B-20 RESIDENTIAL MORTGAGE GUIDELINES

PUBLIC DISCLOSURES

DECEMBER 31, 2020

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

As of December 31, 2020, approximately $21 million of the Bank's $68 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 securitized an additional $10 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.

The Bank held $8 million of prime insured mortgages on-balance sheet at the end Q4 2020 compared to $28 million as of September 30, 2020. The mortgages were acquired from the Bank's on-balance sheet NHA MBS pool upon renewal resulting in the partial derecognition of the Bank's securitized asset. These mortgages are held for sale and as such, are classified and measured at fair value through profit and loss.

In Q1 2020, the Bank began purchasing prime insured open mortgages. As of Q4 2020, the Bank held $20 million of prime insured open mortgages on-balance sheet. Although insured against credit losses, the Bank mitigates its credit risk in a manner like that described below for non-prime uninsured mortgages. All of these mortgages were purchased during 2020 and most will mature within 6 months of the current year end.

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 of December 31, 2020.

The Bank's on-balance sheet uninsured portfolio, net of unamortized deferred costs and allowance for credit losses, totalled $564 million as of December 31, 2020. A component of these uninsured mortgages consists of $320 million of the Bank's Alt-A Solutions product, which has since been renamed RFA Alternative. 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.

In Q4 2019, the Bank began purchasing funded non-prime uninsured mortgages from a third party. The credit quality of these Alt-A mortgages is consistent with the RFA Alternative loans. On December 31, 2020, the Bank held $239 million of these mortgages on-balance sheet.

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 residential business in Quebec however a small portion of its purchased insured mortgages are in that province.

	As at December 31, 2020				
(in thousands of $, except %)	**Insured Residential Mortgages**	**Percentage of Total by Province**	**Uninsured Residential Mortgages**	**Percentage of Total by Province**	**Total**
Ontario	**$ 45,532**	**9.7%**	**$ 422,548**	**90.3%**	**$ 468,080**
British Columbia	**4,805**	**4.5%**	**102,241**	**95.5%**	**107,046**
Alberta	**11,443**	**26.2%**	**32,209**	**73.8%**	**43,652**
Prairies	**2,898**	**36.7%**	**4,991**	**63.3%**	**7,889**
Atlantic	**2,369**	**55.1%**	**1,929**	**44.9%**	**4,298**
Quebec	**780**	**100.0%**	**-**	**0.0%**	**780**
	$ 67,827	**10.7%**	**$ 563,918**	**89.3%**	**$ 631,745**

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

(in thousands of $, except %)	≤ 20 years	> 20 and ≤ 25 years	> 25 and ≤ 30 years	> 30 and ≤ 35 years	Total
					As at December 31, 2020
Balance outstanding	$ 30,679	$ 66,020	$ 528,710	$ 6,336	$ 631,745
Percentage of total	4.9%	10.4%	83.7%	1.0%	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 during Q4 2020.

	For the three months ended December 31, 2020					
	(Held on balance sheet)		(Originated and sold)		(Total originated)	
(in thousands of $, except %)	Volume	LTV	Volume	LTV	Volume	LTV
Ontario	$ 31,772	70.9%	$ -	0.0%	$ 31,772	70.9%
British Columbia	13,953	70.6%	-	0.0%	13,953	70.6%
Alberta	4,793	75.9%	-	0.0%	4,793	75.9%
Prairies	688	77.1%	-	0.0%	688	77.1%
Atlantic	-	0.0%	-	0.0%	-	0.0%
	$ 51,206	71.4%	$ -	0.0%	$ 51,206	71.4%

The table below shows the weighted average LTV ratios for all uninsured mortgages purchased during Q4 2020.

	For the three months ended December 31, 2020					
	(Held on balance sheet)		(Purchased and sold)		(Total purchased)	
(in thousands of $, except %)	Volume	LTV	Volume	LTV	Volume	LTV
Ontario	$ 41,753	70.5%	$ -	0.0%	$ 41,753	70.5%
British Columbia	8,880	70.9%	-	0.0%	8,880	70.9%
Alberta	5,410	78.9%	-	0.0%	5,410	78.9%
Prairies	168	80.0%	-	0.0%	168	80.0%
Atlantic	-	0.0%	-	0.0%	-	0.0%
	$ 56,211	71.4%	$ -	0.0%	$ 56,211	71.4%

Economic downturn

In 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 develop vaccine candidates and slow the spread of COVID-19 by curtailing large public and private gatherings, limiting travel, encouraging employees to work from home, closing businesses deemed non-essential, imposing curfews and requiring individuals to stay home and self-isolate.

Although these efforts have helped slow the spread of COVID-19, the number of active cases at home and abroad have continued to increase. In Q4 2020, Canada experienced a second wave that further strained hospital capacity and resulted in new restrictions and lockdowns.

On December 9, 2020, Health Canada approved the country's first COVID-19 vaccine developed by Pfizer-BioNTech after deeming it safe for use and effective. Two weeks later, the federal agency approved the Moderna COVID-19 vaccine for administration to Canadians. In December, the Public Health Agency of Canada released its COVID-19 Immunization Plan with a goal of vaccinating as many Canadians as possible while prioritizing high risk populations.

Despite these positive developments, uncertainty remains as to the execution of Canada's Immunization Plan and recent emergence of COVID-19 variants, both of which could affect the duration and severity of the pandemic and its impact on the economy.

The societal and economic disruption resulting from COVID-19 are largely unprecedented and virtually every industry and business has been impacted. The Bank remains vulnerable to the potential economic impact of COVID-19 and in particular, the risk that a significant number of mortgagees could become delinquent or default subsequent to the winding down or removal of government assisstance programs. Such an event could have a signficiant impact on the Bank's allowance and provision for credit losses and negatively affect cash flows. As at December 31, the Bank's unrestricted cash position remained strong with a cash and cash equivalents balance of $140 million.

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 as at December 31, 2020 the Bank had experienced a decline in planned mortgage originations. In response to lower origination volumes and to partially mitigate the negative impact on net interst margin, the Bank increased third party purchases of mortgages and have reduced GIC originations relative to plan.

The Bank reviews the credit performance and credit quality of its mortgage portfolios on an ongoing basis and performs stress testing that includes scenarios 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.