RFA

BANK OF CANADA

B-20 RESIDENTIAL MORTGAGE GUIDELINES

PUBLIC DISCLOSURES

JUNE 30, 2024

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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 June 30, 2024, the Bank held $47.8 million of insured residential mortgages on its balance sheet. Approximately $35.9 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 $11.9 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 $1.64 billion as of June 30, 2024. This portfolio consists of $1.36 billion of Bank originated Alt-A mortgages, $281.7 million of third-party originated Alt-A mortgages, and $1.3 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 Q2 2024, the Bank did not incur any realized losses 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 Q2 2024, the Bank had a realized loss on one loan for $125 thousand ($105k principal and $20k accrued interest) with respect to this portfolio.

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. The table below shows a breakdown of the total portfolio by province:

(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
	As at June 30, 2024					
Ontario	21,098	1.7%	1,185,278	98.3%	$ 1,206,376	71.3%
British Columbia	10,329	4.7%	208,375	95.3%	218,704	12.9%
Alberta	12,247	6.1%	188,272	93.9%	200,519	11.9%
Prairies	2,912	8.3%	31,987	91.7%	34,899	2.1%
Atlantic	858	2.7%	30,364	97.3%	31,222	1.8%
Quebec	367	100.0%	-	0.0%	367	0.0%
	$ 47,811	2.8%	$ 1,644,276	97.2%	$ 1,692,087	100%

Insured and uninsured residential mortgages by effective remaining amortization period:

The table below shows the total portfolio breakdown by effective remaining amortization period as of Q2 2024.

(in thousands of $, except %)	≤ 20 years	> 20 and ≤ 25 years	> 25 and ≤ 30 years	> 30 and ≤ 35 years	Total
	As at June 30, 2024				
Balance outstanding	$ 52,174	$ 211,885	$ 1,115,050	$ 312,978	$ 1,692,087
Percentage of total	3.1%	12.5%	65.9%	18.5%	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 Q2 2024.

	For the three months ended June 30, 2024					
	Originated and held on balance sheet		Purchased and held on balance sheet		Total	
(in thousands of $, except %)	Volume	LTV	Volume	LTV	Volume	LTV
Ontario	$ 132,908	70.36%	$ -	0.0%	$ 132,908	70.36%
British Columbia	27,627	69.51%	-	0.0%	27,627	69.51%
Alberta	27,669	74.73%	-	0.0%	27,669	74.73%
Prairies	4,465	78.64%	-	0.0%	4,465	78.64%
Atlantic	3,435	75.00%	-	0.0%	3,435	75.00%
	$ 196,104	71.13%	$ -	0.0%	$ 196,104	71.13%

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.