lease payments.

3.3.9 Relocation Subsidies

Applicants who receive an ongoing subsidy from their employer to assist in relocation expenses must meet the following requirements:

- The lender is to obtain a letter from the employer disclosing that the payments will continue for at least three years after closing.
- An average should be used if the letter states a reduction in payments over the length of the employer transfer subsidy.
- Payments should be added to gross income to calculate the debt servicing ratios and not used to offset the mortgage payment.
- Interest rate buy-downs are acceptable if provided by the employer and are non-repayable. Canada Guaranty will work with lenders to review and approve programs individually.

3.3.10 Investment Income (e.g., dividend, interest)

The asset value should be sufficient to continue generating income.

Primary Source	Secondary Source
Obtain: ▪ Most recent investment statement	Obtain 2 of the following to support the income for the past 2 years: ▪ T5 ▪ T4RIF ▪ NOA and T1 General

3.3.11 Foreign Income

Foreign income must be declared and taxed in Canada and converted to Canadian dollars (CAD).

Primary Source	Secondary Source
Obtain either: ▪ Paystub ▪ Letter of employment	Obtain: ▪ NOA and T1 General for past 2 years

- Verbal verification of employment recommended

3.3.12 Disability Income

Short-term or long-term disability may be used as income, with receipt of the award letter. For short-term disability, a letter from the employer should state that the employee will receive disability benefits as long as the employee is disabled and, when no longer disabled, the employee will return to the previous position.

3.3.13 Non-Taxable Income

Non-taxable income (as defined by CRA) may be grossed up as follows:

- Less than \$30,000 may be grossed up by 25%.
- Equal to or greater than \$30,000 may be grossed up by 35%.

3.3.14 Foster Care Income

Foster care income permitted subject to the following:

- The maximum allowable number of children under care, including the borrower's own children, per application is restricted to six.
- If foster care income represents more than 50% of the income required to service the application, the maximum loan-to-value ratio is 90%.

- The lender should obtain proof of income via pay stub and a letter from the ministry responsible for foster care.
- Verification of approved status with the ministry should be obtained.
- Minimum 2 years of experience as foster parents.
- The applicant's property must be their primary residence (not permitted under Second Home product).

3.3.15 Parental Leave

Standard income documentation is to be obtained. 100% of the applicant's salary can be used for qualifying purposes. The lender must obtain a letter from the applicant's employer indicating the expected return to work date, position, and salary.

3.3.16 Canada Child Benefit and Provincial/Territorial Programs

The Canada child benefit (CCB) is a tax-free monthly payment made to eligible families to help them with the cost of raising children under 18 years of age. The amount used should be sustainable for a minimum of three (3) years and should be verified by the lender through one of the following:

- CCB statement
- Copy of birth certificate
- Bank statements showing direct deposit

3.3.17 Trust Income

Trust income may be used, provided the following are met:

- The trust agreement is irrevocable, and statement confirms the amount and frequency of payment
- Income should be expected to continue throughout the life of the mortgage

3.3.18 Other Income Sources

Canada Guaranty may consider sources of income not described herein if there is a documented history of receipt and the nature and source meet the lender's internal policies.

3.3.19 Ineligible Income Sources

Ineligible sources of income include, but are not limited to, the following:

- Boarder income
- Employment Insurance (excluding seasonal employees and parental leave benefits)

3.3.20 Additional Guidance on Supporting Documentation

Paystubs

- Should be most recent, no more than 60 days prior to application date
- Should show:
 - Employer name
 - Borrower name
 - Pay amount
 - YTD earnings
 - Pay amount should align with YTD earnings

Direct Deposit

- Deposit should be no more than 60 days prior to application date
- Should show:
 - Borrower name as account owner
 - Employer name on the transaction

Letter of Employment

- Should show:
 - Borrower name, start date, and position
 - Company name, signed by authorized personnel and dated no more than 60 days prior to application date
 - Gross earnings
 - Employment status
- Verbal employment/income verification:
 - Confirm name and position of the person verifying the employment/income
 - Lender should verify the contact number through an independent source

CRA's Proof of Income Statement

- May be used as a substitute for the NOA

3.4 Equity Guidelines

3.4.1 Cash (Savings, Investments)

Lenders should obtain statements to verify 3 months of history. The source of any large lump sum deposits should be verified as well.

3.4.2 Gifted Funds

A gift from a close family member (examples include father, mother, child, brother, sister, grandparent, legal guardian, or legal dependent) is acceptable, provided it is non-repayable and is intended to assist the borrower without financial interest by the donor in the purchase. Canada Guaranty requires a gift letter that states the gift amount, date gift will be given, donor's name and address, relationship to borrower, and confirmation that no repayment is expected.

A gifted down payment from an individual who is not a close family member may be considered under Canada Guaranty's Flex Down Advantage™ program.

3.4.3 Deposit on Purchase and Sale Agreement

Verification of the source of real estate deposit should be made unless the borrower has sufficient funds for closing without consideration of the deposit.

3.4.4 Borrowed Against Secured Assets

Borrowed funds secured against the borrower's assets may be used as a source of down payment.

- Acceptable sources of secured assets include certificates of deposit, stocks, bonds, real estate, and whole life insurance policies.
- The term of the loan and the collateral must be verified.
- The payment arising from the borrowed funds should be included in the debt servicing ratios.

3.4.5 Government Homeownership Grant or Affordable Housing Programs

Canada Guaranty will consider government homeownership grant or affordable housing programs as a down payment source, provided:

- The application is referred to Canada Guaranty for manual review along with information on the program (name, conditions, repayment terms, etc.).
- Repayment (if applicable) is included in the TDSR

3.4.6 Registered Retirement Savings Plan (RRSP)

The lender is to confirm that the funds are available and that only the net funds after any penalties and taxes are considered.

If a loan was taken to fund the RRSP and is still outstanding, the down payment is considered borrowed, and the repayment of the loan is required in the TDSR.

The lender should follow their internal policy/process on taking steps to determine whether borrowed funds were used to fund the RRSP.

3.4.7 Equity from the Sale of Another Property

The lender is to obtain the final, signed copy of the contract/offer and addendum. If applicable, a previous Statement of Adjustments should be obtained.

3.4.8 Rent to Own

The lender may use only the portion of rent exceeding the fair market rent for down payment qualification. All details of the "Rent with Option to Buy" transaction must be clearly documented (by the lender) and include the following:

- A copy of the original lease/purchase agreement
- Cancelled cheques or bank statements for the past 12 months to verify rent payments
- Verification of the fair market rent from an appraiser

3.4.9 Lot Equity

The equity in the lot on which the subject property is being built may be applied toward the down payment.

- The lot value should be documented by a current appraisal.
- If the lot was purchased less than three months prior to the application, the source of funds to purchase the lot should be verified.

3.4.10 Sweat Equity on New Construction

The lender may use sweat equity to a maximum of 50% of the total equity if the borrower has a minimum 5% from own resources and the lender is satisfied that the borrower has the time and expertise to complete the work in a satisfactory manner.

3.4.11 Builder and Seller Contributions

Payments to the purchaser from the vendor should be deducted from the purchase price if the incentive exceeds 0.5% of the purchase price (this includes builder interest rate buydowns). If the vendor incentive pays for a specific improvement to the home, the application can be considered under the Purchase Advantage Plus™ program.

3.4.12 Income Tax Refund

The lender may use income tax refunds as an equity source if the following criteria are met:

- If the tax refund is generated from a Registered Retirement Savings Plan (RRSP) contribution funded by a loan, repayment must be included in the debt servicing ratios.
- The lender must ensure that the borrower has received the tax refund prior to closing.

4. PROPERTY UNDERWRITING

4.1 Basic Property Requirements

All Canada Guaranty-insured properties must meet the following criteria:

- **Location**
 - Property must be in Canada.
- **Zoning**
 - The property must comply with zoning and applicable bylaws* and must be zoned to allow residential use.

*Unauthorized suites may be considered on a case-by-case basis.
- **Number of Units**
 - 1-4 units permitted for owner-occupied properties.
 - 2-4 units permitted for non-owner-occupied rental properties.
- **Property Type**
 - Permitted property types: detached, semi-detached, townhouse and apartment.
- **Property Tenure**
 - Permitted property tenures: freehold, condo/strata and leasehold.
- **Maximum Acres**
 - Property lending value will be based on the lesser of the purchase price or appraised value of the home including up to 15 acres. Properties that are greater than 15 acres should be referred to Canada Guaranty for manual underwriter review.
- **Outbuildings**
 - Outbuildings must be for personal use only.
 - The value of an outbuilding may contribute up to 20% of the total value of the property, confirmed by a full appraisal.
 - Applications that include the value of an outbuilding must be referred to Canada Guaranty for manual review and a full appraisal.
- **Water Potability**
 - The property must have potable water.
 - If the water source is a shared well, the lender must confirm that the well will be maintained and may be used by the purchaser and any subsequent owners of the property. Title insurance with reasonable levels of coverage to address potability and related issues, may be obtained in place of documentation.

4.2 New Construction Properties

A new construction property is one that has been sold within one year of the date of the final occupancy permit being issued.

Properties that developers/builders have as inventory even when the final occupancy permit has been issued for more than 1 year are also considered new construction.

New construction properties must conform to the National Building Code and the latest edition of Residential Standards Canada or the applicable municipal or provincial building codes.

4.3 New Home Warranty

Third-party new home warranty coverage is mandatory on all new construction homes with the exception of self-built homes.

In the Northwest Territories, Yukon, and Nunavut where new home warranty is not available, the lender must obtain an occupancy permit or a third-party report from a qualified professional (e.g., inspector, architect, or engineer) that confirms construction will be completed in compliance with applicable bylaws and regulations.

4.4 Final Inspections on New Construction Properties

The lender is responsible for ensuring the property has been completed to the specifications and plans presented at the time of the mortgage insurance application.

4.5 Private Sales

A purchase is considered private where there is no licensed realtor involved in the transaction and is not listed on a widely recognized real estate listing site.

Non-arm's length purchase (i.e., buyer and seller have an existing relationship) should be referred for manual underwriter review and Canada Guaranty will order a full appraisal.

4.6 Buyout of Coborrower's Interest

Where the borrower is buying out the interest of another borrower, the following criteria apply:

- Purchase up to 95% LTV
- Both parties must be on title to the subject property
- Lender must confirm:
 - Remaining borrower is purchasing the departing borrower's interest in the property
 - Sale price of the property

- Documentation to confirm may include any of the following:
 - Separation agreement
 - Court order
 - Purchase and sale agreement
- Applications must be referred to Canada Guaranty for manual review
- Full appraisal required

4.7 Ineligible Properties

The following properties are ineligible for mortgage insurance:

- Houseboats
- Industrial/commercial properties
- Vacant land
- Hay bale construction
- Mobile homes not classified as real property
- Rooming houses
- Chattel homes
- Properties without electrical service or indoor plumbing (minimum one three-piece washroom). A lake intake is acceptable provided suitable treatment equipment is in place to ensure a supply of potable water.
- Properties without a permanent heat source
- Properties with only seasonal access
- Resorts, timeshares, or fractional ownership
- Other forms of ownership, which are not "Condominium" or "Strata". Ineligible types of ownership include Co-ownership, Co-operative, Undivided Interest, and Fractional Ownership
- Non-remediated properties previously used for illicit purposes
 - Full remediation that meets municipal standards will be considered on a case-by-case basis. Please refer the application for manual review to Canada Guaranty.

4.8 Environmental Conditions

Properties where there is known risk or confirmation of soil, air, ground, or water contamination are ineligible for mortgage insurance. Remediated properties will be considered on a case-by-case basis and must be submitted to Canada Guaranty for manual review.

4.9 Social Housing

Social housing projects are not eligible for mortgage loan insurance.

4.10 Mobile Homes

Canada Guaranty will provide mortgage insurance coverage for mobile homes as defined below:

- A residential structure built on a steel undercarriage with the wheel assembly necessary to transport the structure to a permanent or semi-permanent site.
- The wheel assembly can be removed when the residential structure is placed on a permanent foundation, but the steel undercarriage remains intact as a necessary structural component.
- This category includes housing that is generally referred to as single-wide, double-wide, and triple-wide.
- Usually, the presence of a steel undercarriage as a necessary structural component is the primary factor that distinguishes a manufactured/mobile home from other types of factory-built housing.
- Mobile homes must be set up and anchored in accordance with local building codes.

4.10.1 Mobile Home Property Requirements

Canada Guaranty requires that the property must have the general appearance and functional utility of a site-built home:

- The wheels, axles and trailer hitches must be removed.
- The property cannot be located on leased land.
- The property cannot be in a mobile home park.
- The property must be legally classified as real property.
- The home must be permanently affixed to a foundation designed by a licensed professional engineer and be suitable for the soil and wind conditions of the site.
- The foundation must have footings that are suitable for the soil, climate, and geological conditions of the site.
- The foundation must be able to support the size and weight of the manufactured/mobile home.
- The foundation must meet all federal, provincial, and local laws, rules, and regulations.
- The home must have acceptable full-perimeter walls that include brick, block, poured concrete, or treated wood.
- The structure must have permanent steps and stoops on proper footings.
- A full appraisal is required on all mobile home transactions.

4.10.2 Ineligible Mobile Home Property Types

The following mobile home property types are not eligible for mortgage insurance coverage by Canada Guaranty:

- Co-ops
- Leaseholds

4.10.3 Ineligible Mobile Home Transactions

The following mobile home transactions are not eligible for mortgage insurance coverage under these Canada Guaranty products:

- Rental Advantage™
- Low Doc Advantage™

4.11 Prefabricated (Including Modular/Panelized) Housing

Canada Guaranty will insure prefabricated housing that meets the following criteria:

- The structure consists of packaged, factory-built components that are assembled at the home site and placed on a permanent foundation.
- This type of house must conform to local and provincial building codes for site-built construction.
- Prefabricated housing is eligible under Canada Guaranty's standard underwriting guidelines.

4.12 Mixed-Use Properties

Mixed-use properties are primarily residential in nature, with a portion of the property used for non-residential purposes. Canada Guaranty insures mixed-use properties that meet the following requirements:

- The borrower must occupy the subject property as a primary residence.
- The subject property must have the physical characteristics of a residential dwelling.
- The subject neighborhood must be predominantly residential and have a zoning classification of residential. Properties that are in a neighborhood that is changing or is likely to change from residential to commercial or otherwise, are ineligible.
- The mixed-use of the property should represent a legal, permissible use under local zoning requirements.
- The mixed-use of the property should have a minimal effect on the value and marketability of the property.
- Alterations to the property to support non-residential use must be minimal and easily convertible for residential use.

4.13 Leasehold Land

Leasehold land must meet the following requirements:

- The remaining lease term must be at least 5 years greater than the mortgage amortization.
- There must be an option in the agreement to convert the lease to freehold, also stipulating the cost to convert to freehold.
- The lease payment must be fixed for the entire term.
- In the event of default, the lease must be assignable to the mortgagee/insurer.
- In the event of default or legal action, the lease must be convertible to freehold.
- The lender must provide a copy of the lease for review by Canada Guaranty.