



BANK OF CANADA

## **B-20 RESIDENTIAL MORTGAGE GUIDELINES**

### **PUBLIC DISCLOSURES**

**DECEMBER 31, 2023**

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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 residential 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 Canada Mortgage Housing Corporation ("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, 2023, the Bank held \$53.1 million of insured residential mortgages on its balance sheet. Approximately \$38.5 million of these mortgages have been securitized through the National Housing Act Mortgage-Backed Securities ("NHA MBS") program. These NHA MBS pools have not yet been sold to investors and are held as a component of the Bank's liquid assets, as they can be readily converted to cash. The Bank also held \$14.6 million of prime insured loans either being held to maturity or accumulated for sale or securitization.

The Bank's uninsured portfolio, net of unamortized deferred costs and allowance for credit losses, totalled \$1.46 billion as of December 31, 2023. This portfolio consists of \$1,109.5 million of Bank originated Alt-A mortgages, \$352.8 million of third-party originated Alt-A mortgages, and \$2.5 million uninsured prime Bank originated mortgages. Both Alt-A products are non-prime 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. In Q4 2023, the Bank had a realized loss on one loan for \$54 thousand in the Alt-A portfolio.

For uninsured mortgages that have been acquired, the Bank mitigates credit risk by reviewing a sample of 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. In Q4 2023, the Bank did not incur any credit 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.

## Residential loans by province

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

As at Dec 31, 2023						
(in thousands of \$, except %)	Insured Residential Mortgages	Percentage of Total by Province	Uninsured Residential Mortgages	Percentage of Total by Province	Total	Percentage of Total by Province
Ontario	22,590	2.1%	\$ 1,051,749	97.9%	\$ 1,074,339	70.8%
British Columbia	11,449	5.7%	190,382	94.3%	201,831	13.3%
Alberta	13,745	7.7%	163,835	92.3%	177,580	11.7%
Prairies	3,923	11.5%	30,317	88.5%	34,240	2.3%
Atlantic	1,001	3.4%	28,554	96.6%	29,555	1.9%
Quebec	401	100.0%	-	0.0%	401	0.0%
	<b>\$ 53,109</b>	<b>3.5%</b>	<b>\$ 1,464,837</b>	<b>96.5%</b>	<b>\$ 1,517,946</b>	<b>100%</b>

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

As at Dec 31, 2023					
(in thousands of \$, except %)	≤ 20 years	> 20 and ≤ 25 years	> 25 and ≤ 30 years	> 30 and ≤ 35 years	Total
Balance outstanding	\$ 40,797	\$ 214,498	\$ 1,063,825	\$ 198,826	\$ 1,517,946
Percentage of total	2.7%	14.2%	70.1%	13.1%	100.0%

## Weighted average LTV ratios for uninsured 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 Q4 2023.

For the three months ended Dec 31, 2023						
(in thousands of \$, except %)	Originated and held on balance sheet		Purchased and held on balance sheet		Total	
	Volume	LTV	Volume	LTV	Volume	LTV
Ontario	\$ 145,710	69.28%	\$ -	0.0%	\$ 145,710	69.28%
British Columbia	31,416	69.41%	-	0.0%	31,416	69.41%
Alberta	24,418	71.42%	-	0.0%	24,418	71.42%
Prairies	2,222	78.20%	-	0.0%	2,222	78.20%
Atlantic	3,020	71.35%	-	0.0%	3,020	71.35%
	<b>\$ 206,786</b>	<b>69.68%</b>	<b>\$ -</b>	<b>0.0%</b>	<b>\$ 206,786</b>	<b>69.68%</b>

**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.