



FP-BoK Topic 03: Credit and Debt

Version: 2.1.0
Last Updated: November 1, 2023

TOPIC 03 OVERVIEW: CREDIT AND DEBT

Both CFP professionals and QAFP professionals are expected to possess the knowledge that will allow them to assess an individual's creditworthiness and determine suitable credit facilities. They should also be able to determine optimal debt repayment strategies, including the impact that changes to strategies may have on the individual's debt level, debt amortization, cash flow and ability to achieve their goals. In addition, they should be able to identify appropriate options and professionals who can help delinquent and insolvent debtors.

Sub-Topic	Knowledge Topics Common to Both QAFP Professionals and CFP Professionals	Knowledge Topics For Which CFP Professionals Are Expected to Have Deeper Knowledge
3.1 Foundations of Credit	✓	
3.2 Types of Credit	✓	
3.3 Terms of Credit	✓	
3.4 Installment Credit Facilities	✓	✓
3.5 Revolving Credit Facilities	✓	
3.6 Business Credit Facilities		✓
3.7 Credit Adjudication	✓	
3.8 Debt Repayment	✓	

Sub-Topic	Knowledge Topics Common to Both QAFP Professionals and CFP Professionals	Knowledge Topics For Which CFP Professionals Are Expected to Have Deeper Knowledge
3.9 Delinquency	☑	
3.10 Insolvency	☑	

Taxonomy of the FP-BoK

The **verbs** used in the FP-BoK articulate the depth of knowledge expected of QAFP professionals and CFP professionals. The verbs are grouped into four **knowledge levels** which set out the depth or level of knowledge required for each knowledge topic.

KNOWLEDGE LEVELS

Knowledge Level	Associated Verbs Used in the BoK
Awareness	Define, Identify
Understanding	Explain
Application	Determine, Compare, Estimate, Calculate, Convert
Evaluation	Evaluate, Interpret

GLOSSARY OF VERBS USED IN THE FP-BOK

Verb	Description
Define	To state exactly the meaning of
Identify	To be aware of / to recognize and correctly name / to locate an appropriate resource
Explain	To make clear the meaning of / to describe something in more detail or reveal relevant facts or ideas related to it
Determine	To ascertain / to come to a decision, such as by investigation or reasoning
Compare	To note the similarities and differences between two or more things
Estimate	To determine an approximate value for
Calculate	To find the value using mathematics
Convert	To change from one form or purpose to another
Evaluate	To reach a conclusion or make a through careful study
Interpret	To give the meaning of / to construe or understand / to translate orally

TOPIC 03 KNOWLEDGE REQUIREMENTS

3.1 FOUNDATIONS OF CREDIT

3.1.1 FOUNDATIONS OF CREDIT

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Explain key trends impacting debt[†] levels in Canada, such as:
 - Growing debt-to-income ratio
 - Growing levels of consumer debt and mortgage debt
 - Historically low interest rates
 - Growth in non-mortgage borrowing secured by real estate
- Explain the potential impacts of debt on the ability to meet life goals, needs and priorities.
- Identify types of lending institutions, such as:
 - Chartered banks
 - Trust companies
 - Credit unions and caisses populaires
 - Brokerage houses
 - Mortgage and loan companies
 - Insurance companies
 - Government entities
 - Financing companies
 - Co-operatives
 - Credit card companies
 - Payday loan companies
 - Commercial lenders
 - Fintech (Financial Technology) companies
 - Private lenders
 - Crowdfunding sources
- Compare types of lending institutions, specifically:
 - Mandate
 - Lending options
 - Cost of doing business
- Define types of credit, such as:
 - Installment
 - Revolving
- Define characteristics of credit, such as:
 - Unsecured
 - Secured
 - Closed

- Open
 - Fixed rate
 - Variable rate
- Compare types of credit, such as:
 - Unsecured versus secured
 - Closed versus open
 - Fixed rate versus variable rate

† Credit is the ability to borrow money, while debt is the result of borrowing money. When you use credit, you create debt

3.2 TYPES OF CREDIT

3.2.1 INSTALLMENT CREDIT

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define installment credit.
- Explain for whom installment credit may be suitable.
- Calculate the terms of an installment credit facility.
- Determine how each of these factors may impact the suitability of installment credit:
 - Purpose of credit or borrowed funds
 - Amount of credit requested / required
 - Ongoing need for borrowing capacity
 - Fiscal responsibility
 - Expected variability of interest rates
 - Cost, including interest and fees
 - Impact on cash flow
 - Payment options (schedule, amounts, options)
 - Expected prepayments
 - Collateral requirements
 - Expected lifetime of collateral (if applicable)
 - Closure requirements / costs
 - Tax impact
- Evaluate how each of the factors may impact the suitability of installment credit.

3.2.2 REVOLVING CREDIT

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define revolving credit.
- Explain for whom revolving credit may be suitable.
- Calculate the terms of a revolving credit facility.
- Determine how each of these factors may impact the suitability of revolving credit:
 - Purpose of credit or borrowed funds
 - Amount of credit requested / required
 - Ongoing need for borrowing capacity
 - Fiscal responsibility
 - Expected variability of interest rates
 - Cost, including interest and fees
 - Impact on cash flow
 - Payment options (schedule, amounts, options)
 - Expected prepayments
 - Collateral requirements

- Expected lifetime of collateral (if applicable)
 - Closure requirements / costs
 - Tax impact
- Evaluate how each of the factors may impact the suitability of revolving credit.

3.2.3 UNSECURED CREDIT

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define unsecured credit.
- Explain for whom unsecured credit may be suitable.
- Calculate the terms of an unsecured credit facility.
- Determine how each of these factors may impact the suitability of unsecured credit:
 - Purpose of credit or borrowed funds
 - Amount of credit requested / required
 - Ongoing need for borrowing capacity
 - Expected variability of interest rates
 - Cost, including interest and fees
 - Impact on cash flow
 - Payment options (schedule, amounts, options)
 - Expected prepayments
 - Collateral requirements
 - Expected lifetime of collateral (if applicable)
 - Closure requirements / costs
 - Tax impact
- Evaluate how each of the factors may impact the suitability of unsecured credit.

3.2.4 SECURED CREDIT

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define secured credit.
- Explain for whom secured credit may be suitable.
- Calculate the terms of a secured credit facility.
- Determine how each of these factors may impact the suitability of secured credit:
 - Purpose of credit or borrowed funds
 - Amount of credit requested / required
 - Ongoing need for borrowing capacity
 - Expected variability of interest rates
 - Cost, including interest and fees
 - Impact on cash flow
 - Payment options (schedule, amounts, options)

- Expected prepayments
- Collateral requirements
- Expected lifetime of collateral (if applicable)
- Closure requirements / costs
- Tax impact
- Evaluate how each of the factors may impact the suitability of secured credit.
- Define types of registered charges for credit secured by real estate.
 - Conventional charge
 - Collateral charge
- Compare a conventional and a collateral charge, specifically:
 - Value of allowable registered charge
 - Opportunity to register subsequent charges
 - Opportunity to refinance (without registering new charge)
 - Opportunity to transfer the charge
 - Right of offset with respect to other debts provided by the lender
- Identify that a process exists for registering and discharging a charge against real property.
- Explain that costs may be associated with registering and/or discharging a charge against real property.
- Explain the priority interest of lenders based on the priority of the registered charge against real property.

3.2.5 OPEN CREDIT

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define open credit.
- Explain for whom open credit may be suitable.
- Calculate the terms of an open credit facility.
- Explain that administration costs may be associated with prepayment of open credit.
- Explain the prepayment costs / penalties that may be associated with prepayments of open credit, such as:
 - Administration costs
- Determine how each of these factors may impact the suitability of open credit:
 - Purpose of credit or borrowed funds
 - Cost, including interest and fees
 - Impact on cash flow
 - Payment options (schedule, amounts, options)
 - Expected prepayments
 - Expected lifetime of collateral (if applicable)
 - Closure requirements / costs

- Tax impact
- Evaluate how each of the factors may impact the suitability of open credit.

3.2.6 CLOSED CREDIT

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define closed credit.
- Explain for whom closed credit may be suitable.
- Calculate the terms of a closed credit facility.
- Explain the prepayment costs / penalties that may be associated with prepayments of closed credit, such as:
 - Administration costs
 - Interest Rate Differential (IRD)
 - Number of months' interest
- Determine how each of these factors may impact the suitability of closed credit:
 - Purpose of credit or borrowed funds
 - Cost, including interest and fees
 - Impact on cash flow
 - Payment options (schedule, amounts, options)
 - Expected prepayments
 - Expected lifetime of collateral (if applicable)
 - Closure requirements / costs
 - Tax impact
- Evaluate how each of the factors may impact the suitability of closed credit.

3.2.7 FIXED RATE CREDIT

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define fixed rate credit.
- Explain for whom fixed rate credit may be suitable.
- Calculate the terms of a fixed rate credit facility.
- Determine how each of these factors may impact the suitability of fixed rate credit:
 - Expected variability of interest rates
 - Risk tolerance
 - Capacity to withstand fluctuations in payment
 - Cost, including interest and fees
 - Prepayment allowances and costs (penalties)
 - Closure requirements and costs
- Evaluate how each of the factors may impact the suitability of fixed rate credit.

3.2.8 VARIABLE RATE CREDIT

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define variable rate credit.
- Explain for whom variable rate credit may be suitable.
- Calculate the terms of a variable rate credit facility.
- Determine how each of these factors may impact the suitability of variable rate credit:
 - Expected variability of interest rates
 - Risk tolerance
 - Capacity to withstand fluctuations in payment
 - Cost, including interest and fees
 - Prepayment allowances and costs (penalties)
 - Closure requirements and costs
- Evaluate how each of the factors may impact the suitability of variable rate credit.

3.3 TERMS OF CREDIT

3.3.1 TERMS OF CREDIT

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define terms associated with credit:
 - Interest rate
 - Payment
 - Term
 - Amortization
 - Compounding period
 - Compounding frequency
 - Covenants
 - Penalties for breaching a covenant
- Define types of interest rates, such as:
 - Nominal rate
 - Effective annual rate (EAR)
 - Bank rate
 - Prime rate
 - Lender's base rate
 - Annual percentage rate (APR)
- Compare types of interest rates, such as:
 - Variable interest rate versus fixed interest rate
 - Nominal interest rate versus effective interest rate
 - Bank rate versus prime rate
 - Prime rate versus lender's base rate
- Convert between a nominal and an effective annual rate.
- Calculate the following interest rates.
 - Effective annual rate (EAR)
 - Annual percentage rate (APR)
- Define types of interest.
 - Simple
 - Compound
- Compare how simple and compound interest affect credit, specifically:
 - Cost of borrowing
 - Amortization
- Define the variables that impact the calculation of interest (in dollar terms).
 - Face value
 - Interest rate
 - Compounding period

- Compounding frequency
- Explain the relationship between each variable that is used in the calculation of interest and the amount of interest (in dollar terms).
- Explain the factors impacting the cost of credit, such as:
 - Administrative fees
 - Interest
 - Charges for the service of or disbursements made by a lawyer or notary
 - Broker charges / fees
 - Appraisal charges / fees
- Identify that interest expense on credit may be deductible for tax purposes.
- Explain how each of the factors may impact the decision to convert non-tax-deductible debt to tax-deductible debt:
 - Liquidity of assets
 - Volatility of assets
 - Marginal tax rate
 - Tax impact
- Explain payment types that may be available on credit, such as:
 - Interest-only
 - Blended
 - Deferred
 - Lump Sum
 - Balloon
- Explain payment options that may be available on credit, such as:
 - Frequency
 - Prepayments
 - Accelerated
 - Deferred interest
- Determine the impact that a change in one of terms of credit has on the remaining terms of credit.
- Calculate the impact that a change in one of the terms of credit has on the remaining terms of credit.

Additional Knowledge Expected of CFP Professionals

- Explain when an interest expense on credit may be deductible for tax purposes.
- Determine how each of these factors may impact the decision to convert non-tax-deductible debt to tax-deductible debt:
 - Liquidity of assets
 - Volatility of assets
 - Marginal tax rate

- Tax impact
- Evaluate how each of the factors may impact the decision to convert non-tax-deductible debt to tax-deductible debt.

3.4 INSTALLMENT CREDIT FACILITIES

3.4.1 REVERSE MORTGAGES

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define a reverse mortgage.
- Identify the purposes for which a reverse mortgage may be used.
- Identify the providers of reverse mortgages.

Additional Knowledge Expected of CFP Professionals

- Explain for whom a reverse mortgage may be suitable.
- Explain eligibility requirements for a reverse mortgage, such as:
 - Home ownership
 - Age
 - Available equity in property
- Explain other requirements that may relate to obtaining a reverse mortgage, such as:
 - Independent legal advice (ILA)
 - Lender must hold priority charge on property
- Explain costs that may be associated with obtaining a reverse mortgage, such as:
 - Appraisal fees
 - Survey fees
 - Legal fees
 - Discharge & disbursement fees
 - Administration fees
 - Title insurance fees
 - GST / HST
 - Environmental assessment fees
 - Registration fees
- Determine how each of the factors may impact the amount that may be borrowed using a reverse mortgage.
 - Geographic location
 - Type of housing
 - Gender
 - Age
- Evaluate how each of the factors may impact the amount that may be borrowed using a reverse mortgage.
- Explain the payment options on a reverse mortgage.
 - As required by the lender
 - On the death of the last owner
 - On the sale of the property

- Available to the borrower over the mortgage term
- Estimate the terms of a reverse mortgage.
- Determine how each of these factors may impact the suitability of a reverse mortgage:
 - Credit limit
 - Interest cost
 - Expected variability of interest rates
 - Fees
 - Payment amounts
 - Flexibility of payment schedule
 - Collateral requirements
 - Ongoing need for borrowing capacity
 - Future intentions for property
 - Taxation
- Evaluate how each of the factors may impact the suitability of a reverse mortgage.

3.4.2 CONSTRUCTION / PROGRESS DRAW MORTGAGES

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define a construction / progress draw mortgage.
- Identify the purposes for which a construction / progress draw mortgage may be used.

Additional Knowledge Expected of CFP Professionals

- Explain for whom a construction / progress draw mortgage may be suitable.
- Determine how each of these factors may impact the suitability of a construction / progress draw mortgage:
 - Purpose of credit or borrowed funds
 - Amount of credit requested / required
 - Ongoing need for borrowing capacity
- Evaluate how each of the factors may impact the suitability of a construction / progress draw mortgage.

3.4.3 RRSP LOAN

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Explain the purposes for which an RRSP loan may be used.
- Explain for whom an RRSP loan may be suitable.
- Explain the net cost of using an RRSP loan to make an RRSP contribution.
- Calculate the net cost of using an RRSP loan to make an RRSP contribution.
- Estimate the terms of an RRSP loan.

- Determine how each of these factors may impact the suitability of using an RRSP loan to contribute to an RRSP:
 - Impact on tax payable
 - Impact on cash flow
 - Interest cost
 - The non-deductibility of interest
 - Expected after-tax rate of return on invested contribution
- Evaluate how each of the factors may impact the suitability of using an RRSP loan to contribute to an RRSP.

3.4.4 STUDENT LOAN

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Explain the purposes for which a student loan may be used.
- Explain for whom a student loan may be suitable.
- Identify the providers of student loans, such as:
 - Federal government
 - Provincial/Territorial government
 - Financial institutions
- Identify that qualifying criteria exist for federal and provincial/territorial government student loans.
- Estimate the terms for a student loan.
- Explain the elements that may affect a student loan:
 - Purpose of credit or borrowed funds
 - Amount of credit requested / required
 - Ongoing need for borrowing capacity
 - Expected variability of interest rates
 - Cost, including interest and fees
 - Impact on cash flow
 - Payment options (schedule, amounts, options)
 - Expected prepayments
 - Collateral requirements
 - Expected lifetime of collateral (if applicable)
 - Closure requirements / costs
 - Tax impact
- Identify the tax treatment of interest payments charged on student loans.
 - For provincial and federal government loans
 - For loans from financial institutions

- Identify that special repayment programs may be available for government student loans, such as:
 - Loan repayment assistance plans
 - Loan forgiveness programs

Additional Knowledge Expected of CFP Professionals

- Determine how each of these factors may impact the suitability of a student loan:
 - Purpose of credit or borrowed funds
 - Amount of credit requested / required
 - Ongoing need for borrowing capacity
 - Expected variability of interest rates
 - Cost, including interest and fees
 - Impact on cash flow
 - Payment options (schedule, amounts, options)
 - Expected prepayments
 - Collateral requirements
 - Expected lifetime of collateral (if applicable)
 - Closure requirements / costs
 - Tax impact
- Evaluate how each of the factors may impact the suitability of a student loan.

3.4.5 LOAN FROM AN EMPLOYER

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Explain the purposes for which a loan from an employer may be used.
- Define the prescribed interest rate.
- Identify the current prescribed interest rate.
- Identify how often the prescribed rate is reset by the Canada Revenue Agency (CRA).
- Identify when a taxable benefit exists for an employee who has borrowed from their employer.
- Explain the tax treatment of interest on a loan from an employer.

Additional Knowledge Expected of CFP Professionals

- Explain for whom a loan from an employer may be suitable.
- Calculate the taxable benefit to an employee who has borrowed from their employer.
- Calculate the tax impact to the employee when using a loan from an employer.
- Estimate the terms for a loan from an employer.
- Determine how each of these factors may impact the suitability of a loan from an employer:
 - Purpose of credit or borrowed funds

- Amount of credit requested / required
- Ongoing need for borrowing capacity
- Expected variability of interest rates
- Cost, including interest and fees
- Impact on cash flow
- Payment options (schedule, amounts, options)
- Expected prepayments
- Collateral requirements
- Expected lifetime of collateral (if applicable)
- Closure requirements / costs
- Tax impact
- Evaluate how each of the factors may impact the suitability of a loan from an employer.

3.4.6 LEASES

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define a lease.
- Define the parties to a lease.
 - Lessee
 - Lessor
- Identify assets that may be leased.
- Explain the purposes for which a lease may be used.
- Explain for whom a lease may be suitable.
- Explain the terms of a lease, such as:
 - Interest rate
 - Length of term
 - Payment
 - Amortization
 - Residual value
 - Buyout value
 - Fees
- Calculate the terms of a lease for a personal vehicle.
- Identify that penalties may exist on a lease.
- Identify the individuals for whom lease payments may be tax-deductible, such as:
 - Employees
 - Commissioned employees
 - Sole proprietors
 - Partners in a partnership
- Determine how each of these factors may impact the decision to purchase a vehicle:

- Impact on cash flow
- Maintenance costs for normal wear and tear
- Warranty coverage (inclusions, exclusions, length)
- Expected usage life of the vehicle by the owner
- Expected plans by the owner for the vehicle after expected usage life
- Expected residual value of the vehicle at end of the owner's expected usage life
- Tax impact
- Cost
- Fees or charges
- Evaluate how each of the factors may impact the decision to purchase a vehicle.
- Determine how each of these factors may impact the decision to finance a vehicle:
 - Impact on cash flow
 - Ownership of the vehicle
 - Maintenance costs for normal wear and tear
 - Warranty coverage (inclusions, exclusions, length)
 - Expected usage life of the vehicle by the financee
 - Expected plans for the vehicle after usage life by the financee
 - Expected residual value of the vehicle at end of usage life by financee
 - Tax impact
 - Cost
 - Term of the payments
 - Fees or charges
 - Interest cost
 - Covenants required of financee
- Evaluate how each of the factors may impact the decision to finance a vehicle.
- Determine how each of these factors may impact the decision to lease a vehicle:
 - Impact on cash flow
 - Ownership of the vehicle
 - Maintenance costs for normal wear and tear
 - Maintenance costs for excess wear and tear
 - Warranty coverage (inclusions, exclusions, length)
 - Usage restrictions, allowances and expected use of the vehicle
 - Expected usage life of the vehicle by the lessee
 - Expected plans for the vehicle after expected usage life by the lessee
 - Expected residual value of the vehicle at end of expected usage life by lessee
 - Tax impact
 - Cost
 - Term of the payments
 - Fees or charges

- Interest cost
 - Covenants required of lessee
- Evaluate how each of the factors may impact the decision to lease a vehicle.

Additional Knowledge Expected of CFP Professionals

- Define the main types of leases.
 - Capital lease
 - Operating lease
- Compare operating and capital leases.

3.4.7 OVERDRAFT LOAN

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define an overdraft loan.
- Explain the purposes for which an overdraft loan may be used.
- Explain for whom an overdraft loan may be suitable.
- Explain how interest is calculated on an overdraft loan.
- Explain the lender's right to demand payment at any time for an overdraft loan.
- Explain the costs that may be charged by an overdraft loan provider.
- Estimate the terms for an overdraft loan.
- Determine how each of these factors may impact the suitability of an overdraft loan:
 - Purpose of credit or borrowed funds
 - Amount of credit requested / required
 - Ongoing need for borrowing capacity
 - Expected variability of interest rates
 - Cost, including interest and fees
 - Impact on cash flow
 - Payment options (schedule, amounts, options)
 - Expected prepayments
 - Collateral requirements
 - Expected lifetime of collateral (if applicable)
 - Closure requirements / costs
 - Tax impact
- Evaluate how each of the factors may impact the suitability of an overdraft loan.

3.4.8 BRIDGE LOAN

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define a bridge loan.
- Explain the purposes for which a bridge loan may be used.
- Explain for whom a bridge loan may be suitable.
- Explain the costs that may be associated with a bridge loan, such as:
 - Interest
 - Administration fees
 - Registration fees
 - Legal Fees
- Explain the repayment requirements on a bridge loan.
- Explain the lender's right to register an encumbrance against the property if a bridge loan is not repaid.

Additional Knowledge Expected of CFP Professionals

- Calculate the amount of a bridge loan that may be required.
- Estimate the terms of a bridge loan.
- Estimate the cost of using a bridge loan.
- Determine how each of these factors may impact the suitability of a bridge loan:
 - Purpose of credit or borrowed funds
 - Amount of credit requested / required
 - Ongoing need for borrowing capacity
 - Expected variability of interest rates
 - Cost, including interest and fees
 - Impact on cash flow
 - Payment options (schedule, amounts, options)
 - Expected prepayments
 - Collateral requirements
 - Expected lifetime of collateral (if applicable)
 - Closure requirements / costs
 - Tax impact
- Evaluate how each of the factors may impact the suitability of a bridge loan.

3.4.9 PAYDAY LOAN

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Identify that the payday loan industry is regulated by the provincial governments.
- Define a payday loan.
- Identify the purposes for which a payday loan may be used.

- Identify the costs that may be associated with payday loans, such as:
 - Interest
 - Item fee
 - Cheque-cashing fee
 - Penalties for non-sufficient payment
- Identify the effective annual interest rate for a payday loan.

Additional Knowledge Expected of CFP Professionals

- Explain for whom a payday loan may be suitable.
- Determine how each of these factors may impact the suitability of a payday loan:
 - Purpose of credit or borrowed funds
 - Amount of credit requested / required
 - Ongoing need for borrowing capacity
 - Expected variability of interest rates
 - Cost, including interest and fees
 - Impact on cash flow
 - Payment options (schedule, amounts, options)
 - Expected prepayments
 - Collateral requirements
 - Expected lifetime of collateral (if applicable)
 - Closure requirements / costs
 - Tax impact
- Evaluate how each of the factors may impact the suitability of a payday loan.

3.4.10 CONVENTIONAL AND HIGH-RATIO MORTGAGES

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define a mortgage.
- Identify that a pre-approval process exists for obtaining a mortgage.
- Explain the limitations that may be associated with a mortgage pre-approval.
- Explain the advantages and disadvantages of a rate guarantee.
- Identify sources of down payment that may be used for the purchase of a property, such as:
 - Savings
 - Gift
 - RRSP
 - Proceeds from the sale of an existing property
 - Other credit
- Calculate the mortgage amount required given the value of a down payment.
- Explain costs that may be associated with obtaining a mortgage, such as:

- Appraisal fees
- Survey fees
- Legal fees
- Discharge & disbursement fees
- Administration fees
- Mortgage broker fees
- Property inspection fees
- Title insurance fees
- Land transfer fees / tax
- GST / HST
- Environmental assessment fees
- Registration fees
- Identify the maximum threshold permitted for a conventional and insured mortgage.
 - Loan-to-value for purchases
 - Loan-to-value for refinances
- Calculate loan-to-value (LTV).
- Calculate the terms of a mortgage based on the maximum loan-to-value permitted and when given GDSR and TDSR thresholds.
- Explain features of a mortgage, such as:
 - Convertibility
 - Portability
 - Assumability
 - Mortgage cash account
 - Cashback
 - Interest capitalization (i.e., skip payment)
 - Prepayment options
- Explain for whom each feature of a mortgage may be suitable.
- Define high-ratio mortgage.
- Identify providers of mortgage default insurance.
- Explain the purpose of mortgage default insurance.
- Identify lenders who offer high-ratio mortgages.
- Identify sources of down payment that may be used for the purchase of a property using a high-ratio mortgage, such as:
 - Savings
 - Gift
 - RRSP
 - Proceeds from the sale of an existing property
 - Funds borrowed against proven assets

- Identify when mortgage default insurance may be required based on the loan-to-value (LTV) ratio.
- Identify the general requirements to qualify for mortgage default insurance, such as:
 - Location of property
 - Maximum purchase price or as-improved property value
 - Minimum down payment
 - Source of down payment
 - Maximum GDSR and TDSR
 - Credit approval from lender
 - Payment of closing costs
- Identify that mortgage default insurance may be limited by the characteristics of the property.
- Identify the premiums for mortgage default insurance.
- Calculate the total premium for mortgage default insurance given the schedule of premiums.
- Calculate the total credit cost over the lifetime of the mortgage using mortgage default insurance.
- Calculate the additional down payment required to avoid mortgage default insurance.
- Compare paying mortgage default insurance premiums at the time of purchase versus financing them with a mortgage.
- Identify that a portion of mortgage default insurance premiums may not be financed.
- Explain maturity or renewal options for a mortgage.
- Determine how each of these factors may impact the suitability of a mortgage:
 - Purpose of credit or borrowed funds
 - Amount of credit requested / required
 - Ongoing need for borrowing capacity
 - Expected variability of interest rates
 - Cost, including interest and fees
 - Impact on cash flow
 - Payment options (schedule, amounts, options)
 - Expected prepayments
 - Collateral requirements
 - Expected lifetime of collateral (if applicable)
 - Closure requirements / costs
 - Tax impact
- Evaluate how each of the factors may impact the suitability of a mortgage.
- Determine how each of these factors may impact the suitability of an open mortgage:
 - Cost, including nominal interest rate
 - Expectation of prepayments

- Penalties related to plans to sell property
- Evaluate how each of the factors may impact the suitability of an open mortgage.
- Determine how each of these factors may impact the suitability of a closed mortgage:
 - Cost, including nominal interest rate
 - Expectation of prepayments
 - Penalties related to plans to sell property
- Evaluate how each of the factors may impact the suitability of a closed mortgage.
- Determine how each of these factors may impact the suitability of a fixed rate mortgage:
 - Cost, including nominal interest rate
 - Expectation of interest rate changes in the future
 - Comfort with fluctuations in payment and/or amortization
 - Financial capacity to handle fluctuations in cash flow
- Evaluate how each of the factors may impact the suitability of a fixed rate mortgage.
- Determine how each of these factors may impact the suitability of a variable rate mortgage:
 - Cost, including nominal interest rate
 - Expectation of future interest-rate changes
 - Comfort with fluctuations in payment and/or amortization
 - Financial capacity to handle fluctuations in cash flow
- Evaluate how each of the factors may impact the suitability of a variable rate mortgage.
- Identify the charges that may be associated with breaking and renegotiating a mortgage agreement, such as:
 - Prepayment charges / penalties
 - Administration fees
 - Appraisal fees
 - Reinvestment fees
 - Legal and registration fees to discharge the original mortgage charge and register a new mortgage charge
 - Repayment of benefits received with original mortgage (i.e., cash back)
- Identify potential methods that may be used to reduce prepayment charges when paying out or discharging a mortgage, such as:
 - Making prepayments up to allowable limits before making final payment
 - Increasing payments up to allowable limits until time of final payment
- Identify options for paying prepayment charges when breaking a mortgage agreement, such as:
 - Pay in cash
 - Add to new mortgage balance and finance over lifetime of the mortgage
 - Add to mortgage rate and finance over term of the mortgage

- Identify options available when breaking mortgage agreement in favour of lower interest rates, such as:
 - Pay off entire mortgage and set new mortgage up with current lender at a lower interest rate
 - Pay off entire mortgage and set new mortgage up with different lender at a lower interest rate
 - “Blend and extend” mortgage with current lender
- Determine how each of these factors may impact the decision to break a mortgage agreement:
 - Costs
 - Prepayment costs
 - Discharge fees
 - Registration fees for a new mortgage
 - Impact on cash flow
 - Impact on interest cost
 - Over the remaining term of the mortgage
 - Over the amortization of the mortgage
 - Impact on balance of mortgage at end of the mortgage term
 - Impact on amortization of mortgage
 - Expectations for future interest rates
 - Potential to port mortgage to another property
 - Potential for mortgage to be assumed
 - Individual attitudes / preferences
- Evaluate how each of the factors may impact the decision to break a mortgage agreement.
- Calculate the impact of breaking a mortgage agreement.
 - On cash flow
 - On Interest cost
 - Over the remaining term of the mortgage
 - Over the amortization of the mortgage
 - On the balance of the mortgage at the end of the mortgage term
 - On the amortization of the mortgage

3.5 REVOLVING CREDIT FACILITIES

3.5.1 SECURED LINE OF CREDIT

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define a secured line of credit.
- Explain the purposes for which a secured line of credit may be used.
- Explain for whom a secured line of credit may be suitable.
- Identify collateral that may be used for a secured line of credit, such as:
 - Cash or cash equivalents
 - Principal residence
 - Other real property
 - Non-registered investment assets
 - Business assets
 - Permanent life insurance
- Explain that a line of credit secured against real property (often known as a Home Equity Line of Credit or HELOC) uses a registered charge (conventional or collateral) to secure the credit.
- Explain costs that may be associated with obtaining a secured line of credit, such as:
 - Appraisal fees
 - Survey fees
 - Legal fees
 - Discharge & disbursement fees
 - Administration fees
 - Mortgage broker fees
 - Property inspection fees
 - Title insurance fees
 - GST / HST
 - Environmental assessment fees
 - Registration fees
- Identify the maximum thresholds permitted for a secured line of credit based on the type of collateral used.
- Estimate the terms for a secured line of credit.
- Determine how each of these factors may impact the suitability of a secured line of credit:
 - Purpose of credit or borrowed funds
 - Amount of credit requested / required
 - Ongoing need for borrowing capacity
 - Fiscal responsibility
 - Expected variability of interest rates
 - Cost, including interest and fees

- Impact on cash flow
- Payment options (schedule, amounts, options)
- Expected prepayments
- Collateral requirements
- Expected lifetime of collateral (if applicable)
- Closure requirements / costs
- Tax impact
- Evaluate how each of the factors may impact the suitability of a secured line of credit.

3.5.2 UNSECURED LINE OF CREDIT

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define an unsecured line of credit.
- Explain the purposes for which an unsecured line of credit may be used.
- Explain for whom an unsecured line of credit may be suitable.
- Estimate the terms for an unsecured line of credit.
- Determine how each of these factors may impact the suitability of an unsecured line of credit:
 - Purpose of credit or borrowed funds
 - Amount of credit requested / required
 - Ongoing need for borrowing capacity
 - Fiscal responsibility
 - Expected variability of interest rates
 - Cost, including interest and fees
 - Impact on cash flow
 - Payment options (schedule, amounts, options)
 - Expected prepayments
 - Collateral requirements
 - Expected lifetime of collateral (if applicable)
 - Closure requirements / costs
 - Tax impact
- Evaluate how each of the factors may impact the suitability of an unsecured line of credit.

3.5.3 CREDIT CARDS

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define a credit card.
- Explain the purposes for which a credit card may be used.
- Explain for whom a credit card may be suitable.
- Explain how interest is calculated on a credit card.
 - For purchases
 - For outstanding balances

- For cash advances
- Explain the grace period provided for payment of credit cards.
- Compare credit cards issued by major retailers and financial institutions, specifically:
 - Interest rates
 - Administration costs
 - Benefits
- Explain the lender's right to demand payment at any time for credit cards.
- Explain the costs that may be charged by a credit card company.
- Identify the types of credit cards that may exist, such as:
 - Unsecured
 - Secured
 - No-fee
 - Annual fee
 - Rewards
- Estimate the terms of a credit card.
- Determine how each of these factors may impact the suitability of a credit card:
 - Purpose of credit or borrowed funds
 - Amount of credit requested / required
 - Ongoing need for borrowing capacity
 - Fiscal responsibility
 - Expected variability of interest rates
 - Cost, including interest and fees
 - Impact on cash flow
 - Payment options (schedule, amounts, options)
 - Expected prepayments
 - Collateral requirements
 - Expected lifetime of collateral (if applicable)
 - Closure requirements / costs
 - Tax impact
- Evaluate how each of the factors may impact the suitability of a credit card.

3.6 BUSINESS CREDIT FACILITIES

3.6.1 BUSINESS CREDIT FACILITIES

Additional Knowledge Expected of CFP Professionals

- Define types of business credit facilities, such as:
 - Operating line of credit
 - Commercial mortgage
 - Business loan
 - Letter of credit
- Identify the purposes for which each type of business credit facility may be used.
- Explain for whom each type of business credit facility may be suitable.
- Estimate the terms of a business credit solution.
- Determine how each of these factors may impact the suitability of a business credit facility:
 - Purpose of credit or borrowed funds
 - Amount of credit requested / required
 - Ongoing need for borrowing capacity
 - Fiscal responsibility
 - Expected variability of interest rates
 - Cost, including interest and fees
 - Impact on cash flow
 - Payment options (schedule, amounts, options)
 - Expected prepayments
 - Collateral requirements
 - Expected lifetime of collateral (if applicable)
 - Closure requirements / costs
 - Tax impact
- Evaluate how each of the factors may impact the suitability of a business credit facility.

3.7 CREDIT ADJUDICATION

3.7.1 CREDIT ADJUDICATION

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Explain the Five C's of credit adjudication:
 - Capacity
 - Credit History
 - Character
 - Capital
 - Collateral
- Explain the purpose of the Five C's of credit adjudication.
- Determine how each of these factors may impact capacity to repay:
 - Gross Debt Service Ratio (GDSR) and Total Debt Service Ratio (TDSR)
 - Stability of employment
 - Stability of compensation
 - Level of committed / non-discretionary expenses
- Evaluate how each of the factors may impact capacity to repay.
- Calculate Gross Debt Service Ratio (GDSR) and Total Debt Service Ratio (TDSR).
- Explain the components of a personal credit report that may impact a credit rating, such as:
 - Types of credit
 - Utilization of existing credit
 - Length of credit history
 - Repayment history
 - Frequency of borrowing
 - Number of inquiries
 - Types of inquiries (hard or soft inquiries)
 - Record of collection, bankruptcy or orders for payment
 - Comments related to fraud or identity verification alerts
 - Credit score
- Evaluate how each of the components of a personal credit report may impact a credit rating.
- Determine how each of these factors may impact the assessment of a prospective borrower's character:
 - Stability of employment
 - Stability of residency
 - Ability to manage money
 - History of debt repayment
 - Accumulated savings

- Evaluate how each of the factors may impact the assessment of a prospective borrower's character.
- Determine how each of these factors may impact the assessment of a prospective borrower's capital:
 - Value of assets
 - Value of liabilities
 - Liquidity of assets
 - Priority of debts
 - Ownership structure of assets
 - Volatility of asset values
 - Geographic location of assets
- Evaluate how each of the factors may impact the assessment of a prospective borrower's capital.
- Calculate loan-to-value (LTV).
- Explain types of collateral / guarantees, such as:
 - Cash or cash equivalents
 - Principal residence
 - Non-registered investment assets
 - TFSA assets
 - Other real personal property
 - Tangible business assets
 - Intangible business assets
 - Personal property
 - Life insurance
 - Co-signatory
 - Guarantor
- Determine how each of these factors may impact collateral:
 - Value of collateral
 - Liquidity of collateral
 - Volatility of collateral
 - Encumbrances against collateral
 - Geographic location of collateral
 - Environmental impact of collateral
- Evaluate how each of the factors may impact collateral.
- Explain the impact of the Five Cs of credit on the outcome of a credit adjudication.
 - Credit Approval
 - Structure of debt (installment vs. revolving, secured vs. unsecured)
 - Security requirement
 - Repayment structure

- Interest rate
 - Fees
 - Credit limit
 - Term
 - Amortization
- Explain other conditions that may impact a lender in the adjudication process for credit, such as:
 - Business cycle
 - Risk appetite of the lender

3.8 DEBT REPAYMENT

3.8.1 DEBT REPAYMENT

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Determine how each of these factors may impact the ability to repay debt:
 - Net income
 - Rate of savings
 - Amount of savings
 - Debt levels
 - Interest rate on debt
 - Cash flow limitations / alternatives
 - Unforeseen events (i.e., disability, death of spouse)
 - Personal attitudes / preferences
 - Procrastination
 - Business failure / loss of employment
 - Relationship breakdown
 - Support of children / parents / family
 - Lack of knowledge / advice
 - Personal attitudes / choices
- Identify debt repayment strategies, such as:
 - Prioritize paying down debt with the highest interest rate
 - Prioritize paying down debt with the smallest balance
 - Consolidate debt balances
 - Prioritize paying down debt with a specific covenant or purpose
- Calculate the amount of dollar assets required to pay down or retire debt.
- Calculate the amount of cash flow required to pay down or retire debt.
- Explain the impact on debt projections when assumptions differ from reality.
- Determine how each of these factors may impact the choice of debt repayment strategy:
 - Impact on cash flow
 - Impact on amortization period
 - Impact on interest cost over amortization period
 - Impact on balance at end of borrowing term
 - Expected life of financed asset
 - Prepayment allowances
 - Impact on alternative goals
 - History of debt management
 - Individual attitudes / preferences
- Evaluate how each of the factors may impact the choice of debt repayment strategy.

- Calculate the impact of paying down or retiring debt.
 - On cash flow
 - On amortization period
 - On interest cost over the amortization period
 - On balance at end of borrowing term

3.9 DELINQUENCY

3.9.1 DELINQUENCY

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define delinquency.
- Explain the impact of delinquency on:
 - Net worth
 - Credit score
 - Credit bureau
 - Interest rate
 - Future borrowings
- Explain the factors to consider when deciding the priority of debts to repay, such as:
 - Repercussions of failing to pay the debt
 - Interest rate
 - Fees / costs
- Explain the lender's right of offset.
- Explain the role of debt collection agencies.
- Identify that the federal government has rights for delinquent obligations owing to it, such as:
 - Garnishment of income without judgement
 - Seizure of assets without judgement
 - Encumbrance of assets without judgement
- Identify that provincial/territorial governments have varying rights for delinquent obligations owing to them.

3.10 INSOLVENCY

3.10.1 INSOLVENCY

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define insolvency.
- Identify the providers and options that can assist an insolvent debtor, such as:
 - Credit counselling agency
 - Financial institutions
 - Personal negotiation with creditors
 - Lawyers
 - Licensed trustees
- Identify options available to an insolvent debtor, such as:
 - Orderly repayment of debts in certain provinces or territories
 - Debt management programs
 - Consolidation loans
 - Creditor negotiations
 - Proposals pursuant to the Bankruptcy and Insolvency Act
 - Bankruptcy
- Explain the priority interests of secured and unsecured creditors in the event of insolvency.
- Identify that bankruptcy is governed under the federal Bankruptcy and Insolvency Act.
- Identify the obligations that may not be included in a bankruptcy, such as:
 - Alimony and child support payments
 - Student loans (if studies ceased less than seven years ago)
 - Court-ordered fines or penalties
 - Debts arising from fraud
- Identify implications of bankruptcy, such as:
 - Sale of assets
 - Trustee deals with creditors on debtor's behalf
 - Ability to borrow in the future may be impacted
 - Record of bankruptcy on credit rating for six to fourteen years