RFA

BANK OF CANADA

# B-20 RESIDENTIAL MORTGAGE GUIDELINES

# PUBLIC DISCLOSURES

# JUNE 30, 2021

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## Overview

This disclosure is prepared in accordance with the requirements of *OSFI Guideline B-20 - Residential Mortgage Underwriting Practices and Procedures* ("Guideline B-20"). These disclosures are made to enable market participants to conduct an adequate evaluation of the soundness and condition of RFA Bank of Canada's (the "Bank") residential mortgage operations.

## Insured and uninsured mortgages

The Bank defines "insured" residential mortgage loans as any loan that has been insured individually or as part of a portfolio of loans, by either CMHC or one of two government backed private insurers in the Canadian market. The insurance policy protects the Bank in the event the borrower defaults on payments or is otherwise unable to meet the contractual obligations of the mortgage.

As of June 30, 2021, approximately $13 million of the Bank's $51 million insured mortgages held on-balance sheet were single-family residential mortgages that the Bank had securitized through the National Housing Act Mortgage-Backed Securities ("NHA MBS") program and sold through the Canada Mortgage Bond ("CMB") program. As issuer of the MBS, these mortgages remain on balance sheet as the Bank is responsible for advancing all scheduled and unscheduled payments of principal and interest, thereby retaining prepayment and interest rate risk. The Bank has an additional $14 million of mortgages that have been securitized through the NHA MBS program that have not yet been sold to investors ("stamped mortgages"). These are a component of the Bank's liquid assets, as they can be readily converted to cash. The Bank also held $3 million of prime insured loans either being held to maturity or accumulated for securitization. In addition, the Bank has $2 million of prime insured mortgages that were acquired from previously securitized NHA MBS pools upon renewal. These mortgages are held for sale and as such, are classified and measured at fair value through profit and loss.

As of June 30, 2021, the Bank held $19 million of purchased prime insured open mortgages. These mortgages are short-term in nature with maturity dates of less than one year.

The Bank's uninsured portfolio, net of unamortized deferred costs and allowance for credit losses, totalled $746 million as of June 30, 2021. This portfolio consists of $393 million of Bank originated Alt-A mortgages, $349 million of third-party originated Alt-A mortgages, and $4 million uninsured prime Bank originated mortgages. Both Alt-A products are non-prime single-family residential uninsured mortgages, consisting entirely of first mortgages that target a market segment that consists of credit-worthy, but generally under-served, borrowers who may not qualify for a prime residential mortgage.

Uninsured mortgages have an inherently higher credit risk than insured products. The Bank originates uninsured mortgages and mitigates this risk by adhering to credit policies and underwriting standards that are B-20 compliant. The Bank further reduces this risk by funding properties in predominately urban areas. To date, the Bank has not incurred any losses on its Alt-A portfolio.

For uninsured mortgages that have been acquired, the Bank mitigates credit risk by reviewing the original underwriting documents to ensure the credit quality is within the Bank's risk appetite. Additionally, the purchase contract allows the Bank to put back, within a specified time frame, mortgages that do not conform with the Bank's credit standards. To date, the Bank has not incurred any losses on these purchases.

The tables below detail the geographic distribution and remaining amortization of the insured and uninsured residential mortgage loans that the Bank holds on-balance sheet, net of unamortized deferred costs and allowance for credit losses.

### Single-family residential loans by province

The Bank originates most of its uninsured RFA Alternative mortgages in Ontario and British Columbia. The Bank does not do business in Quebec however a small portion of its purchased insured mortgages are located in that province.

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | As at June 30, 2021 | | | | | | |
| *(in thousands of $, except %)* | | Insured Residential Mortgages | Percentage of Total by Province | | Uninsured Residential Mortgages | Percentage of Total by Province | Total |
| Ontario | $ | 34,780 | 6.1% | $ | 537,957 | 93.9% | $ 572,737 |
| British Columbia | | 4,531 | 3.3% | | 132,128 | 96.7% | 136,659 |
| Alberta | | 6,452 | 9.0% | | 65,581 | 91.0% | 72,033 |
| Prairies | | 2,435 | 20.2% | | 9,642 | 79.8% | 12,077 |
| Atlantic | | 1,372 | 60.6% | | 893 | 39.4% | 2,265 |
| Quebec | | 1,460 | 100.0% | | - | 0.0% | 1,460 |
| | $ | 51,030 | 6.4% | $ | 746,201 | 93.6% | $ 797,231 |

### Insured and uninsured single-Family residential mortgages by effective remaining amortization period:

| | As at June 30, 2021 | | | | |
|---|---|---|---|---|---|
| *(in thousands of $, except %)* | ≤ 20 years | > 20 and ≤ 25 years | > 25 and ≤ 30 years | > 30 and ≤ 35 years | Total |
| Balance outstanding | $ 25,405 | $ 82,392 | $ 687,491 | $ 1,943 | $ 797,231 |
| Percentage of total | 3.2% | 10.4% | 86.2% | 0.2% | 100.0% |

### Weighted average LTV ratios for uninsured single-family residential mortgages originated and purchased:

The table below shows the weighted average loan to value ("LTV") ratios for all uninsured mortgages originated and purchased during Q2 2021.

| | For the six months ended June 30, 2021 | | | | | |
|---|---|---|---|---|---|---|
| | Originated and held on balance sheet | | Purchased and held on balance sheet | | Total held on balance sheet | |
| *(in thousands of $, except %)* | Volume | LTV | Volume | LTV | Volume | LTV |
| Ontario | $ 66,260 | 70.9% | $ 77,379 | 67.1% | $143,639 | 68.8% |
| British Columbia | $ 21,234 | 72.0% | $ 15,601 | 71.7% | 36,835 | 71.9% |
| Alberta | $ 11,681 | 78.3% | $ 10,297 | 77.8% | 21,978 | 78.1% |
| Prairies | $ 2,221 | 76.8% | $ 1,599 | 80.0% | 3,820 | 78.1% |
| Atlantic | - | 0.0% | - | 0.0% | - | 0.0% |
| | $ 101,396 | 72.1% | $ 104,876 | 69.0% | $206,272 | 70.5% |

### Economic downturn

The Bank reviews the credit performance and credit quality of its mortgage portfolio on an ongoing basis and performs stress testing that includes scenarios that are based on adverse economic events. These scenarios include combinations of increasing unemployment, increasing interest rates and a decline in real-estate values, as well as specific operational and reputational stress tests. Generally, mortgage defaults are correlated to increases in unemployment rates, and in an economic downturn the Bank would expect an increase in mortgage defaults and losses on uninsured mortgages associated with declining real estate values. The Bank's stress testing indicates that the Bank has sufficient capital to absorb stress events associated with an adverse economic event, albeit with reduced income due to increased credit losses.