FINAL TRANSCRIPT

Street Capital Group Inc.

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PRESENTATION

Operator

Hi, everyone. Welcome to the Street Capital Third Quarter 2017 Financial Results Conference Call.

As a reminder, this call is being recorded on Friday, November 3, 2017.

At this time, all participants are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. Instructions will be provided at that time for research analysts to queue up for questions.

If anyone has difficulties hearing the conference, please press *, 0 for Operator assistance at any time.

I would now like to turn the call over to Jonathan Ross, Head of Investor Relations for Street Capital Group. Please go ahead, Mr. Ross.

Jonathan Ross — Head of Investor Relations, Street Capital Group Inc.

Thanks, Dan. Good morning, everyone, and thanks for joining us today. I'm joined on the call today by Duncan Hannay, Chief Executive Officer of Street Capital, and Marissa Lauder, Chief Financial Officer.

Street Capital Group's third quarter 2017 financial results were released today. The press release, the financial statements, and MD&A are available on SEDAR, as well as on our website, streetcapitalgroup.ca.

We would like to remind listeners that portions of today's discussion contain forward-looking statements that are based on management's exercise of business judgment, as well as assumptions made by and information currently available to management.

When used in this conference call, the words may, plan, will, anticipate, believe, estimate, expect, intend, and words of similar import are intended to identify any forward-looking statements. You should not place undue reliance on these forward-looking statements. These statements reflect our current views of future events and are subject to certain risks and uncertainties as outlined in the Company's Annual Information Form and other filings made with the securities regulators, which are available on SEDAR.

These factors include, without limitation, expansion opportunities; technological changes; regulatory changes and requirements, including mortgage insurance rules; and changes to the business and economic environment, including but not limited to, Canadian housing market conditions and activity, interest rates, mortgage-backed securities markets, and employment conditions that may impact the Company, its mortgage origination volumes, launch of new products at planned times, investments in capital expenditures, and competitive factors that may impact revenue and operating costs.

Any of these factors, amongst others, could cause actual results to vary materially from current results or from the Company's currently anticipated future results and financial condition.

Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, our actual results could differ materially from those anticipated in these statements. We undertake no obligation and do not intend to update, revise, or otherwise publically release any revisions to these forward-looking statements to reflect events or circumstances after the date hereof, or to reflect the occurrence of any unanticipated events.

Although we believe that our expectations are based on reasonable assumptions, we can give no assurance that our expectations will materialize.

I will now pass the call over to Duncan Hannay, Chief Executive Officer of Street Capital Group.

Duncan Hannay — Chief Executive Officer, Street Capital Group Inc.

Thanks, Jon, and good morning, everyone. We appreciate you joining the call this morning. This is my first opportunity to speak to you on the quarterly call as CEO of Street Capital.

I'm now two months into the job. And I do appreciate the early support and feedback I've received from all of our major stakeholders, including shareholders, our mortgage broker partners, the highly committed staff here at Street Capital, our regulators, and the Board of Directors.

I look forward to continuing positive interaction as we work together to build on our strong foundation and grow this company into a leading Canadian banking platform in the coming years. That's why I joined the organization, and I'm firmly committed to driving growth along with the team here at Street.

The mortgage industry in Canada is experiencing significant headwinds brought on by recent regulatory change and other influences. The year-over-year decline in prime insurable originations for Street Capital and its direct competitors is a direct result of these changes.

With the release of OSFI's revised B-20 guidelines in October of this year, there will be further pressure on the uninsured segment of the market, which could result in further slowing of credit growth moving forward, as well as some softening in pockets of the residential real estate market.

All that said, there are meaningful addressable markets available to Street Capital in the midst of these regulatory changes where we can lever our Schedule I bank licence to deliver high-margin solutions and position the business for long-term growth.

Since joining the Company in early September, I have immersed myself, along with the management team, in the bank's business, listening, taking stock, and beginning to outline the steps we will take over the coming months and years to fully leverage the potential of this platform. I look forward to further expanding on these opportunities in the coming months as we put the final pieces of our long-term strategic plan in place.

I will come back to give you a high-level view of the ongoing strategic process and the steps we are taking in the near term to begin to build out our funding and product offering, but will pass the call to Marissa to take us through the quarter.

Marissa Lauder — Chief Financial Officer, Street Capital Group Inc.

Great. Thank you, Duncan, and good morning, everyone. I'd like to start by saying that overall Q3 was a solid quarter for Street Capital Bank. This is despite the negative impact of the mortgage insurance rule changes last year.

As projected, renewals are ramping up strongly and gain on sale rates have improved. We kept the line on expenses, and in the quarter our Solutions products is nearing the low end of our annual volume targets and just a few months into our pilot launch.

Adjusted earnings—diluted earnings per share were $0.04 in the quarter compared to $0.05 last year and $0.02 last quarter.

New prime originations were 1.5 billion in the quarter. This is about 39 percent behind the same quarter last year. Year to date, we have originated 4.2 billion, which is roughly 27 percent lower than the first nine months of 2016. And as we have described during previous quarterly calls, originations have been negatively impacted by the changes in mortgage insurance rules last fall.

While we continue to work hard to find funding options for prime uninsurable mortgages, it has taken longer than we had hoped or expected. It is important that any funding solutions for prime uninsurable mortgages are both capital and economically efficient for the Bank.

Net gain on sale rates for new prime mortgages continued to increase during the quarter, moving to 67 basis point in Q3 from 62 basis points last quarter and 53 basis points in Q1. The increase reflects improvement in spreads on certain sales, as well as continuation of some of the factors that we discussed last quarter.

As projected, our renewal volumes continued to accelerate, with Q3 renewals of 560 million up 22 percent over last quarter and 55 percent over last year. Renewal rates came in a bit lower than target at 73 percent versus the 75 to 80 percent that we target on an ongoing basis. Our year-to-date renewal rate is approximately 74 percent.

As I outlined last quarter, a few factors have contributed to the lower renewal rate compared to our targets, including seasonality along with some additional discounting in the markets as lenders compete for insured mortgages and a current inability to renew customers requesting a refinance at renewal.

For renewals, the net gain on sale rate was 142 basis points, improving from 137 basis points last year and 139 basis last quarter.

Moving to our new product, we originated 131 million in Street Solutions mortgages in the quarter, which are funded with a portfolio of fixed-term GICs. The average rate on these Street Solutions mortgages was 4.88 percent. Year to date, our originations are 142 million and already close to the low end of our target for 2017. And with the commitments we have in the pipeline right now, we expect to be well within our targeted range for new volumes for 2017.

In mid-October, we put a hold on further Solutions applications for closing in 2017, as we were within both our targeted mortgage volumes and our funding plans. We continue to accept applications for 2018 closing, and aim to restart our Street Solutions programs in the new year. We remain very comfortable with the 600 million to 700 million in Solutions volumes we are targeting for 2018, and the targets we have set out for 2019.

In the quarter, we continued to build the balance sheet and accumulate our liquidity pool. We generated net interest income of 243,000 on uninsured lending activities in the quarter.

On a year-to-date basis, our net interest income is still negative, as we've been building our balance sheet lending portfolio from zero. The gross spread between Street Solutions mortgage yield and the average deposit rates in the last two quarters has been in a range such that we expect Street Solutions to comfortably earn a net interest margin of between 2 and 2.5 percent when the mortgage assets are more in line with the funding and liquidity base.

As a new Schedule I bank, we are managing our funding and liquidity conservatively. We continue to work to term out our GIC portfolio as a strategy to manage liquidity risk, and at the end of the quarter, our GIC deposit base was just over 198 million, up from 72 million last quarter. Interest rates on these deposits ranged from 0.9 percent to 3.09 percent, and our available liquid assets at the end of the quarter were 55.4 million.

Also importantly, we added two larger broker GIC boards recently, and we will continue to focus on adding additional funding sources to support the targeted growth in the Solutions product.

During the quarter, we were presented with the opportunity to securitize and sell a $43 million 10-year mortgage loan on a multiunit residential property for a third party. We booked approximately 300,000 in up-front gains on this sale in the quarter. We will continue to engage in similar transactions in the future if the opportunity arises.

Street Capital Bank's CET1 ratio at the end of the quarter was 27.54 percent, and its leverage ratio was 15.85 percent. These are well above regulatory minimums and our own internal targets. As we continue to grow the balance sheet, we expect these ratios to trend into a more optimized range with a corresponding lift to return on equity.

In the quarter, we held the line on expenses. Adjusted operating expenses, which were adjusted for a further $500,000 in restructuring costs, were 13.1 million compared to 13.7 million last quarter and 13.1 million a year ago. Expenses in the quarter included approximately 500,000 of noncash stock-based compensation expense related to the issuance of 3.2 million stock options to senior officers of the Company in the quarter.

We did begin to see the benefit of the reorganization plan we implemented in Q2. We expect savings of approximately 1.5 million to 2 million annualized, taking this restructuring in isolation.

That said, as the Company moves forward and continues to develop and implement its strategy, we do expect that additional skilled talents and technology will be brought on board. But we are still targeting to achieve positive operating leverage for the 12 months of 2018 and in 2019.

While we maintain the bulk of our guidance from last quarter, we did move our prime new origination guidance lower. We have adjusted the guidance to a decline of 30 to 35 percent compared to 2016 from the 20 to 30 percent lower we guided last quarter. The decline reflects the reduction in our addressable prime mortgage market due to the funding constraints we've discussed that have taken longer to address than we had hoped.

Subsequent to quarter-end, OSFI released its revised B-20 guideline. While we cannot be certain of the effects these changes will have, we believe there could be an overall decline in uninsured mortgage lending activity in the regulated space along with buyers adapting their borrowing. For example, choosing less expensive properties or accumulating larger down payments or adding co-borrowers.

For us, as we communicated, we have relatively modest non-prime uninsured mortgage origination targets over the next two years compared to the overall size of the available market. Right now we believe we can meet these targets even with the changes to B-20 in place. In that regard, we remain confident in our Solutions product guidance targets, and we have reiterated them this quarter.

Thank you. And now I'll pass the call back to Duncan.

Duncan Hannay

Thanks, Marissa. Picking up on where I left off on the macro and regulatory environment faced by Street and its competitors, it's fair to say that there is a significant amount of uncertainty in the market right now.

This uncertainty resides within the lending industry itself as we all work to ascertain the likely impact of regulatory change. And as would be reasonably expected, this uncertainty has spilled into the share price performance and valuation on the equity side for many players.

With the potential negatives of slower growth in the industry overall, I'm going to lay out for you why I feel Street Capital is poised for midterm and long-term growth within this context.

We do anticipate that higher rates and regulatory change will slow overall credit growth in the next few years compared to what we have witnessed over the past five. To the extent that this slowing in credit growth comes with softening housing prices, our estimates suggest that this would be neutral to positive to our business model.

With a reasonable economic backdrop, moderation in housing prices could serve to expand the pool of potential borrowers as affordability improves. Importantly, we anticipate that the announced regulatory changes, coupled with a rising rate environment, will dampen transferring between financial institutions. This, combined with a renewed focus on client retention, could lead to higher renewal rates as we come into 2018.

Splitting my discussion between prime and non-prime, these segments will be subject to very different growth prospects for Street Capital over the next few years. The addressable prime insurable market for lenders of our size has shrunk considerably, and will likely continue to do so in favour of large Canadian banks.

Our focus will be on maintaining our market share in the broker channel for this business line, and several of the initiatives I will talk about in a moment will ensure that we are effectively positioned to do this.

I would also like to emphasize that we have significant earnings coverage from the ramp-up of renewals this year, and into the next two years renewals can be up to 2 times more profitable and velocity is improving, as demonstrated over the past two quarters.

For the prime uninsurable loans, we are actively exploring funding alternatives for this product. But as Marissa outlined, we have not included any upside from this in our guidance at this time because it is an industry problem that a number of players are working to solve. Timing is therefore very difficult to establish, but rest assured that we are working to innovate in this area.

Looking beyond prime, we believe that the conservative estimate of roughly 50 billion in annual originations in the Canadian non-prime segment of the market will continue to be a pocket of outsized growth because of—because, rather, it is a less contested yet attractive market segment.

Large Canadian banks have reaped a huge regulatory dividend in recent months from the changes in mortgage insurance rules, and their business models are not designed to effectively address this space. They are notably absent here. This space will be a meaningful focus over the next three years.

As evidence of the opportunity here, the rollout of our Street Solutions program has shown early signs of success. As Marissa noted, we will easily hit the 150 million to $200 million in originations we outlined for the market in 2017 in just a few short months. We look forward to rolling out the program on a broader basis later in Q4.

Having met with several of our mortgage broker partners over the past few weeks, I can confidently tell you that there is more demand for this product. The challenge here will be expanding our funding as we pivot to support this growth, which is a significant thrust of our strategic focus.

So with this market backdrop, we are currently in the midst of a strategic review at the senior management level. This process is ongoing. However, I can tell you now that we plan on approaching growth in two principal phases.

Phase one will be to strengthen and optimize our current deposit and lending platform with a more fulsome suite of solutions and distribution to drive improved midterm earnings. Phase two will target the transformation of the business into a modern, digitally enabled asset-light banking offering that will expand our addressable market and our share of the customer wallet.

For the purposes of our discussion today, I'm going to focus on phase one, where we have identified five key opportunity spaces for the business over the next three years, as follows.

Number one, we will diversify and deepen our on- and off-balance sheet funding sources. As part of a diversified funding strategy in the coming months and years, we will work to prudently grow our brokered GIC network, expand capital markets funding options, and lay the groundwork to launch a suite of digital saving solutions.

Number two, we will further unlock addressable markets and focus on growing higher-margin products. Street Solutions is a good example here, and we have already started to explore high-margin product adjacencies that we can sell through existing channels. Note, however, that as part of our strategic review, we have opted to put the credit card product on hold for now. In our view, there are better ways to utilize our capital and resources to drive cross-sell, broker and customer loyalty, and profitable growth in the business.

Number three, we will focus on improving the end-to-end experience for both consumers and broker partners. This is the core of our long-term value equation of the financial institution. We will be adding analytics, talent, and automation to make processes as efficient and experiences as positive as possible for our customers and brokers. We are in the midst of doing a deep dive on the process and pain points here to ensure that we are a truly customer-centric FinTech-minded organization.

An example of some of the items we will be focusing on here include optimizing our underwriting and QA processes and leveraging technological innovation across these areas while continuing to underwrite the high quality credit that Street is known for.

Number four, we will modernize our operating platform towards a lean and scalable organization. Our goal here will to be focus on efficiency throughout the organization. Specifically, we will be looking at ways to drive throughput and lower operating costs. We will be designing and implementing an enhanced technology stack, including a core banking platform, as well as enhanced digital delivery support to bring this goal to fruition.

Number five is to drive higher customer renewal and retention rates. The math here is simple: Higher renewals on a higher margin sale drives EPS higher. To support this initiative, we will be dedicating more resources towards our renewal marketing and retention process with supporting analytics and decision science.

Common to the five opportunity spaces I've outlined here is competitive advantage in the area of funding and product management and marketing. So I'd like to take this opportunity to welcome Greg Parker, our new EVP of Capital Markets and Treasury, and Jeff Marshall, our new Chief Product and Marketing Officer, to the business.

I should note that there is more work to be done to finalize our vision and strategy and build our three-year financial plan. We're hard at work on this, and we are planning an Investor Day for the first half of 2018 where we outline the way we are attacking these opportunities and preparing Street Capital for the future.

During this day, we will also give shareholders and analysts an opportunity to hear from, meet, and interact with all the key members of our senior management team.

In closing, I would like to reiterate that management and the board are very aligned with common shareholders. I bought a significant stake in the Company when I joined, and currently insider ownership sits at 20 percent, so we are all working towards a common objective.

Thank you again for your time today. I would now like to pass the call back over to the Operator to open the line for questions.

Q&A

Operator

And at this time, if you would like to ask a question, please press *, followed by the number 1 on your telephone keypad. We'll pause for a moment to compile our Q&A roster.

And your first question comes from the line of Dylan Steuart with Industrial Alliance. Please go ahead.

Dylan Steuart — Industrial Alliance

Good morning.

Duncan Hannay

Good morning, Dylan.

Marissa Lauder

Good morning, Dylan.

Dylan Steuart

Welcome aboard, Duncan. Yeah. Just a quick question just on I guess on the decision to pause the credit card initiative. Just maybe a bit more colour on what you're seeing there? And I guess on top of that, maybe—I know you're still working out the strategic plan—but just other products that sort of make sense or where you're leaning towards in that direction?

Duncan Hannay

Okay. Thanks, Dylan. Appreciate that. And as far as the credit card is concerned, I think at this point we're looking to maximize the return on capital in the business. And we believe a better use of our capital and resources to drive midterm growth in the business is available to us through other activities.

And frankly, with 130 customers and virtually no consumer brand recognition, we really lack the scale to deliver a meaningful front-of-wallet card product in my view at this point in time. And as I said, I think there are better opportunities for us to drive return on capital in the business. And so we are looking to maintain really our focus on the deposit and lending platforms, deposits of course being a key part of our growth trajectory.

As I mentioned in my remarks, we are looking to implement a core banking platform as well that would allow us to bring deposit solutions direct to consumer. And again, in the context of our business model, we think that's better use of our capital at this point than building a back-of- wallet credit card, if you will.

Dylan Steuart

Okay. No, that's fair. And I guess just talking about some areas still need to be built out, I guess, it sounds like the focus is on that—I guess on the broker and client experience. Is that fair? Like any additional staff will be in that area?

Duncan Hannay

Yeah. We've been doing some market research, both with consumers and with our broker partners, including ethnographic research around the, I guess, the various friction points along the process. And we have been in conjunction with Jeff Marshall and his team journey mapping that experience from an end-to-end perspective with the notion of really knocking down the points of friction along the way so that we can deliver a more seamless experience, better service quality overall, and better throughput, which only makes us more efficient in the long run. And better improves our satisfaction rates amongst customers and brokers.

Dylan Steuart

Okay. Perfect. And just one more just on the multi-res CMB sale in the quarter. Sounds like bit of a one-off, but is that an area that maybe would have a bit more increased focus in the future?

Duncan Hannay

I think our focus will continue to really be on the retail sector, but I think opportunistically we will certainly look to utilize our 10-year CMB allocation moving forward. So there's definitely potential for more of that business. I would call that more opportunistic moving forward rather than strategic, per se.

Dylan Steuart

Okay. Perfect. Well, I'll re-queue, but thanks very much.

Duncan Hannay

Thank you, Dylan.

Operator

Your next question comes from the line of Brenna Phelan with Raymond James. Please go ahead.

Brenna Phelan — Raymond James

Good morning, guys.

Duncan Hannay

Hey, Brenna.

Marissa Lauder

Hi, Brenna.

Brenna Phelan

So just to start on the non-prime origination volume, so it reached the top of your—or middle of guidance range, it seems, in the first two weeks of October. Is this—like from what I've been hearing, there's a bit of a frenzy in this market now as people like really look to lock in before the rules come into play. Is this—was there no—was this sort of required by OSFI that you don't exceed targets? Or is this an internal—is there anything to do with a funding constraint? Could you just give a little colour on the decision to stop funding?

Duncan Hannay

Sure. Well, I think first of all, we're focused on growing our bank and balance sheet responsibly and in line with the targets that we have set out for the market, as well as our funding plan.

Brenna Phelan

Mm-hmm.

Duncan Hannay

When we launched the Solutions product, we were pretty clear that we were launching as a pilot with set targets, which we met, and we are continuing to originate products for a 2018 closing. So we will more formally roll out and introduce our Solutions product later in Q4. And we look to build our momentum moving into 2018, where we're sticking with our guidance of 600 million to 700 million in originations in that space for 2018.

To your point, Brenna, demand is not the issue here.

Brenna Phelan

Right.

Duncan Hannay

I think for us it's really about growing our bank responsibly and in line with the targets that we've set.

Brenna Phelan

Okay. So demand's not an issue at all, and that's just prime turndowns? Are you seeing—is a lot of the business you're doing coming directly from borrowers that apply for a prime mortgage and are turned down? Or is it totally different channels?

Duncan Hannay

The bulk of the demand is coming for what we would call the business-for-self segment or self-employed people who don't have traditional means of verifying income.

Brenna Phelan

Yeah.

Duncan Hannay

So more difficult to underwrite, a little more work involved certainly, but I think what we're pretty pleased by is the overall credit quality of the borrower that we've been seeing, so 700ish Beacon, 72 percent LTV, very good GDS and TDS rates. So by way of credit quality, again in line with our historic approach, we're seeing a very good book of business here, high credit quality. And as you know, this business is a little more yieldy than other parts of our business.

Brenna Phelan

Okay. Thank you for that. And that was actually my next question. So so far credit quality provisions trending in line with what you were expecting?

Duncan Hannay

Yeah. We've had some very good results there, and as you know, our credit quality is much better than the industry on the whole. I think, Marissa, we were at 9 basis points in terms of—

Marissa Lauder

Yeah.

Duncan Hannay

—on the arrears rate.

Marissa Lauder

Nine basis points for our provision. So we set up a collective provision of 9 basis points of the outstanding balance.

Brenna Phelan

Okay.

Marissa Lauder

That really just reflects the setting up of a collective allowance at this point. We don't have any mortgages that are in arrears or delinquent or that we expect to lose any money on at this point.

Brenna Phelan

Okay. And then so looking to 2018 and diversifying the funding platform, the digital savings product, would that—do you expect to roll that out in 2018?

Duncan Hannay

I think that our focus through 2018 from a pure deposits perspective is going to be really with our term GIC solution. I think that any digital-type savings vehicles would probably be looking into maybe best case late 2018, but probably more so 2019.

We really want to get our feet under us well established in the term deposit space. We know those are very stable deposits. And if we can, if you will, scale our balance sheet in that area as a first step, I think that positions us well. And I know Greg Parker is also very focused on sort of capital market solutions that can create some more optionality for us from an off-balance sheet perspective in funding, both in the insured as well as the uninsured space.

Brenna Phelan

Okay. So would the digital savings solutions include high-interest savings? Or still sticking to the term deposits?

Duncan Hannay

Well, again, near-term focus will continue to be on the term GIC solutions. Is a HISA in our future? I think a HISA logically would form part of our mix moving forward once we get very well established with our deposits program.

Brenna Phelan

Okay. Thank you very much. That's it for me.

Duncan Hannay

No problem. Thank you, Brenna.

Operator

And again, if you'd like to ask a question, that's *, followed by the number 1 on your telephone keypad.

Your next question comes from the line of Jaeme Gloyn with National Bank Financial. Please go ahead.

Jaeme Gloyn — National Bank Financial

Yeah. Thanks, and good morning. And welcome, Duncan.

Duncan Hannay

Thanks, Jaeme.

Jaeme Gloyn

So first question just going back to the multiunit origination, is this—do you have originators that have those capabilities? Or did this just sort of fall into your lap? Or what was the origin—like how did this come about?

Duncan Hannay

We have—there are lenders, of course, that we're in touch with that originate in this space, and I wouldn't say we were aggressively pursuing this business, but we did do some outreach to look for product here, given our unused CMB allocation. And I think moving forward we would look to develop the business to the point that we could fully optimize that allocation, but again, not a strategic focus for us.

Jaeme Gloyn

Okay. Great. And I see that you've added a new funding partner. Has that partner began—or institutional investor—has that investor purchased mortgages yet? Is there amount an amount that they're looking to acquire? And do they have a desired product? Maybe just some more colour around that new investor.

Duncan Hannay

Sorry, Jaeme, are you referring to on the deposit side? Or …

Jaeme Gloyn

No, on the mortgage side.

Duncan Hannay

Oh, on the mortgage side. Yeah. We've got … I would say we have a good number of irons in the fire there, given the demand for the insured product. And we have begun to diversify our funding in that space, and do anticipate a sale with a new funder in that area. And I think we'll look to continue to grow that.

But certainly our established base has been very stable, and the demand for the insured product, rather, is quite strong.

Jaeme Gloyn

Okay. So that new funder that was onboarded in Q3 hasn't initiated yet?

Marissa Lauder

Yeah. Yeah. Jamie, it's Marissa.

Jaeme Gloyn

Yeah.

Marissa Lauder

Yeah. We have funded deals with that new funder this quarter.

Jaeme Gloyn

Okay. Just I guess with the existing funders, the gain on sale margin is still at about 2 percent. How is the interest rate environment, how is the mortgage rate environment impacting, I guess, your forecasts of funding commitment rates going forward? And what is the time line to renegotiate those commitment rates?

Marissa Lauder

So I'm going to just break that down into two questions. In terms of what we're seeing, I mean, Jaeme, we've talked about this before. In some cases our funders have more of a fixed rate premium-type model with us, and then we have other funders that our gain on sale rates would be sensitive to spreads in the market.

As it relates to renegotiating some of those pricing with our funders, it's certainly always on our radar in terms of the relationships that we hold with those funders, and it's something we're constantly in discussions with. So it's not a time line per se, but a consistent discussion that we're always happening.

I mean to be fair, in the prime mortgage space, given where the assets are priced right now, it's very slim margins for everybody, and I think everybody is sharing as best as they can. And as those spreads start to widen in the market and the asset prices start to go up, certainly we would go back to our funders and perhaps ask to share a little bit more in that profit.

Jaeme Gloyn

So then taking those comments one step further through the first month of Q4 here in October, are your commitment rates, have they come down then from that 2.04 percent? Or would you say they're roughly in line?

Marissa Lauder

I don't think I'm prepared to talk about that right now, Jaeme. I think the guidance that we provided in the MD&A, if you look, we said perhaps look to the last two years average gain on sales for new prime mortgages. And we're probably going to be sitting right around in that range.

Jaeme Gloyn

Okay. Great. And just last one for me regarding the interest coverage ratio breach. Can you remind me—

Marissa Lauder

Mm-hmm.

Jaeme Gloyn

—what is the interest coverage ratio covenant in, I guess, discussions around the waiver of that breach? And how does that impact your business on a go-forward basis?

Marissa Lauder

Yeah. So first of all, it doesn't impact our business on a go-forward basis. We don't really need to draw on the lines from an operating perspective or the warehouses that we use for prime insured or insurable mortgages right now. So in the midterm, that's not really going to affect us.

From a liquidity management perspective, it certainly is nice to have those lines in place, which is why we will work with the syndicate to make sure that our interest coverage ratio is more reflective of our business model. So the real issue here, Jaeme, is that as we started to build out our balance sheet, our deposit expenses increasing quite rapidly as you can imagine, going from a zero base of deposits up to almost 200 million, but the revenue hasn't followed along in the same velocity of increase, right?

So what happens is that created a small breach at the end of the quarter, which we immediately notified the syndicate. And they provide us a waiver, understanding the unique situation that we're in right now. So we fully expect that we can renegotiate this on a go-forward basis that would be well in compliance with that interest coverage ratio as we move forward.

Jaeme Gloyn

Okay. Great. Thank you.

Operator

And your next question comes from the line of Tania Gonsalves with Cormark Securities. Please go ahead.

Tania Gonsalves — Cormark Securities

Hi, there. Good morning, guys.

Duncan Hannay

Good morning, Tonia.

Marissa Lauder

Good morning.

Tania Gonsalves

So just firstly tacking onto Brenna's question here, you're putting new commitments on hold for that Street Solutions product. I'm wondering what will this mean for originations in Q4? I imagine they'll step down meaningfully. And does this roll into Q1 of 2018 as well?

Duncan Hannay

So we are continuing, first of all, to take commitments for 2018 on our Alt-A product or the uninsured solution. We have, in fact, hit our target range that we had set for that product in 2017. So while we won't be originating in Q4 for 2017 closings, if you will, we have already hit our origination target for the year, so.

And again, that's pretty small in the scheme of things in terms of our total origination target for the quarter.

Marissa Lauder

Right. So if I—I'll just add to that. So if we look at the end of the quarter as a benchmark, we were at about 142 million in balance. And we had a significant amount already in the pipeline, and you can see that in the disclosures in our financial statements or I can point you to the off-balance sheet section of the MD&A which talks to the commitments that we had in our pipeline. Those will fund in Q4. However—a portion of them will fund in Q4. However, it will be down from Q3 in terms of a funded volume. But again, we do really expect to meet between 150 million and 200 million in originations for the entire year of 2017.

That really won't affect us into 2018 because as we've already described, we're going to restart that program, and we still expect to meet the 600 million to 700 million in originations in 2018.

Tania Gonsalves

Okay. That sounds good. Is that something you anticipate would continue maybe? If you managed to meet your targets, say, in the first half of 2018 very quickly would you ramp down or put things on hold at the end of the year?

Duncan Hannay

Again, I think we're very comfortable with the target that we set for '18. We know the demand is strong for that product certainly, but we are, again, focusing on growing our bank and our balance sheet responsibly.

I think there's potential that if we have an off-balance sheet mechanism for funding in this space, that could allow us to go further on our origination targets. But for now, I think the guidance is pretty much in line with where we expect to be.

Tania Gonsalves

Okay. Sounds good. And then just secondly, maybe could you provide us with some colour on the new core banking system? I know you mentioned just in optimizing your platform to be more lean and scalable. I had envisioned the system being relatively new already, so maybe what's the added benefit of the new banking system? As well as how much will it cost? And how long do you think it will take to implement fully?

Duncan Hannay

So I would say it's very, very early days on that front, Tania. We are still very much in the evaluation stage. As you probably know, I come from the FinTech sector where I was in the core banking business apart from other software solutions to the lending industry.

Tania Gonsalves

Mm-hmm.

Duncan Hannay

So we are evaluating what's available in the marketplace as we speak. We need to get through that evaluation before we can really commit on any sense of cost or timing. But for us to be able to bring a, for example, direct-to-consumer deposit capability to market in a digital direct banking context, we would require that underlying core banking platform.

So it's kind of the core books and record and operating platform for a bank if you're going to offer direct banking solutions.

Tania Gonsalves

Okay. Sounds good. That's all I had.

Operator

And we have no further questions in the queue at this time. I would now like to turn the call back over to Jonathan Ross for closing remarks.

Jonathan Ross

Thanks for participating on the call today, everyone. If you have any questions, as usual feel free to reach out throughout the day.

And that's the conclusion of the call. Thank you.

Operator

Thank you to everyone for attending today. This will conclude today's call, and you may now disconnect.

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