

Schedule A

Mortgage Insurance Guarantee Parameters

PART A. INTERPRETATION

1. Definitions – In this Schedule, the following words and expressions shall have the meanings as set forth below, and shall include the plural as well as the singular.

Credit Score means a credit score which is

- (a) issued by a credit reporting agency authorized to conduct business in a province or territory in Canada, and
- (b) based on a scale that is the approximate equivalent of a credit score scale used by an agency referred to in (a) at the date of this Schedule.

Eligible Residential Property means property comprising one (1) to four (4) housing units intended for human habitation, together with any associated property interests, structures and facilities.

Exceptional Loan means a High Ratio Loan on an Eligible Residential Property where no borrower or guarantor has a Credit Score greater than or equal to six hundred (600).

Funded means an advance of money by a lender to a borrower under a loan secured by an Eligible Residential Property.

High Ratio Loan means a loan where the principal amount of the loan, together with the amount outstanding of any loan having an equal or prior claim against the Eligible Residential Property, is greater than eighty per cent (80%) of the Value of the Eligible Residential Property when the loan is approved.

Explanatory Notes to Schedule A

Any conflict or inconsistency between Schedule A and the Explanatory Notes shall be resolved in favour of Schedule A.

PART A. INTERPRETATION

Credit Score – Only credit scores from credit reporting agencies authorized to conduct business in Canada will be accepted. Credit scores, or equivalency calculations, from other jurisdictions will not be permitted; nor will a lender's own internal scoring methodology. Credit scores from new credit reporting agencies will be acceptable so long as their credit scoring methodologies are an approximate equivalent to those used by accepted credit scoring agencies that existed as of the date of this Schedule.

Eligible Residential Property – Defines Eligible Residential Property in a manner that captures status quo market practices. This definition would allow for the 4 guaranteed units to be in a building that contained an aggregate number of units that is greater than 4.

Exceptional Loans – Defines the loans, based on a credit score limit, that could be included in the 3 per cent exception basket referred to in subsection 8(2).

Funded – Monies may be advanced in whole or in part.

High Ratio Loan – Intended to capture the restriction on residential mortgages found in the *Bank Act (Canada)*. For the purposes of this schedule, the definition High Ratio Loan applies to loans originated by both regulated and unregulated lenders.

Month or **Monthly** means a calendar month.

Mortgage Insurance Guarantee means [mortgage insurance under the *National Housing Act* (Canada) or a government guarantee]

Mortgage Insurer means [Canada Mortgage and Housing Corporation or private mortgage insurer]

Qualified Mortgage Lender means a lender that has been qualified by the Mortgage Insurer in accordance with Schedule B – Qualified Mortgage Lender Criteria.

Quarter means one of a set of four three (3) consecutive Months of a year; the first quarter being the period from January 1 to March 31; the second quarter being the period from April 1 to June 30; the third quarter being the period from July 1 to September 30; and the fourth quarter being the period from October 1 to December 31.

Value and **Value of an Eligible Residential Property** mean the value ascribed to the Eligible Residential Property by a lender or the Mortgage Insurer, which value cannot exceed the purchase price of the Eligible Residential Property, and if the mortgage insurance relates to a purchase plus improvements transaction, the estimated cost to the borrower of the planned improvements to the Eligible Residential Property.

Verification means to verify the Value relying on

- (a) a statistically robust and up-to-date valuation model utilized by the lender or the Mortgage Insurer that assesses the reasonableness of the value ascribed to the Eligible Residential Property,
- (b) a fair market value appraisal of the Eligible Residential Property by a professional residential property appraiser who is independent of the borrower, or
- (c) any other generally accepted method used by

Qualified Mortgage Lender – Schedule B outlines minimum criteria for qualifying a mortgage lender and grants insurers the discretion to make the qualification decision themselves, provided that the minimum criteria are met.

Value and **Value of an Eligible Residential Property** – The value of the property can include the purchase price plus the cost to the borrower of making improvements to the property that may be funded as part of the mortgage loan.

Verification – This definition does not preclude other traditional methods of determining the fair market value of a property, such as desk appraisals, drive-by appraisals, Multiple Listing Service searches, or reliance on builder pricing sheets. Nor would the definition preclude exempting loans from the appraisal requirement altogether, for example, for low-ratio refinancing to support a construction or renovation project on a property that is already known to the lender.

prudent lenders, mortgage insurers, or professional residential property appraisers to verify the Value, such as a drive-by appraisal or a review of the value of comparable properties.

PART B. APPLICATION OF SCHEDULE

2. No loan initially Funded after October 14, 2008 shall be approved for a Mortgage Insurance Guarantee unless the loan

- (a) is (i) underwritten by a Qualified Mortgage Lender; or (ii) held in a Registered Retirement Savings Plan or a Registered Retirement Income Fund and administered by a Qualified Mortgage Lender,
- (b) is secured in first or second priority position by an Eligible Residential Property, and
- (c) meets the requirements in Parts C or D of this Schedule.

3. Notwithstanding section 2, a loan initially Funded after October 14, 2008 shall be treated as if it were initially Funded on or before October 14, 2008 if, on or before October 14, 2008

- (a) a legally binding commitment to lend in respect of that loan was made between a borrower and a lender,
- (b) a legally binding purchase and sale agreement was made by a borrower for which the closing date of the loan occurs after October 14, 2008, or
- (c) a mortgage insurance application was received by the Mortgage Insurer.

4. (1) A loan initially Funded on or before October 14, 2008 or a loan referred to in section 3 can be approved for a Mortgage Insurance Guarantee if

- (a) the loan meets the requirements in Parts C or D of this Schedule, or
- (b) the loan does not meet the requirements in Parts C or D of this Schedule but the non-conforming feature of the loan was provided for under the terms of a mortgage insurance offered by the Mortgage Insurer on or before October 14, 2008.

PART B. APPLICATION OF SCHEDULE

2. Eligibility Requirements – Requirement that all mortgages Funded after October 14, 2008 must conform to Schedule A in order to secure the Mortgage Insurance Guarantee. An eligible mortgage may only be a first or second mortgage on an Eligible Residential Property that was made by a Qualified Mortgage Lender or held in either an RRSP or RRIF.

3. Transition Loans – Defines the population of loans Funded after October 14, 2008 that will be treated, for grandfathering purposes in section 4, as though they were funded before October 15, 2008. These loans have either a legally binding commitment made by a borrower or lender, or a mortgage insurance application received by a mortgage insurer on or before October 14, 2008.

4. (1) Grandfathered Loans – Further defines the population and treatment of loans that will be grandfathered in respect of eligibility for the Mortgage Insurance Guarantee. More specifically, a mortgage loan that was Funded prior to October 15, 2008, which meets to the requirements of Parts C and D of the Schedule, will be grandfathered as eligible to benefit from the Mortgage Insurance Guarantee. This section also grandfathers non-conforming loans Funded before October 15, 2008 and non-conforming transition loans (section 3) as eligible for the Mortgage Insurance Guarantee if the mortgage insurance product to be applied to the mortgage loan contemplated the non-conforming loan

<p>(2) A loan referred to in subsection 4(1) may not be modified unless</p> <ul style="list-style-type: none"> (a) the modification was provided for under the terms of the loan and mortgage insurance, and (b) the modification does not require the payment of an additional mortgage insurance premium to the Mortgage Insurer. <p>(3) A modification referred to in subsection 4(2) includes, but is not limited to, a refinancing of a loan, a transfer of a loan from one lender to another, or port of a loan from one Eligible Residential Property to another Eligible Residential Property.</p> <p>5. Notwithstanding section 2(c), a loan initially Funded after October 14, 2008 that does not meet the requirements in Parts C or D of this Schedule can be approved for a Mortgage Insurance Guarantee if</p> <ul style="list-style-type: none"> (a) the loan is made to renew the term of an original loan referred to in subsection 4(1), and the loan continues to be insured by the mortgage insurance applicable to the original loan, (b) the non-conforming feature of the loan was provided for by the original mortgage insurance, and (c) the renewal does not require the payment of an additional mortgage insurance premium to the Mortgage Insurer. <p>6. Notwithstanding section 2, a loan can be approved for a Mortgage Insurance Guarantee if the loan is made in respect of a loan work-out, the purpose of which is to reduce or avoid losses on a real or potential</p>	<p>features.</p> <p>(2) Changes to Grandfathered Loans – If the underlying terms and conditions of a grandfathered loan change, the Mortgage Insurance Guarantee will continue to apply insofar as the changes are contemplated by the terms and conditions of both the loan and mortgage insurance. A clear test of a change that would result in the loss of the Mortgage Insurance Guarantee would be if an additional mortgage insurance premium was required.</p> <p>(3) Clarification of Changes to Grandfathered Loans – This provision provides examples of the types of changes that are contemplated in subsection 4(2).</p> <p>5. Renewals of Grandfathered Loans – Section 5 continues to extend the Mortgage Insurance Guarantee to a grandfathered loan that is renewed. Although a renewed loan is technically a new loan, if the terms and conditions of the new loan are consistent with the original loan, and if the mortgage insurance covering the original loan does not change as a result of the new loan, the new loan will continue to qualify for the Mortgage Insurance Guarantee. A clear test of a change that would result in the loss of the Mortgage Insurance Guarantee would be if an additional mortgage insurance premium was required. A caveat to this section is that the non-conforming features of the loan may not be extended back out to their original limits since this non-conforming feature was not contemplated under the original mortgage insurance. For example, when renewing a grandfathered 40-year amortization loan with an initial two-year term, it can only be renewed with an amortization schedule of 38 years, not 40 years. Similarly, if a grandfathered 100 per cent loan-to-value product is up for renewal, a borrower cannot renew the loan with a loan-to-value ratio that exceeds the borrower’s current loan-to-value ratio.</p> <p>6. Exception for Default Management – This provision provides an exception to the requirements of section 2 to assist lenders and insurers in managing loans that are near default. In such cases, a loan may be</p>
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<p>mortgage insurance claim on an outstanding insured loan.</p> <p>7. Notwithstanding section 2, a loan can be approved for a Mortgage Insurance Guarantee if</p> <ul style="list-style-type: none"> (a) the borrower is owned, otherwise guaranteed or subsidized by <ul style="list-style-type: none"> i) a provincial, territorial or municipal government, ii) an agency or an agent corporation, other than the Mortgage Insurer, of the federal Crown, iii) an agency, agent corporation or housing corporation of a provincial, territorial or municipal government where the purpose of the loan, guarantee or subsidy is to carry out a government social housing program; (b) the loan is in relation to a project that is owned, otherwise guaranteed or subsidized by <ul style="list-style-type: none"> i) a provincial, territorial or municipal government, ii) an agency or an agent corporation, other than the Mortgage Insurer, of the federal Crown, iii) an agency or agent corporation or housing corporation of a provincial, territorial or municipal government where the purpose of the loan, guarantee or subsidy is to carry out a government social housing program, or (c) the loan is secured by a property comprising more than four (4) housing units intended for human habitation, together with any associated property interests, structures and facilities. <p>PART C. APPLICATION TO HIGH RATIO MORTGAGE LOANS</p> <p>8. (1) Criteria – A High Ratio Loan must meet the following criteria:</p> <ul style="list-style-type: none"> (a) the principal amount of the loan, together with the amount outstanding of any loan having an equal or prior claim against the property, must be less than or equal to ninety-five per cent (95%) of the Value of the Eligible Residential Property; (b) notwithstanding the requirement listed in paragraph (a) above, the amount of the mortgage insurance premium may be 	<p>approved for a Mortgage Insurance Guarantee if the terms and conditions of a loan change to include terms and conditions that do not conform to section 2.</p> <p>7. Exceptions for Social Programs – Certain CMHC loans are exempted from the requirement to comply with section 2. This section permits CMHC to continue to insure business related to its commercial (e.g., large rental housing) and social policy objectives.</p> <p>PART C. APPLICATION TO HIGH RATIO MORTGAGE LOANS</p> <p>8. (1) Criteria – Section 8 defines the Mortgage Insurance Guarantee criteria that would apply to high-ratio mortgage loans. What follows is guidance on each paragraph:</p> <ul style="list-style-type: none"> (a) The loan-to-value ratio may not exceed ninety-five per cent. Lenders and mortgage insurers are free to set their own criteria around the source of the 5 per cent down payment; however, the Mortgage Insurance Guarantee will
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added to the loan but may be excluded from the calculation of the principal amount of the loan for the purpose of calculating the percentage referred to in paragraph (a);

(c) the loan must be scheduled to amortize over a period that does not exceed thirty-five (35) years and, if the loan allows for fluctuations in the amortization period as a result of a variable rate of interest during the term of the loan, the mortgage insurance must require that, not less frequently than every five (5) years, the loan payment must be recalculated to conform to the original amortization schedule;

(d) the loan must establish scheduled principal and interest payments that will begin reducing the principal outstanding in accordance with the overall amortization schedule agreed upon at loan origination, commencing

- (i) at the time the loan is Funded,
- (ii) upon closing of the purchase and sale agreement, or
- (iii) upon completion of the improvement, conversion or development of an Eligible Residential Property;

(e) the Credit Score of at least one of the borrowers or guarantors must be greater than or equal to six hundred (600) within a reasonable time prior to the loan being Funded;

(f) the lender or the Mortgage Insurer must have made a reasonable effort to verify that the borrower has the ability to pay the loan payment and all other debts and obligations of the borrower over the same period, based on reasonable assumptions about the highest loan payment over the term of the loan, within a reasonable time prior to the loan being Funded;

(g) the lender or the Mortgage Insurer must have obtained Verification of the Value of the Eligible Residential Property within a reasonable time prior to the loan being Funded;

(h) the lender must have made a reasonable effort to verify the borrower's income and employment status within a reasonable time prior to the loan being Funded; and

(i) notwithstanding the requirement listed in paragraph (h), if the borrower is self-employed the lender must have made a reasonable effort to assess the plausibility of the income reported by the borrower within a reasonable time prior to the

only apply to 95% of the loan. Cash-back programs and incentives cannot be capitalized into the loan in some way to effectively apply the guarantee to more than 95% of the value of the property.

(b) Lenders can finance the cost of the mortgage insurance premium, which may be excluded from the calculation of loan-to-value ratio limit referred to in (a).

(c) The maximum amortization period allowable under the Mortgage Insurance Guarantee is thirty-five years. Variable interest rate mortgage and mortgage insurance products are not precluded from the Mortgage Insurance Guarantee; however, such products must conform to the amortization requirements of this Schedule. A guiding principle is that the mortgage loan must continue to amortize along its expected amortization curve over the life of the mortgage.

(d) This provision requires regularly scheduled principal and interest payments to reduce the principal outstanding in accordance with the expected amortization curve. This provision excludes from the Mortgage Insurance Guarantee all types of home equity lines of credit, and interest-only mortgages. Exceptions can be made for the temporary suspension of payments, including

- (i) funds advanced for the benefit of the mortgage borrower prior to closing of the purchase and sale agreement (e.g., deposit funds),
- (ii) progress advances given prior to the completion of construction-type projects,
- (iii) traditional skip-a-pay features, and
- (iv) traditional pre-pay and re-borrow features.

(e) Establishes a credit score floor for loans to be eligible for a Mortgage Insurance Guarantee.

(f) This paragraph ensures that the lender or the Mortgage Insurer qualify borrowers based on the most conservative features of a structured or variable rate product. This measure targets a total debt service ratio-type evaluation by the lender.

(g) See explanatory notes on the definitions of Verification,

loan being Funded.

(2) Exception – Notwithstanding paragraph 8(1)(e), an Exceptional Loan may be approved for a Mortgage Insurance Guarantee during a Quarter (referred to in this subsection as the “current Quarter”) if,
(a) at the end of the Quarter that began six (6), nine (9) or twelve (12) months prior to the beginning of the current Quarter, the total number of the lender’s Exceptional Loans, which were approved for a Mortgage Insurance Guarantee and were Funded by the lender within the previous twelve (12) months, was less than or equal to three per cent (3%) of the total number of High Ratio Loans Funded by the lender and which were approved for a Mortgage Insurance Guarantee, or
(b) the current Quarter began prior to April 1, 2010.

(3) Notwithstanding subsection 8(2) of this Schedule, a High Ratio Loan that meets the other requirements in Part C of this Schedule can be approved for a Mortgage Insurance Guarantee.

PART D. APPLICATION TO LOW-RATIO MORTGAGE LOANS

9.(1) Criteria – Where the principal amount of the loan, together with the amount outstanding of any loan having an equal or prior claim against the Eligible Residential Property, is
(a) less than or equal to sixty per cent (60%) of the Value of the Residential Property when the loan is approved, the lender or the Mortgage Insurer must have obtained Verification of the Value of the Residential Property within a reasonable time prior to the loan being Funded or approved for a Mortgage Insurance Guarantee,

Value, and Eligible Residential Property.

- (h) Reasonable effort must be consistent with what a reasonable and prudent person would do to verify income and employment status.
- (i) Reasonable effort must be consistent with what a reasonable and prudent person would do to verify income for self-employed individuals.

(2) Exception – This provision provides a limited exceptions basket for the credit score floor in 8(1)(e). No more than 3% of a lender’s High-Ratio Loans for the year (as measured at the end of each Quarter) should fail to meet the credit score floor. If a lender exceeds the basket limit as of the end of a Quarter with a Mortgage Insurer, that lender will be cut off from insuring Exceptional Loans 3 Quarters later unless the lender is able to lower its Exceptional Loans percentage such that it no longer exceeds the limit within the next 2 Quarters. Paragraph 8(2)(b) provides a transition period. A lender that operates within the basket limit beginning in 2009 will not risk being cut off when the transition period ends in 2010.

(3) Where a mortgage loan meets the criteria in subsection 8(1), it is eligible to be approved for a Mortgage Insurance Guarantee.

PART D. APPLICATION TO LOW-RATIO MORTGAGE LOANS

9. (1) Criteria – Section 9 defines the Mortgage Insurance Guarantee criteria that would apply to low-ratio mortgage loans. What follows is guidance on each paragraph:
(a) Where the aggregate loan-to-value ratio on a given property is less than or equal to 60% when the mortgage loan is approved, the lender is only required to obtain Reasonable Verification of the Value of the Residential Property before the mortgage loan is Funded or approved for a Mortgage Insurance Guarantee.

(b) greater than sixty per cent (60%) but less than or equal to eighty per cent (80%) of the Value of the Residential Property when the loan is approved,

- (i) the lender or the Mortgage Insurer must have obtained Verification of the Value of the Residential Property within a reasonable time prior to the loan being Funded or approved for a Mortgage Insurance Guarantee, and
- (ii) the Credit Score of at least one of the borrowers or guarantors must be greater than or equal to five hundred and eighty (580) within a reasonable time prior to the loan being Funded or approved for a Mortgage Insurance Guarantee.

(b) Where the loan-to-value ratio on a given property is greater than 60% but less than or equal to 80% when the mortgage is loan is approved:

- (i) the lender must have obtained Reasonable Verification of the Value of the Residential Property before the mortgage loan is Funded or approved for a Mortgage Insurance Guarantee, and
- (ii) the Credit Score of at least one of the borrowers or guarantors must be greater than or equal to 580 before the mortgage loan is Funded or approved for a Mortgage Insurance Guarantee.