

Meridian - Mortgage Broker Unit

Effective Date: June 1, 2011

General Guidelines regarding your clients / applicants

Our underwriting policy supersedes that of any other underwriter, including that of our High Ratio Insurers.

Your clients will:

1. be within a 30 Minute drive from one of Meridian's 63 retail branches.
2. become Members of Meridian prior to funding.
3. live and work in Ontario. Non resident and non permanent resident borrowers are not permitted
4. be referred to a Meridian retail branch nearest their home or work – whichever is of greater convenience to the Client/new Member and their new banking relationship with Meridian.
5. be allowed a maximum of 4 investment mortgages with Meridian (a greater number becomes a commercial relationship with Meridian)

All Applicants:

Meridian will not automatically reject any applicant based solely on beacon score. Product and loan to value guidelines will be applied as indicated below, and on a case by case basis where beacon scores are below 600.

1. with Nil beacon score but with established net worth will fall into the 600-639 beacon score category.
 2. with Nil beacon score due to bankruptcy / consumer proposal fall into the <570 category.
 3. on title MUST sign both the Mortgage Commitment and the Mortgage Charge as mortgagors.
- Guarantors must sign the Mortgage Commitment and the Mortgage Charge as Guarantors.
 - A spouse not on title to the property must sign as consenting spouse.

LENDING POLICY GUIDELINES

Appraiser Qualifications & Appraisals

All mortgage & Line of Credit requests must be supported by an appraisal. Brokers are responsible for the cost of the appraisal report and will order appraisals through Solidifi. Appraisers must be on Meridian Mortgage Broker Unit Approved Appraiser list and will have the following:

- Canadian Residential Appraiser (CRA) or Accredited Appraiser Canadian Institute (AACI) residential properties.
- In rural areas not serviced by either CRA or AACI designated appraiser, Meridian will accept those individuals with a MVA or DAR designation.
- All appraisals must specifically request interior pictures, any deficiencies, pictures of the deficiencies and cost to cure. Meridian may require additional information regarding the subject property as deemed necessary.
- Any appraisal report not addressed to Meridian requires a transmittal letter.
- All non-insured Mortgage applications require a **full** appraisal report.

Properties owned under a Business Name

Meridian will consider these only in cases where the business entity is a personal holding company and the income to service the facility is the personal income of the principal(s) of the holding company or the rental income from the subject property.

The principal(s) of the holding company must:

- Become Members of Meridian
- Complete a full credit application & Provide income verification
- Guarantee the mortgage and sign both the commitment and the charge as guarantor(s).
Guarantors are limited to two on all applications.
- Provide a copy of the Articles of Incorporation to confirm authority to bind the corporation.



The company must :

- Become a Member of Meridian and meet all anti money laundering regulations when the account is opened.

The Property must:

- Be residential owner or non owner occupied with no commercial component. (maximum 4 units)

Loan to Value Ratios

The Loan-to-Value ratio is the sum of the mortgage loan together with all prior ranking mortgages, divided by the lesser of the appraised value or purchase price of the property.

Minimum mortgage amount is \$30,000 – in a refinance, the minimum amount added to the existing mortgage is \$30,000

Conventional fixed rate and variable rate Mortgages: **Income Qualifying** applicants

Beacon score	L/V –Owner occupied Maximum 4 units	Position	L/V – non-owner occupied Maximum 4 units	Position
640 +	Up to 80%	1 & 2	Up to 75%	1 & 2
600-639	Up to 75%	1 & 2	Up to 70%	1 & 2
570-599	Up to 70%	1	n/a	n/a
<570	Up to 65%	1	n/a	n/a

Conventional fixed rate and variable rate Mortgages: **Non – Income Qualifying** applicants

Beacon score	L/V–Owner occupied Maximum 4 Units	Position	L/V – non-owner occupied Maximum – 4 units	Position
680 +	Up to 80%	1 & 2	Up to 75 %	1 & 2
640-679	Up to 75%	1 & 2	Up to 70 %	1 & 2
600-639	Up to 70%	1 & 2	Up to 65 %	1 & 2
570-599	Up to 60%	1	n/a	n/a

Lines of Credit – **Income qualifying** applicants

Beacon score	L/V –Owner occupied Maximum 2 units	Position	L/V – non-owner occupied Maximum 2 units	Position
680 +	Up to 80%	1 & 2	Up to 75 %	1
640-679	Up to 75%	1 & 2	Up to 70 %	1
600-639	Up to 70%	1 & 2	Up to 65 %	1
<600	N/A		N/A	

Lines of Credit – **Non-Income qualifying** applicants

Beacon score	L/V –Owner occupied Maximum 2 units	Position	L/V – non-owner occupied Maximum 2 units	Position
680 +	75%	1 & 2	70%	1
640-679	70%	1 & 2	65%	1
600-639	65%	1	50%	1
<600	N/A		N/A	

Sliding Scale Loan to Value

- Sliding scale applies to maximum **80% loan to value on the first \$500K** and 65% on the remaining value for property values up to and including \$1MM.
- This scale applies to residential owner and non owner occupied properties with no commercial components.
- Properties valued in excess of \$1MM maximum is 65% L/V.
- Properties valued in excess of \$1.5MM maximum 50% L/V.



High End Property Policy

- Meridian's overall mortgage limit is capped at \$2,000,000.00

Definition of High End Property Mortgages	<ul style="list-style-type: none"> mortgages in excess of \$1MM on a single security
Credit Score	<ul style="list-style-type: none"> minimum Credit Score of 620
Employment /Income qualification	<ul style="list-style-type: none"> Must meet all normal income and debt ratio parameters to ensure affordability in rate change environments. Stated income applications DO NOT qualify
Loan Purpose guidelines	<ul style="list-style-type: none"> Refinance or purchase qualify Equity draw to cash limited to \$100,000
<p>Appraisals: Due to the difficulty of setting market values for luxury homes, Meridian will require 2 full appraisals from independent appraisers with an AACI designation for properties valued at \$1.5MM or more. Should the subject property be unique, or comparable sales be difficult to obtain for the purpose of deriving value, additional field review appraisals, desk review appraisals, and /or broker price opinions may be ordered to substantiate the property's value.</p>	
<p>Meridian's overall mortgage limit is capped at \$2,000,000.00</p>	

Income Confirmation Policy

Reasonable steps must be taken and documented to confirm income, employment and employer. Particularly in cases of an unknown employer, authenticity of employer must be established through third party means. Documents used to confirm income and employment must be scrutinized for authenticity with any anomalies confirmed and documented.

Salaried / Hourly Income – (*continuously employed with their current employer and not currently on probation*)

Generally accepted proof of income for the above noted individuals may include a minimum of any **two** of the following:

- Current salary letter or pay stub
- Copy of the most recent T-4 Slip and / or most recent NOA
- Copy of the most recent T-1 General Tax Return.

Business for self (BFS) applicants (income and non- income qualifying) – must be able to provide evidence of 2 years of business activity.

- In all cases either a copy of the Business Registration License or Articles of Incorporation "Form 1" is required.
- Copies of the past two years T-1 General supported by the most recent NOA.
- In all cases Meridian requires confirmation that all source deductions and GST/HST remittances are up to date.
- G.D.S & T.D.S ratios are typically not applicable.

Meridian may, from time to time request additional information as outlined below:

- Copy of most recent Financial Statements or the Statement of Business Activities.
- Where income cannot be properly supported and documented regardless of the nature of the income – application is to be considered NIQ.
- When the application is NIQ, the decision to approve must be supported by favorable consideration to the following attributes: (must form part of recommendations)
 - LTV Ratio
 - Quality of Real Estate
 - Beacon Score
 - Net Worth of Applicant(s)
 - Lack of Tax Arrears

High Ratio Income calculation for self employed applicants

- Line 150 may be grossed up by a maximum of 15%
- Stated income applications do not qualify for high ratio mortgages



Fluctuating / Irregular Income

Applicants with fluctuating or irregular income that are not self employed include those who earn income from: Commissions, Consulting fees, Bonuses, Profit Sharing, Investments, and other ie. Overtime

- Average of the most recent 2 years T1 Generals is required

Rental Income

- A maximum of 50% of gross income from rental properties (max. 4 units) can be used for qualifying purposes.

G.D.S and T.D.S Ratio Policy

- Ratios are not to exceed 34% and 44% respectively.
- For applications submitted to CMHC or Genworth the debt ratios must meet applicable insurers' guidelines.

Credit Bureau Reports

- A current credit bureau must be provided to Meridian Mortgage Broker Unit from the acting Mortgage Broker on each loan submission for all borrowers, co-borrowers and guarantors (if applicable).
- Current is defined as not older than 30 days. Meridian reserves the right to request a more current bureau.
- All credit bureaus must be fully scrutinized and any discrepancies or anomalies identified, confirmed and documented.
- Credit bureau information must be consistent with the applications submitted.

Title Insurance

- Title Insurance from First Canadian Title; Stewart Title or Title Plus is a mandatory requirement on all Mortgage Broker commitments.

Bankruptcy / Consumer Proposal

- Bankruptcy must be discharged for 2 years.
- Applicants must have established verifiable savings;
- Applicants must have down payment from own resources (no gift or Meridian incentive (ie cash back) is allowed)
- Applicant's credit bureau reports must be satisfactory – no derogatory ratings on trade lines established after discharge of bankruptcy / consumer proposal;
- No Meridian debt was included in the prior bankruptcy.
- For all high ratio applications, applicants must have re-established credit via loan or major credit card.

Power of Attorney POA signatures are not acceptable.

Qualifying Mortgage Properties

Meridian will consider the following types of property as acceptable for mortgage financing purposes under the Broker program.

- Residential properties Owner and Non-owner occupied
- Single family detached and semi-detached.
- Single family townhouses and row houses (freehold).
- Duplex, triplex and 4-plex buildings. Building must meet all applicable Fire Code Regulations and Zoning By-Laws.
- Registered condominium units including high-rise, townhouses and stacked townhouses located in urban centers with a sq footage greater 700.
- All properties must have a minimum of 100 AMP service.
- Properties on well water and septic tanks will be considered provided this is normal for the area.
- For properties situated on acreage (rural residential), appraisal report to include a maximum of 10 acres plus dwelling and no out buildings.
 - External income must service mortgage.
 - Working farms do not qualify
 - Property must be within 50 km's or urban centre (Pop. 15,000)
- For properties with no basement, the minimum square footage is 750 Sq. Ft.

- **Seasonal dwellings** (cottage Properties) must meet all of the following parameters:
 - Owner occupied properties only
 - Year round road access is required
 - Confirmation of year round property insurance
 - Purchase and refinance transactions
 - Permanent source of heat
 - Maximum loan to value of 75%
 - Meridian reserves the right to decline or require default insurance through Genworth Financial where marketability of property is questionable
- **Multi Unit Residential - 5 units to 10** – (adjudicated and serviced by our Commercial Business Centres)
 - Existing properties only - new builds *excluded*.
 - Application limited to term mortgage financing - LOC's *excluded*.
 - No commercial tenancy.
 - Loan to value will be determined based on overall quality of the application
 - Pricing will be reflective of ongoing commercial pricing.
 - A target application fee of 25 - 50 bsp to apply, minimum \$250
 - Borrower is an existing Member or a new Member where Borrower's holdings are limited to one MUR property
 - Borrowers with multiple MUR's where total units greater than 10, are expected to be wholly commercial relationships and may be referred to Meridian Commercial Business Centres.
 - Following supporting documentation is required at time of application
 - Copy of Offer to Purchase
 - AACI appraisal
 - Rent Roll
 - Income confirmation for Borrower/Guarantor(s)
 - Confirmation building in compliance with existing Fire Codes for the subject property
 - Further conditions will include:
 - Assignment Of Rents
 - RGSA and full personal guarantees, if Borrower is a corporation

Non-qualifying Mortgage Properties

- **Co-operative Housing** –residents in this type of housing do not have an actual deed to the property, but rather a share in the Co-Op. Registration of a mortgage is not possible.
- **Commercial Mix Properties** are not available through the Broker Channel but may be referred to a Commercial Business Centre.
- **Raw / Vacant (un-serviced) Land** – this is considered speculative and therefore treated as commercial
- **Rooming Houses** – rental contracts are normally short term and by the room. Property maintenance is high, with generally notable wear and tear.
- **Mobile Homes** – are considered chattels on leased land and as such do not meet the minimum requirements for Meridian's mortgage portfolio
- **Historically designated properties** – limited marketability for these types of properties, as well as restrictive remediation options in case of default
- **Leased Land** – this refers to homes (not mobile) that sit on leased land (ie. Crown expropriated land). Leases are often restrictive in areas of access to the property and overall terms
- **Seasonal non- year round access dwellings**
- **Island Properties** - land access is required

- **Previous Grow-Ops, Meth Labs.** Due to the differences in municipal remediation requirements, it is Meridian's policy not to finance these properties. No exceptions granted.
- **Life Lease properties.** There is no ownership interest, only a right to occupy a unit for a certain time. Lease agreements are restrictive and not assignable in all cases. Units are often reserved for a pre-determined, restricted clientele. Meridian will not finance these units – no exceptions granted.
- **Fractional Interests.** Fractional interest creates the possibility of multiple owners owning portions of the title. Without signed consent from every owner, Meridian is limited to only partial title on a property, severely limiting marketability. Meridian will not finance these properties – no exceptions granted
- **Rental pools.** Units are generally small, much like hotel suites, with a Management company in control to ensure a high rate of return for an investor in this type of property. There is heavy reliance on the effectiveness of the Management Company to maintain the value of a unit. Marketability is limited and at risk. Meridian will not finance these types of properties. No exceptions granted.
- **Non conventional construction (ie dome houses)**

Rate Hold Policy

Meridian has an auto rate drop policy. The applicant will receive benefit of the lowest rate within a 90 day rate guarantee from date of application. Note: The blended payment will not change due to a rate drop. Variable rate products do not qualify for rate hold policy

Rate Buy downs

Brokers have the option for rate buy downs to a maximum of 15 bps rate reduction on a 5 year Term. Simple calculation of referral fee reduction will apply:

- *Interest rate reduction x number of years in the term*

Example: 5 bps interest rate reduction x 5 year term = 25 bps reduction in referral paid

- Interest Rate Buy downs are permitted however in all cases the borrower must qualify for the mortgage under normal Gross Debt Service (GDS) and Total Debt Service (TDS) ratio requirement at current Meridian rates for the term.
- Rate buy down request must accompany the application to the underwriting unit.
- Buy down cost will be deducted from final broker referral fee.

Pre-Approval Policy

- The pre-approval rate applies only to purchases
- Pre-approval will be provided to loyalty Brokers or upon special request
- Variable rate products do not qualify for pre-approval.

Qualifying Rate Policy Meridian will apply the following interest rates for qualifying purposes:

High Ratio Fixed rate mortgages

- For terms of less than 5 years, applicants must qualify using the current Bank of Canada Rate.
- For terms 5 years and greater, contract mortgage rate can be used.

High Ratio Variable rate mortgages

- Applicants must qualify using the current Bank of Canada qualifying rate.
- The payment is set using the contract rate plus 1.50%

High Ratio 2nd mortgages

- For terms of less than 5 years, applicants must qualify using the current Bank of Canada Rate.
- For terms 5 years and greater, contract mortgage rate can be used

Note: 2nd mortgages must be behind schedule A Financial Institutions only

Conventional fixed rate 1st and 2nd mortgages

- Contract rate can be used for any chosen term
- Note: 2nd mortgages must be behind schedule A Financial Institutions only*

Conventional Variable Rate mortgages

- The contract rate is used to qualify the applicant
- The payment is set at the contract rate for all applications where the beacon score of the primary (strongest) applicant is 750 or greater and the L/V is 70% or less.
- For all other applications the payment is set using the contract rate plus 1.50%

Lines of Credit

- Interest only is used for qualifying purposes.
- If a blended payment is preferred for qualifying, the maximum amortization should not exceed 25 years.

Cash Back / Bonus Policy and Product Guidelines

- Meridian will offer Cash Bonus as a product feature for all fixed rate mortgages with terms no less than 3 years and no greater than 5 years.
- Members can choose a term longer than 5 years, however the maximum allowable cash bonus is based on a 5 year term.
- The cash bonus is advanced to the Member on the understanding that the mortgage remain with Meridian for the full term. Should the Member wish to pay out that mortgage prior to maturity, not only is the standard mortgage penalty charged but the Member must also repay a pro-rated portion of the Cash Bonus. The Cash Bonus is an interest rebate and the repayment provision adjusts that rebate to an amount equivalent to what would have been paid if the original maturity date of the mortgage were actually the prepayment date. There are two different cash bonus repayment calculations, one for the standard cash bonus (up to 3%) and a second calculation for the 5% down payment cash bonus. Refer to Meridian Underwriting staff for full details

Purchase plus improvements – will be treated as construction mortgages

20 / 20 Prepayment Privilege

- All new and existing owner occupied and non owner occupied residential mortgages will qualify under the 20/20 repayment privilege providing the Member is not in default.
- Members have the privilege of paying up to 20% of the original principal balance without notice or bonus. This prepayment is cumulative within each calendar year.
- Prepayments may be made on any payment date with a minimum payment of \$100.00
- Members may, once in any calendar year, increase monthly payments up to 20%

Business Development Managers:

Harry Warren – *Senior Manager, Business Development*

P: 905-741-0650

F: 905-662-7162

Harry.Warren@meridiancu.ca

Dina Grossi – *Business Development* –

P: 647-464-0978 Please note: returning to work July 5th, 2011

Dina.Grossi@meridiancu.ca

