B-20 RESIDENTIAL MORTGAGE GUIDELINES

PUBLIC DISCLOSURES

DECEMBER 31, 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 December 31, 2021, the Bank held $66.6 million of insured single-family mortgages on its balance sheet. Approximately $45.6 million of these mortgages have been securitized through the National Housing Act Mortgage-Backed Securities ("NHA MBS") program. These loans 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 $20.3 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 $1.0 billion as of December 31, 2021. This portfolio consists of $536 million of Bank originated Alt-A mortgages, $496 million of third-party originated Alt-A mortgages, and $3.5 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 credit 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 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.

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.

(in thousands of $, except %)	Insured Residential Mortgages	Percentage of Total by Province	Uninsured Residential Mortgages	Percentage of Total by Province	Total
	As at December 31, 2021				
Ontario	$ 33,963	4.4%	$ 732,475	95.6%	$ 766,438
British Columbia	11,425	5.8%	185,615	94.2%	197,040
Alberta	13,580	12.0%	99,121	88.0%	112,701
Prairies	4,375	21.9%	15,624	78.1%	20,000
Atlantic	1,586	34.5%	3,017	65.5%	4,602
Quebec	1,677	100.0%	-	0.0%	1,677
	$ 66,606	6.0%	$ 1,035,852	94.0%	$ 1,102,458

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, 2021				
Balance outstanding	$ 25,299	$ 136,696	$ 940,463	$ -	$ 1,102,458
Percentage of total	2.3%	12.4%	85.3%	0.0%	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 and purchased during Q4 2021.

	For the three months ended December 31, 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	$ 56,106	70.6%	$ 98,066	66.7%	$ 154,172	68.1%
British Columbia	33,348	69.9%	16,174	65.4%	49,522	68.4%
Alberta	8,881	77.7%	6,237	75.0%	15,118	76.5%
Prairies	1,996	76.8%	1,944	77.2%	3,940	77.0%
Atlantic	1,708	68.6%	-	0.0%	1,708	0.0%
	$ 102,039	71.0%	$ 122,421	67.2%	$ 224,460	68.4%

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.