B-20 RESIDENTIAL MORTGAGE GUIDELINES

PUBLIC DISCLOSURES

MARCH 31, 2020

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. Please note that prior to January 1, 2020, the Bank operated under the name "Street Capital Bank of Canada".

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 that the borrower defaults on payments or is otherwise unable to meet the contractual obligations of the mortgage.

As of March 31, 2020, approximately $83 million of the Bank's $189 million insured mortgages held on-balance sheet are single-family residential mortgages that the Bank has securitized and sold through the NHA MBS program. These mortgages remain on balance sheet because, as the issuer of the MBS, the Bank is responsible for advancing all scheduled and unscheduled principal and interest payments, thereby retaining prepayment and interest rate risk.

The Bank has securitized an additional $11 million of mortgages 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.

At March 31, 2020 the Bank held $45 million of prime insured mortgages on-balance sheet, as compared to $64 million at December 31, 2019. All of these mortgages were purchased between the fourth quarter of 2019 and the first quarter of 2020. These mortgages are classified as held for sale, and the net reduction is due to sales during the first quarter of 2020.

At March 31, 2020 the Bank also held $40 million of prime insured open mortgages on-balance sheet. All of these mortgages were purchased during the first quarter of 2020. Approximately 97% of these mortgages will mature within one year.

Each quarter the Bank securitizes and sells 10-year insured NHA MBS mortgage loans on multi-unit residential properties ("MURS") through the CMB program. The Bank may temporarily carry loans in excess of its CMB allotment on its balance sheet. There were no MURS mortgages on-balance sheet as at March 31, 2020.

The Bank's on-balance sheet uninsured portfolio totalled $492 million at March 31, 2020.

The largest component of these uninsured mortgages consists of $390 million of the Bank's Street Solutions Alt A product, which was first offered in the second quarter of 2017. These are non-prime single-family residential uninsured mortgages, consisting entirely of first mortgages. The program targets a market segment that consists of credit-worthy, but generally under-served, borrowers who may not qualify for a prime residential mortgage.

During the fourth quarter of 2019 the Bank began purchasing funded non-prime uninsured mortgages from a third party. The credit quality of these Alt-A mortgages is similar to the Street Solutions mortgages referenced above. At March 31, 2020 the Bank held $96 million of these mortgages on-balance sheet.

Uninsured mortgages, by their nature, have a higher degree of credit risk. For the uninsured mortgages that the Bank originates, it mitigates against this risk by adherence to Guideline B-20 compliant credit policies and underwriting requirements, and by targeting the market segment described above. The Bank also mitigates its risk by limiting its lending areas primarily to urban locations. To date the Bank has not incurred any losses on its originated Alt-A mortgages.

For the uninsured mortgages that the Bank purchases, it mitigates its credit risk by reviewing the original underwriting of these mortgages to ensure that their credit quality is aligned with the Bank's risk appetite. Additionally, the purchase contract allows the Bank to put back, within a specified time frame, mortgages that do not align with the Bank's credit standards. To date, the Bank has not incurred any losses on these purchased Alt-A mortgages.

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, inclusive of credit provisions.

Single-family Residential Loans by Province

The Bank originates most of its uninsured Street Solutions mortgages in Ontario and British Columbia. The Bank does not do business in Quebec and Yukon, but a small portion of its purchased mortgages are located in that province or territory, respectively.

	As at March 31, 2020				
(in thousands of $, except %)	Insured Residential Mortgages	Percentage of Total by Province	Uninsured Residential Mortgages	Percentage of Total by Province	Total
British Columbia	$ 19,113	18.0%	$ 87,316	82.0%	$ 106,429
Alberta	28,016	61.9%	17,245	38.1%	45,261
Prairies	7,181	69.6%	3,137	30.4%	10,318
Ontario	123,600	24.4%	382,314	75.6%	505,914
Atlantic	9,428	80.3%	2,309	19.7%	11,737
Quebec	1,121	100.0%	-	0.0%	1,121
Yukon	201	100.0%	-	0.0%	201
	$ 188,660	27.7%	$ 492,321	72.3%	$ 680,981

Insured and Uninsured Single-Family Residential Mortgages by Effective Remaining Amortization Period

	As at March 31, 2020				
(in thousands of $, except %)	≤ 20 years	> 20 and ≤ 25 years	> 25 and ≤ 30 years	> 30 and ≤ 35 years	Total
Balance outstanding	$ 67,385	$ 128,625	$ 484,283	$ 688	$ 680,981
Percentage of total	9.9%	18.9%	71.1%	0.1%	100.0%

Weighted Average LTV Ratios – Uninsured Single-Family Residential Mortgages Originated Q1 2020

The table below shows the weighted average loan to value ("LTV") ratios for all uninsured mortgages originated during Q1 2020.

	For the three months ended March 31, 2020					
	(Held on balance sheet)		(Originated and sold)		(Total originated)	
(in thousands of $, except %)	Volume	LTV	Volume	LTV	Volume	LTV
British Columbia	$ 785	65.4%	$ 2,582	64.5%	$ 3,367	64.7%
Ontario	2,498	57.7%	4,846	68.9%	7,344	65.1%
Alberta	429	39.9%	432	65.1%	861	52.6%
	$ 3,712	57.3%	$ 7,860	67.2%	$ 11,572	64.0%

Construction loans

In addition to its insured and uninsured mortgages held on-balance sheet, in the fourth quarter of 2019 the Bank expanded its uninsured lending to include participation in construction loans, which the Bank purchases from third parties. At March 31, 2020, this portfolio consisted of three loans on condominium projects with principal balances totaling $23.2 million.

Economic Downturn

In late December 2019 the World Health Organization ("WHO") was alerted to several cases of pneumonia in Wuhan, China, which were associated with an unknown virus. This was soon identified as a new form of coronavirus that became known as COVID-19, for which there was no vaccine or targeted treatment. As the number of known cases continued to increase, in late January the WHO declared the outbreak a public health event of international concern. The first COVID-19 case in Canada was confirmed in late January. As cases continued to increase globally, the WHO declared the outbreak a pandemic. By mid-March, a global effort was underway to slow the spread of COVID-19 through curtailing large public and private gatherings, encouraging employees to work from home, closing businesses deemed non-essential, and encouraging individuals to stay home and self-isolate. Although these efforts appear to have helped slow the spread of COVID-19, as of the date of this report the pandemic continues and there is great uncertainty as to when it will end and what the ultimate human and economic toll will be.

The societal and economic disruption resulting from COVID-19 are largely unprecedented and virtually every industry and business have been impacted. As a mortgage lender, the Bank is vulnerable to the potential economic impact of COVID-19, in particular the risk that a significant percentage of the Bank's mortgagees could either request mortgage payment deferrals, or default on the mortgages, thereby negatively affecting the Bank's cash flows. The curtailment of many business activities, including real estate purchases and sales, could also negatively affect the Bank's plans to grow its balance sheet via the origination or purchase of mortgages. COVID-19 did not become a significant disruptor until the last half of March, and at March 31, 2020 the Bank's cash and operating liquidity had not been materially impacted. However, the Bank continues to monitor the situation and will adjust its forecasts and planned business activities when and as it deems necessary.

Even without considering COVID-19, it is standard procedure for the Bank to review the credit performance and credit quality of its mortgage portfolio on an ongoing basis and perform 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. COVID-19 also carries the risk of increased mortgage defaults.

The Bank's uninsured mortgages that are held on-balance sheet are concentrated in the provinces of Ontario and British Columbia. The Bank's NHA insured mortgages for multi-unit residential loans are concentrated in the provinces of Nova Scotia and Ontario, and approximately 53% of balances outstanding at March 31, 2020 are owed by five borrowers or borrowing groups. The construction mortgage loans outstanding at March 31, 2020 are for properties in Calgary (61%) and Toronto (39%). Aside from this, the Bank does not have any significant concentrations of credit risk within any geographic region or group of customers. The Bank does business in all provinces except Quebec.