

Ontario Mortgage Agent Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

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SAMPLE

Questions

- 1. What does a building scheme refer to?**
 - A. Individual property ownership**
 - B. Co-ownership of real property**
 - C. A group of restrictive covenants in a development plan**
 - D. A property receiving benefit**
- 2. What does Box 22 on a T4 slip indicate?**
 - A. A) Employee's medical insurance deducted**
 - B. B) Employee's retirement savings contributions**
 - C. C) Employee's income tax deducted**
 - D. D) Employee's performance bonus received**
- 3. Why might a lender require a borrower's credit history?**
 - A. To confirm employment status**
 - B. To understand the borrower's financial responsibility**
 - C. To evaluate the property's value**
 - D. To determine the types of loans available**
- 4. What is the "stress test" used in mortgage lending?**
 - A. A requirement that borrowers prove they can afford payments at a higher interest rate**
 - B. A test determining the maximum amount a lender can offer**
 - C. A process to assess the borrower's credit score only**
 - D. A guideline for acceptable down payment amounts**
- 5. What is a critical factor influencing the LTV ratio?**
 - A. The borrower's credit history**
 - B. The interest rate of the mortgage**
 - C. The appraised value of the property**
 - D. The loan term duration**
- 6. What does Box 61 on a T4A slip normally show?**
 - A. A) Payer's Social Security Number**
 - B. B) Payer's Business Number**
 - C. C) Payer's Bank Account Number**
 - D. D) Payer's Driver's License Number**

- 7. What is a common feature of cash-back mortgages?**
- A. A reduced principal amount**
 - B. A refund at closing with higher interest rates**
 - C. A no-interest payment option**
 - D. A lower loan-to-value ratio requirement**
- 8. Under what circumstances would a Broker not have to supply a borrower with a borrower disclosure form?**
- A. If the brokerage is not a prescribed lender**
 - B. If the borrower requests a verbal disclosure instead**
 - C. If the lender provides its own disclosure with required information**
 - D. If the brokerage is a large corporation**
- 9. What does "assumable mortgage" mean?**
- A. A type of mortgage that allows a buyer to take over the existing mortgage of the seller**
 - B. A mortgage that can only be transferred to family members**
 - C. A mortgage with a fixed rate for a longer duration**
 - D. A temporary loan that converts to a traditional mortgage later**
- 10. What comprises a group of restrictive covenants in a development plan?**
- A. Encumbrance**
 - B. Dominant tenement**
 - C. Building scheme**
 - D. Easement**

Answers

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1. C
2. C
3. B
4. A
5. C
6. B
7. B
8. C
9. A
10. C

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Explanations

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1. What does a building scheme refer to?

- A. Individual property ownership**
- B. Co-ownership of real property**
- C. A group of restrictive covenants in a development plan**
- D. A property receiving benefit**

A building scheme is a set of restrictive covenants that govern the use and development of a particular property or development. These covenants may include restrictions on the type of structures that can be built, the types of activities that can take place on the property, and other regulations that help maintain the overall aesthetic and function of the development. Option A is incorrect because individual property ownership refers to the legal right to possess and use property. Option B is incorrect because co-ownership refers to the joint ownership of a property between two or more individuals. Option D is incorrect because receiving a benefit does not necessarily relate to a building scheme. The correct answer, C, clearly distinguishes what a building scheme refers to in relation to the other options.

2. What does Box 22 on a T4 slip indicate?

- A. A) Employee's medical insurance deducted**
- B. B) Employee's retirement savings contributions**
- C. C) Employee's income tax deducted**
- D. D) Employee's performance bonus received**

Box 22 on a T4 slip indicates the total amount of income tax that has been deducted from the employee's pay throughout the year. This amount is reported to both the employee and the Canada Revenue Agency (CRA) for tax purposes. This option is more correct than the other ones because it directly relates to income tax. A) Employee's medical insurance deducted is incorrect because this information is reported in Box 85 of the T4 slip, not Box 22. B) Employee's retirement savings contributions is incorrect because this information is reported in Box 20 of the T4 slip, not Box 22. D) Employee's performance bonus received is incorrect because this information is reported in Box 14 of the T4 slip, not Box 22. Additionally, bonuses are not subject to income tax deductions, therefore they would not be reported in Box 22.

3. Why might a lender require a borrower's credit history?

- A. To confirm employment status
- B. To understand the borrower's financial responsibility**
- C. To evaluate the property's value
- D. To determine the types of loans available

A lender requires a borrower's credit history primarily to understand the borrower's financial responsibility. This history provides a comprehensive overview of how the borrower has managed their debts in the past, including details about late payments, defaulted loans, and overall credit utilization. The lender assesses whether the borrower has a reliable track record of repaying loans on time, which is crucial in determining the risk associated with lending to that individual. By evaluating the credit history, lenders can gauge the likelihood that the borrower will meet their repayment obligations in the future. A strong credit history often indicates responsible financial behavior and can lead to better terms on the loan, such as lower interest rates or higher loan amounts. Conversely, a poor credit history may lead to higher rates or denial of the loan altogether, as it suggests a higher risk for the lender. The other aspects of the question relate to different considerations in the lending process but do not directly pertain to assessing the borrower's financial responsibility. For instance, confirming employment status is more about income verification than financial behavior, evaluating property value pertains to the collateral aspect of the mortgage rather than the borrower's creditworthiness, and identifying loan types available generally stems from broader criteria beyond just credit history.

4. What is the "stress test" used in mortgage lending?

- A. A requirement that borrowers prove they can afford payments at a higher interest rate**
- B. A test determining the maximum amount a lender can offer
- C. A process to assess the borrower's credit score only
- D. A guideline for acceptable down payment amounts

The "stress test" in mortgage lending is fundamentally designed to ensure that borrowers can manage their mortgage payments even under less favorable financial conditions. Specifically, option A highlights that the stress test requires borrowers to demonstrate their ability to afford payments based on a higher interest rate than what they might currently qualify for. This is important because it acts as a safeguard against potential economic downturns, interest rate increases, or personal financial distress that could impact the borrower's ability to make mortgage payments in the future. By requiring borrowers to qualify at a higher rate, lenders can reduce the risk of default and enhance financial stability in the mortgage market. This approach is particularly significant in fluctuating markets where interest rates may rise after the loan is secured. Understanding this process helps ensure that both the borrower and lender are well-prepared for changes that could affect repayment capacity. Other options do not capture the essence of the stress test. For instance, determining the maximum amount a lender can offer relates more to lending guidelines than assessing individual borrower resilience. Similarly, focusing solely on a borrower's credit score overlooks the broader financial landscape that the stress test evaluates. Lastly, a guideline for acceptable down payment amounts addresses a different aspect of mortgage lending that does not directly pertain to a borrowing ability under potential

5. What is a critical factor influencing the LTV ratio?

- A. The borrower's credit history**
- B. The interest rate of the mortgage**
- C. The appraised value of the property**
- D. The loan term duration**

The loan-to-value (LTV) ratio is a financial term used to express the ratio of a loan to the value of an asset purchased. It is a crucial metric used by lenders to assess risk. The appraised value of the property is a critical factor influencing the LTV ratio because it determines the maximum allowable loan amount based on the property's worth. If the appraisal value is high, it can support a larger loan amount; conversely, if it is lower, the amount that a borrower can receive will decrease accordingly. This ratio is essential for lenders to evaluate how much equity the borrower has in the property. A higher LTV ratio indicates less equity, which can suggest greater risk to the lender. Therefore, an accurate and fair appraisal is vital in establishing a sound LTV ratio, affecting loan approval and terms. While the other factors, such as the borrower's credit history, the interest rate of the mortgage, and the loan term duration, do play significant roles in the mortgage process, they do not directly influence the calculation of the LTV ratio as the appraised value does.

6. What does Box 61 on a T4A slip normally show?

- A. A) Payer's Social Security Number**
- B. B) Payer's Business Number**
- C. C) Payer's Bank Account Number**
- D. D) Payer's Driver's License Number**

Box 61 on a T4A slip normally shows the payer's business number. The other options are incorrect because A) A social security number is used for personal identification, while a T4A slip is used for reporting business income or expenses. B) A bank account number is used for financial transactions, not for tax reporting. C) A driver's license number is used for identification for the purpose of driving, not for tax reporting.

7. What is a common feature of cash-back mortgages?

- A. A reduced principal amount
- B. A refund at closing with higher interest rates**
- C. A no-interest payment option
- D. A lower loan-to-value ratio requirement

A common feature of cash-back mortgages is that borrowers receive a refund at closing, which is often funded by a higher interest rate on the loan. This cash-back option allows individuals to have immediate access to a lump sum of money, which can be used for various expenses such as home improvements, moving costs, or paying down other debts. The interest rate on cash-back mortgages is typically higher to offset the lender's costs associated with providing the upfront cash to the borrower. This structure can benefit those who need cash immediately and are willing to pay more in interest over the life of the loan. Other options do not accurately describe the unique characteristic of cash-back mortgages. For example, a reduced principal amount does not relate to cash-backs since the principal remains the same but the borrower receives cash at closing. A no-interest payment option is not a standard feature in cash-back mortgages, as these loans still require interest to be paid. Additionally, a lower loan-to-value ratio requirement is not inherently associated with cash-back mortgages, as lending criteria can vary but are not a defining feature of this type of mortgage.

8. Under what circumstances would a Broker not have to supply a borrower with a borrower disclosure form?

- A. If the brokerage is not a prescribed lender
- B. If the borrower requests a verbal disclosure instead
- C. If the lender provides its own disclosure with required information**
- D. If the brokerage is a large corporation

A is incorrect because even if the brokerage is not a prescribed lender, it still must supply the borrower with a borrower disclosure form. B is incorrect because a verbal disclosure is not sufficient and the borrower must always be provided with a written disclosure form. D is incorrect because the size of the brokerage does not exempt them from providing the borrower with a disclosure form.

9. What does "assumable mortgage" mean?

- A. A type of mortgage that allows a buyer to take over the existing mortgage of the seller**
- B. A mortgage that can only be transferred to family members**
- C. A mortgage with a fixed rate for a longer duration**
- D. A temporary loan that converts to a traditional mortgage later**

An assumable mortgage refers to a financial arrangement in which a buyer can take over the existing mortgage held by the seller of a property. This can be beneficial for both parties: the buyer may acquire a favorable mortgage rate or terms that are no longer available in the current market, while the seller can facilitate the sale of their property by offering a way for potential buyers to assume an existing loan without needing to secure new financing. This type of mortgage often includes the stipulation that the lender must approve the transfer, ensuring that the buyer meets the qualifying criteria. The assumption can relieve the seller of remaining liability for the mortgage, eliminating the need to pay off the mortgage entirely upon sale. Overall, it allows the buyer to benefit from the existing financing structure, which can simplify the transaction and potentially save on closing costs.

10. What comprises a group of restrictive covenants in a development plan?

- A. Encumbrance**
- B. Dominant tenement**
- C. Building scheme**
- D. Easement**

A group of restrictive covenants in a development plan refers to a set of rules and regulations that dictate how a property owner must use their land, such as restrictions on what can be built on the property and how it can be used. Option A, Encumbrance, is a general term that refers to any claim or liability attached to a property, which does not necessarily include restrictive covenants. Option B, Dominant tenement, refers to the property that benefits from an easement, not the restrictive covenants themselves. Option D, Easement, is a specific right given to someone to use land owned by another person for a specific purpose, and is not the same as restrictive covenants. Therefore, the correct option is C, Building scheme, as it specifically refers to a set of restrictive covenants in a development plan.