RFA

BANK OF CANADA

B-20 RESIDENTIAL MORTGAGE GUIDELINES

PUBLIC DISCLOSURES

JUNE 30, 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 June 30, 2020, approximately $75 million of the Bank's $136 million insured mortgages held on-balance sheet are single-family residential mortgages that the Bank has securitized and sold through the NHA MBS 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 $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.

The Bank held $3 million of prime insured mortgages on-balance sheet at the end Q2 2020 compared to $45 million as of March 31, 2020. All of these mortgages were purchased between the fourth quarter of 2019 and the first quarter of 2020. These mortgages are held for sale and as such, are classified and measured at fair value through profit and loss. The reduction is due to sales that occurred during the second quarter of 2020.

As of Q2 2020, the Bank also held $38 million of prime insured open mortgages on-balance sheet. All of these mortgages were purchased during the first two quarters of 2020 and most 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 of June 30, 2020.

The Bank's on-balance sheet uninsured portfolio, net of unamortized deferred costs and allowance for credit losses, totalled $494 million as of June 30, 2020.

The largest component of these uninsured mortgages consists of $337 million of the Bank's Alt-A Solutions 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 slightly better than the Alt-A Solutions mortgages referred to above. On June 30, 2020, the Bank held $151 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 documentation 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 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, net of unamortized deferred costs and allowance for credit losses.

Single-family Residential Loans by Province

The Bank originates most of its uninsured Alt-A 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 June 30, 2020				
(in thousands of $, except %)	**Insured Residential Mortgages**	**Percentage of Total by Province**	**Uninsured Residential Mortgages**	**Percentage of Total by Province**	**Total**
Ontario	$ 88,030	18.8%	$ 379,348	81.2%	$ 467,378
British Columbia	11,403	11.5%	87,424	88.5%	98,827
Alberta	24,118	53.9%	20,631	46.1%	44,749
Prairies	4,647	50.2%	4,614	49.8%	9,261
Atlantic	4,445	64.6%	2,432	35.4%	6,877
Quebec	2,782	100.0%	-	0.0%	2,782
Yukon	197	100.0%	-	0.0%	197
	$ 135,622	21.5%	$ 494,449	78.5%	$ 630,071

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

	As at June 30, 2020				
(in thousands of $, except %)	≤ 20 years	> 20 and ≤ 25 years	> 25 and ≤ 30 years	> 30 and ≤ 35 years	Total
Balance outstanding	$ 45,612	$ 105,377	$ 457,422	$ 21,660	$ 630,071
Percentage of total	7.2%	16.7%	72.6%	3.4%	100.0%

Weighted Average LTV Ratios – Uninsured Single-Family Residential Mortgages Originated Q2 2020

The table below shows the weighted average loan to value ("LTV") ratios for all uninsured mortgages originated during Q2 2020.

	For the three months ended June 30, 2020					
	(Held on balance sheet)		(Originated and sold)		(Total originated)	
(in thousands of $, except %)	Volume	LTV	Volume	LTV	Volume	LTV
Ontario	$ 3,212	64.3%	$ 208	51.9%	$ 3,420	63.5%
British Columbia	1,537	71.4%	-	0.0%	1,537	71.4%
Alberta	763	74.8%	-	0.0%	763	74.8%
Prairies	296	73.8%	-	0.0%	296	73.8%
Atlantic	162	77.4%	-	0.0%	162	77.4%
	$ 5,970	68.3%	$ 208	51.9%	$ 6,178	67.7%

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 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.

As of the date of this report, these efforts appear to have helped slow the spread of COVID-19 cases in Canada which has allowed the Government to gradually reopen businesses, services and public spaces using a regional and staged approach. Although Canada has made significant progress in the fight against COVID-19, global cases continue to rise and there is great uncertainty as to whether a second wave will arrive 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 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 and/or default subsequent to the removal of the payment deferral program and various 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 June 30, the Bank's unrestricted cash position remained strong with a cash and cash equivalents balance of $158 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 June 30, 2020 the Bank had experienced a significant 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.

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.