RFA BANK OF CANADA

B-20 RESIDENTIAL MORTGAGE GUIDELINES

PUBLIC DISCLOSURES

SEPTEMBER 30, 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 September 30, 2020, approximately $43 million of the Bank's $126 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 $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 $28 million of prime insured mortgages on-balance sheet at the end Q3 2020 compared to $3 million as of June 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.

As of Q3 2020, the Bank also held $37 million of prime insured open mortgages on-balance sheet. All of these mortgages were purchased during the first three quarters of 2020 and most will mature within 6 months.

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 September 30, 2020.

The Bank's on-balance sheet uninsured portfolio, net of unamortized deferred costs and allowance for credit losses, totalled $537 million as of September 30, 2020.

The largest component of these uninsured mortgages consists of $328 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.

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 consistent with the RFA Alternative mortgages. On September 30, 2020, the Bank held $203 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 business in Quebec however a small portion of its purchased insured mortgages are located in that province.

	As at September 30, 2020				
(in thousands of $, except %)	**Insured Residential Mortgages**	**Percentage of Total by Province**	**Uninsured Residential Mortgages**	**Percentage of Total by Province**	**Total**
Ontario	**$ 82,584**	**16.7%**	**$ 413,383**	**83.3%**	**$ 495,967**
British Columbia	**11,507**	**11.3%**	**90,660**	**88.7%**	**102,167**
Alberta	**21,991**	**45.7%**	**26,088**	**54.3%**	**48,079**
Prairies	**4,776**	**51.7%**	**4,455**	**48.3%**	**9,231**
Atlantic	**3,852**	**61.7%**	**2,389**	**38.3%**	**6,241**
Quebec	**1,314**	**100.0%**	**-**	**0.0%**	**1,314**
	$ 126,024	**19.0%**	**$ 536,975**	**81.0%**	**$ 662,999**

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 September 30, 2020				
Balance outstanding	$ 57,807	$ 92,576	$ 494,837	$ 17,780	$ 662,999
Percentage of total	8.7%	14.0%	74.6%	2.7%	100.0%

Weighted Average LTV Ratios – 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 Q3 2020.

(in thousands of $, except %)	(Held on balance sheet) Volume	LTV	(Originated and sold) Volume	LTV	(Total originated) Volume	LTV
	For the three months ended September 30, 2020					
Ontario	$ 24,101	72.3%	$ -	0.0%	$ 24,101	72.3%
British Columbia	2,981	75.4%	-	0.0%	2,981	75.4%
Alberta	2,403	79.3%	-	0.0%	2,403	79.3%
Prairies	128	80.0%	-	0.0%	128	80.0%
Atlantic	-	0.0%	-	0.0%	-	0.0%
	$ 29,613	73.2%	$ -	0.0%	$ 29,613	73.2%

The table below shows the weighted average loan to value ("LTV") ratios for all uninsured mortgages purchased during Q3 2020.

(in thousands of $, except %)	(Held on balance sheet) Volume	LTV	(Purchased and sold) Volume	LTV	(Total purchased) Volume	LTV
	For the three months ended September 30, 2020					
Ontario	$ 42,971	70.9%	$ -	0.0%	$ 42,971	70.9%
British Columbia	8,481	73.1%	-	0.0%	8,481	73.1%
Alberta	5,221	73.4%	-	0.0%	5,221	73.4%
Prairies	228	80.0%	-	0.0%	228	80.0%
Atlantic	-	0.0%	-	0.0%	-	0.0%
	$ 56,901	71.5%	$ -	0.0%	$ 56,901	71.5%

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.

These efforts 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, cases in Canada and globally have been on the rise and evidence of a second wave was present as of the date of this report. Uncertainty remains as to the duration and severity of the second wave and to what extent 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 September 30, the Bank's unrestricted cash position remained strong with a cash and cash equivalents balance of $113 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 September 30, 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 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.