



CANADA MORTGAGE AND HOUSING CORPORATION

July 2019

Annex J Supplement

The document provides additional guidance to Issuers and Cover Pool Monitors on how to perform and interpret the procedures in Annex J of the Canadian Covered Bond Framework Guide. For information on the requirements and policies of Canadian registered covered bonds, refer to the *Canadian Registered Covered Bond Programs Guide* (<https://www.cmhc-schl.gc.ca/en/finance-and-investing/canadian-registered-covered-bonds/canadian-registered-covered-bond-programs-guide>)

INTRODUCTION

The supplement provides additional guidance to the Cover Pool Monitors when performing test procedures for assessing accuracy of eligible loan records and various specified procedures in relation to the Covered Bond Portfolio. The supplement also serves to provide clarity to Issuers and Investors on how Canada Mortgage Housing Corporation reviews and assesses the report prepared by the Cover Pool Monitor (“Asset Monitor Report”).

1. LEGISLATIVE FRAMEWORK

The objective underlying the covered bonds legal framework established by Part I.1 of the National Housing Act (NHA) is to develop a robust Canadian covered bonds regime designed to promote appropriate disclosure and continuity of payment (and ultimate repayment) of issued covered bonds, without intimation of a guarantee on the part of the federal government.

2. ROLE OF CANADA MORTGAGE AND HOUSING CORPORATION

Canada Mortgage and Housing Corporation is a Crown Corporation and its powers are prescribed in the Canada Mortgage and Housing Corporation Act (Canada), the Financial Administration Act (Canada) and the NHA. Under Part I.1 of the NHA, Canada Mortgage and Housing Corporation has been given responsibility to administer the legal framework for Canadian registered covered bond programs established thereunder, with discretionary authority to establish conditions and restrictions applicable to registered issuers and registered covered bond programs as defined in the guide and to oversee and enforce compliance with those conditions and terms.

3. ASSET MONITOR AGREEMENT

The Issuer, the Guarantor and the Bond Trustee appoint a Cover Pool Monitor to provide the services set out in the Asset Monitor Agreement and perform various specified procedures and arithmetic testing in relation to the Covered Bond disclosures. In the Asset Monitor Agreement, the Cover Pool Monitor details the scope of work undertaken and the specified procedures to be performed as per Annex J of the Guide.

4. RESPONSIBILITIES OF THE COVER POOL MONITOR

The Cover Pool Monitor shall prepare, an Asset Monitor Report in the order and format specified in Annex J of the Covered Bonds Guide. The Cover Pool Monitor shall and deliver to the registered Issuer, CMHC and the Bond Trustee no later than five Business Days prior to the first issuance of covered bonds under the program contemporaneous with or following its registration and no later than annually from the date of the first issuance of covered bonds. As stated in 7.3 of the Guide, the Cover Pool Monitor responsibilities include verifying the accuracy of records maintained, the arithmetical accuracy of tests and calculations in relation to the covered bond collateral.

5. ASSET MONITOR REPORT

The Asset Monitor Report details the scope of the Cover Pool Monitor's work and the procedures undertaken in performing the responsibilities under Section 7.3.1. of the Canadian Covered Bonds Guide. The report confirms that the sampling methodology used to assess the accuracy of covered bond collateral records (including a description of the pool sample and population used) accords with the Industry Standard Sampling Size (as set out in Annex J) and details the findings of the Cover Pool Monitor as a result of performing such procedures. Each Asset Monitor report must be dated (or current to a date not later than) the anniversary of the first issuance of covered bonds under the program, but may be issued or delivered to the registered issuer, CMHC and the Bond Trustee at any time within 90 days of its date or currency.

The Cover Pool Monitor reports on but does not exercise judgement with respect to his/her findings. The number of exceptions identified by the Cover Pool Monitor is assessed against an exception threshold determined based on the selected sample size and taking in consideration the confidence level and error rate defined in the Guide. If the number of exceptions in respect of a procedure exceeds the threshold, they will be considered material findings. Material findings can be addressed either by:

- a) Increasing the sample size to allow for one or more exceptions for the procedure(s) in question while meeting the required 95% confidence level.

Under certain circumstances, if the number of exceptions in respect of a procedure exceeds the threshold, CMHC may permit the issuer to select an entirely new sample unrelated to the first sample in order to re-perform the relevant procedure. Whether selection of a new sample is permitted will be determined on a case-by-case basis and is expected to be completed within a reasonable timeframe. This would generally only be appropriate where an issuer has undertaken data systems clean up to correct exceptions identified in the earlier report.

If the number of exceptions in respect of the procedure(s) still exceed the threshold, they will be considered material findings which must be addressed by b) below.

- b) If determined to be material as per Annex H.V.B of the Guide, disclosing such findings to investors in the issuer's next Annual Prospectus or in each of the Monthly Investor Reports.
 - **Annual Prospectus**
Where the issuer makes publicly available to investors an offering document that is updated at least annually (the "Annual Prospectus"), the material findings should be disclosed in the base prospectus. If the base prospectus has already been filed prior to the completion of the Asset Monitor Report, the disclosure can be included in a subsequent supplementary prospectus; or
 - **Monthly Investor Report**
The material findings should be disclosed in each subsequent Monthly Investor Report unless the issuer incorporates by reference its Monthly Investor Report into an Annual Prospectus, in which case it can be included in only one Monthly Investor Report that is incorporated by reference into the Annual Prospectus.

The material findings should be reported in each subsequent Offering Document, including, without limitation, an annual update to the Issuer's Annual Prospectus and, where the issuer does not publish an Annual Prospectus at least annually, in each of the Monthly Investor Reports until the issue(s) is cleared. Issue(s) can be cleared by a new Asset Monitor Report indicating successful completion of the procedure based on a sample taken from the entire cover pool. An Issuer can provide an Asset Monitor Report addressing only the material findings in advance of its next annual Asset Monitor Report or choose to remedy the material findings in the following annual Asset Monitor Report. In either case, the sample for the procedures exceeding the threshold must be selected from the entire pool in order to clear the material negative findings and end the obligation to report them in Annual Prospectuses, Offering Documents or Monthly Reports, as applicable.

6. LEGAL OPINION

Contemporaneous with the delivery of each Asset Monitor report, the issuer must cause to be prepared a legal opinion confirming the loans included in the sample selected by the Cover Pool Monitor comply with the requirements and qualifications set out in Sections 4.2.1(f), 4.2.1(h) and 4.2.1(i) of the Guide. [The Legal Opinion must disclose any exceptions found by the external legal counsel. If the number of exceptions exceed the threshold, they will be considered material findings. Material findings are addressed by 5 a) and/or b) above.

7. ANNUAL COMPLIANCE CERTIFICATE

An issuer will deliver within 90 days of each anniversary of the first issuance of covered bonds under the program following its registration, an annual compliance certificate as defined in Annex K of the guide. The annual compliance certificate should provide investors with meaningful disclosure that is conducive to informed decision making. Any exceptions identified by issuers in their annual compliance certificates are limited to those which would be material to investors. The annual compliance certificate is to be posted on the issuer's program website after CMHC's review of the Asset Monitor report and the related Legal Opinion.

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PART I. CONFIRMING ACCURACY OF RECORDS MAINTAINED IN RELATION TO COVERED BOND COLLATERAL

For each section in Part I, the table describes its purpose and provides guidance.

PART I. A - MONTHLY REPORT

Purpose and Guidance

The purpose of this procedure is to test the accuracy of the Covered Bond pool information in the monthly investor report.

The Cover Pool Monitor selects one monthly investor report (the “Subject Investor Report”) from the investor reports prepared since the date of the last asset monitor report. The Cover Pool Monitor should agree the mortgage information disclosed in the selected Investor Report with the system records, extraction files and third-party information [e.g. from rating agencies] used to prepare the report. Refer to Mortgage information in Annex H Section III & IV- Summary and Other Statistics relating to Eligible Loans in the Cover Pool for more details. The investor report contains the following information and data tables at the minimum:

- Previous month ending balance
- Current month ending balance
- Number of Eligible Loans in covered bond collateral
- Average mortgage size
- Number of properties
- Number of primary borrowers
- Types of mortgage assets
- Weighted average of LTV
- Weighted average indexed LTV
- Weighted average original LTV
- Weighted average seasoning
- Occupancy type distribution
- Rate type distribution
- Mortgage rate distribution
- Weighted average mortgage rate
- Weighted average term
- Weighted average remaining term

- Remaining term distribution
- Weighted average maturity of the Eligible Loans
- Weighted average maturity of outstanding covered bonds
- Remaining principal balance distribution
- Property type distribution
- Multi-dimensional distribution by region, LTV and arrearages
- Multi-dimensional distribution by LTV and credit score

The Cover Pool Monitor should agree the non-mortgage information disclosed in the selected Investor Report to the accounting records or other data deemed appropriate by the issuer. Refer to the non-mortgage information in Annex H Section I & II – Program Information and Test, Credit Enhancements and Triggers for more details. The investor report contains the following non-mortgage information at the minimum:

- Key parties to the program
- Credit ratings of the issuer
- Counterparties, administrative agents
- Whether or not there is an “issuer event of default” or a “guarantor entity event of default”
- Inter-company loan balance, demand loan balance, and trigger events to call the demand loan
- Initial principal amount (for each series) and CAD equivalent
- Maturity date (for each bond series), including final legal maturity and expected legal maturity for soft bullet covered bonds
- Coupon rate (for each bond series)
- Rate type (for each bond series)
- Exchange rate used for converting non Canadian dollar issued bonds (for each bond series)
- Current rating assigned (for each bond series)
- Asset Percentage (with comparison to maximum Asset Percentage established and disclosed for program)
- Asset Coverage Test and result
- Valuation Calculation and results
- Prematurity test and results (if applicable) and Ratings Trigger

- Following an “issuer event of default”, cash balance of covered bond collateral relative to sum of (x) Canadian dollar equivalent of all principal payments due under all series or tranches of hard bullet covered bonds maturing in 12 month period immediately following and (y) all prior ranking payment obligations in same period
- Amortization test and results (if applicable) and Ratings Trigger
- Other credit enhancements (e.g. Reserve Fund)
- Occurrence and performance of the remedial action required by any Ratings Trigger
- Total outstanding covered bonds relative to OSFI or other supervisory issuance limit
- Level of overcollateralization calculated in accordance with Section 4.3.8

PART I. B - SAMPLING SIZE

Purpose and Guidance

The Cover Pool Monitor selects a sample of loans from the issuer’s extraction files used to prepare the monthly investor report.

The Issuer may select from the following two options:

1. Random sample from entire cover pool or
2. Random sample from newly added or “top-up” loans since the last cover pool monitor review

The sample size must be sufficient to provide a 95% confidence level, with a tolerable deviation of 5% (an “Industry Standard Sampling Size”). This means that if the number of exceptions is below the allowable threshold, a 95% confidence is achieved and that the population being sampled does not have an exception rate above 5%. The sample size number chosen will be applied for test procedures under Part I. C, D and E of the Annex J.

If a procedure (s) exceeds the allowable number of exceptions the Issuer can increase the sample size for that procedure to meet the 95% confidence level.

PART I. C - DATA ELEMENTS

Purpose and Guidance

The objective is to confirm the information in the extraction files agrees with system records and with the underlying source mortgage documents. The Cover Pool Monitor performs the specified procedures by inspecting the data elements identified in the extraction files (used to prepare the Subject Investor Report) with original asset documents, loan files and system records. Acceptable documents for each procedure will be listed under the Guidance table.

If there are no loans added since the last date the Sample was selected, the Cover Pool Monitor can exclude sections Part I C. and D. - Eligible Loans and Substitute Assets, E- Data to the Custodian and Part III A.-Legal Opinion.

PART I. C - ELIGIBLE LOAN TEST PROCEDURES 1 TO 17

For each Eligible Loan procedure, the table describes its purpose, provides guidance, describes instances of tolerance level and provides examples of exception.

| | |
|-------------------------------|--|
| Procedure | The reference procedure as per Annex J of the Guide. |
| Purpose | Describes the purpose and why the test is important from a legal, valuation, and reporting prospective. |
| Guidance | Description of acceptable findings. List of the acceptable document (s) for the procedure. |
| Tolerance Level | Description of instances when differences are not considered exceptions. |
| Examples of Exceptions | An exception (s) is a difference identified while performing a procedure when such difference is not an acceptable finding. The Cover Pool Monitor is to report the reason and the number of exceptions found in each test procedure. |

1. NAME PROCEDURE

| | |
|-------------------------------|---|
| Procedure | <p>Agree the borrower(s)' first name (or initials) and surname (allowing for common abbreviations) with the following:</p> <ul style="list-style-type: none"> a) Certificate of Title (COT) or Report on Title (ROT) or title search (sub search) printout from land title records, <i>and</i> b) Registered Mortgage document (or, if not on file, either the mortgage loan agreement or the mortgage application form) |
| Purpose | <p><i>Test whether the borrower has title to the property and the registered mortgage is in the borrower's name.</i></p> <p>Note: References the borrower(s)' relate to all named borrowers</p> <p>Title is legal ownership of a property and registered in the government's land registration system. Title to the secured property is in the name of the borrower under the registered mortgage document.</p> |
| Guidance | <p>Borrower(s) first name (or initials) and surname in the extraction files should agree to the title <i>and</i> mortgage document.</p> <p>In instances of legal name change due to marriage, divorce, etc., the issuer should provide evidence to the cover pool monitor.</p> <p>Acceptable documents may include:</p> <p>Title</p> <ul style="list-style-type: none"> ▪ Certificate of Title ▪ Report on Title ▪ Title Search or copy of Title ▪ Solicitor's/Notary Report on Title ▪ State of Title Certificate <p>Mortgage</p> <ul style="list-style-type: none"> ▪ Registered Mortgage Agreement ▪ Land Title Act Form B ▪ Mortgage Loan Agreement ▪ Credit Bureau Report ▪ Mortgage Disclosure Statement (Original or Revised) |
| Tolerance Level | <p>In instances of trivial spelling mistakes, reverse initials or names, use of a preferred first name instead of legal first name, there should be no ambiguity raised about the identity of the borrower (s).</p> |
| Examples of Exceptions | <p>Borrower(s) first (or initials) and last name in the extraction files do not agree to the title <i>or</i> mortgage documents.</p> <p>Additional or missing names in one or more of the following: extraction files, title and mortgage documents.</p> <p>Loans are assessed individually. There can be no more than one exception for each loan. For example, 2 of the 3 names in the extraction files do not agree to the title document <i>and</i> registered mortgage document. This will count as one exception.</p> |

2. ADDRESS PROCEDURE (SECURITY AND VALUATION)

| | |
|------------------|---|
| Procedure | <p>Inspect that the property address confirmed to be in Canada and agree the municipal address or the legal description to the following:</p> <ul style="list-style-type: none"> a) Certificate of Title (COT) or Report on Title (ROT), or title search (sub search) printout from land title records <i>and</i> b) Valuation report, where commissioned <p>Note: for new built or new constructions where postal code(s) are not defined yet, please refer to the legal description</p> |
| Purpose | <p><i>Test whether the security has been taken on the property and confirm whether the valuation has been performed on the correct property.</i></p> <p><i>Test property value indexation. The first three digits of the postal code represent the Forward Sortation Area (FSA), a specific area within a major geographic region or province. FSA codes are maintained by Canada Post.</i></p> <p>The property valuation statistics are disclosed in the monthly investor reports</p> |
| Guidance | <p>The property address and FSA in the extraction files should agree to the property address and FSA on the title document <i>and</i> the valuation record.</p> <p>In instances of changes in property address or municipal boundary, the issuer must provide evidence to the Cover Pool Monitor.</p> <p>Must be compliant with the issuers underwriting policy if there is no valuation record.</p> <p>In instances where the title document and/or valuation record references a legal description, the legal description can be used to test security and/or valuation.</p> <p>Acceptable documents may include:</p> <p>Title</p> <ul style="list-style-type: none"> ▪ Certificate of Title ▪ Report on Title ▪ Title Search or copy of Title ▪ Solicitor's/Notary Report on Title ▪ State of Title Certificate |

| | |
|-------------------------------|---|
| | <p>Valuation Records</p> <ul style="list-style-type: none"> ▪ Desk, Drive-by, Full Appraisal Report, Third Party Valuation Products (i.e., Automated Valuation Model (AVM), Low Ratio Valuation (LRV)) <p>Acceptable only in accordance with issuer's underwriting policy:</p> <ul style="list-style-type: none"> ▪ Property Assessment performed by city/municipality ▪ Sale Agreement |
| Tolerance Level | <p>In instances of immaterial spelling mistakes, abbreviations (such as E for East, Ave for Avenue, and St for Street) or missing street type (i.e. rue, chemin, street, avenue, des or de, boulevard), there should be no ambiguity raised about the property.</p> <p>In instances where the COT/ROT (or the valuation record) does not reference a FSA, the FSA in the valuation record (or the COT/ROT) can be relied upon to test the FSA in the extraction file. If there is a discrepancy between the FSA in the extraction file and the FSA on the document, the FSA in the extraction file must agree to the FSA on Canada Post's records.</p> <p>In situations where the property is new construction and the FSA was not available at the time of the valuation or subsequently changed, the FSA in the extraction files should match Canada Post's records.</p> |
| Examples of Exceptions | <p>The property address including the FSA in the extraction files do not agree to the title document <i>and/or</i> valuation report.</p> <p>Missing property information in extraction files such as unit number, civic number, street address, FSA, city and province.</p> <p>Loans are assessed individually. No more than one exception for each sample loan. For example: If the civic number and the FSA in the extraction do not agree to the title document, this is counted as one exception.</p> |

3. LOAN NUMBER PROCEDURE

| | |
|-------------------------------|--|
| Procedure | Agree the loan/account number with the primary system of record |
| Purpose | <p><i>Test to identify the loan number exists in the lender's system.</i></p> <p>The mortgage account number is a unique identifier and distinguishes the individual loans in the lender's system.</p> |
| Guidance | <p>The mortgage account number on file should agree to the loan in the lender's system or extraction files.</p> <p>Acceptable documents may include:</p> <ul style="list-style-type: none"> ▪ Account Statement ▪ Any supporting source document with a loan/number |
| Tolerance Level | N/A |
| Examples of Exceptions | The mortgage account number file does not agree to the loan in the lender's system or extraction files. |

4. TERM PROCEDURE

| | |
|-------------------------------|--|
| Procedure | Agree the latest agreed term of the loan with the latest mortgage offer or account statement (or agree it is a HELOC) |
| Purpose | <p><i>Test whether the current agreed upon term of the loan in the system/ extraction files corresponds to the mortgage offer or account statement.</i></p> <p>The term is the period of time the mortgage agreement with the lender is in effect. At the end of the term, the borrower can either choose to pay off in full or renew the mortgage.</p> <p>The statistics are disclosed in the monthly investor reports.</p> |
| Guidance | <p>The mortgage term in the system should agree with the mortgage document.</p> <p>In instances where the latest mortgage document does not contain the correct term, the issuer can provide evidence the term has been renewed or extended.</p> <p>A Home equity line of credit (HELOC) is a secured form of revolving credit. If the mortgage is a non-amortizing HELOC, agree it is a HELOC.</p> <p>Acceptable documents may include:</p> <ul style="list-style-type: none"> ▪ Mortgage Offer ▪ Account Statement ▪ Mortgage Disclosure Statement (Original or Revised) ▪ Registered Mortgage Agreement ▪ Land Title Act Form B ▪ Mortgage Agreement/Application Form ▪ Land Registration Mortgage Document |
| Tolerance Level | Difference of +/- 1 month and below |
| Examples of Exceptions | Difference of greater than +/- 1 month |

5. INTEREST RATE PROCEDURE

| | |
|-------------------------------|---|
| Procedure | Agree the interest rate (or spread to index), interest rate type and interest rate index with the most current loan document or account statement |
| Purpose | <p><i>Test whether the interest rate and rate type in the system corresponds to the loan document.</i></p> <p>The interest rate is expressed as percentage and the type of interest can be fixed or variable rate. The interest on a fixed rate mortgage does not change during the term. The variable interest rate can vary during the term.</p> <p>The statistics are disclosed in the monthly investor reports.</p> |
| Guidance | <p>The interest rate (or spread the index) and rate type shown on the primary system of record should agree to the latest mortgage document.</p> <p>Acceptable documents may include:</p> <ul style="list-style-type: none"> ▪ Mortgage Offer ▪ Account Statement ▪ Registered Mortgage Agreement ▪ Land Title Act Form B ▪ Mortgage Agreement/Application Form ▪ Land Registration Mortgage Document ▪ Mortgage Disclosure Statement (Original or Revised) |
| Tolerance Level | N/A |
| Examples of Exceptions | The interest rate and/or the rate type, do not agree with the latest mortgage document. |

6. AMORTIZATION PROCEDURE

| | |
|-------------------------------|---|
| Procedure | Agree the remaining amortization as reported with the remaining amortization on the mortgage administration system as of cut-off date (or agree it is a HELOC) |
| Purpose | <p><i>Test whether the remaining amortization in the extraction files corresponds to the remaining amortization in the system as of the cut-off date.</i></p> <p>The amortization period is the actual period of time it will take to fully pay off the principal amount of a mortgage. The amortization is expressed in years and months or months only and may go beyond the term of the loan.</p> <p>An incorrect amortization may result in incorrect borrower payment amount calculation.</p> |
| Guidance | <p>The remaining amortization in extraction files should agree to the mortgage system as of the cut-off date.</p> <p>Where the remaining amortization of the loan is a live field and not a stored value in the system, the remaining amortization can be recalculated using the latest mortgage or account statements.</p> <p>In instances where the extraction file does not contain the correct amortization, the issuer can provide evidence that amortization has been changed.</p> <p>In instances where the borrower has made prepayments that shorten amortization, the amortization can be re-calculated.</p> <p>A Home equity line of credit (HELOC) is a secured form of revolving credit. If the mortgage is a non-amortizing HELOC, agree it is a HELOC.</p> |
| Tolerance Level | Difference of +/- 1 month and below |
| Examples of Exceptions | Difference of greater than +/- 1 month |

7. AMOUNT ADVANCED PROCEDURE

| | |
|-------------------------------|---|
| Procedure | Agree the total amount advanced to the latest offer/loan documents |
| Purpose | <p><i>Test whether the correct amount of funds was advanced to the borrower per the loan documents.</i></p> <p>The registered mortgage document secures the amount advanced to the borrower. If amount advanced is higher than the registered mortgage, the difference between the amount loaned and on title could be unsecured. An error in the amount advanced can result in an incorrect payment amount calculation.</p> |
| Guidance | <p>The amount advanced in the system or extraction files should agree to the latest loan document.</p> <p>A Home equity line of credit (HELOC) is a secured form of revolving credit. The borrower has access to a credit line up to a maximum limit. If the mortgage is a non-amortizing HELOC, agree the credit limit amount in the extraction files to the loan document.</p> <p>Acceptable documents may include:</p> <ul style="list-style-type: none"> ▪ Registered Mortgage Agreement ▪ Land Title Act Form B ▪ Land Registration Mortgage Document ▪ Mortgage Agreement/Application Form ▪ Repayment letter |
| Tolerance Level | Differences due to fees, charges and product transfers |
| Examples of Exceptions | The amount advanced in the extraction file (\$257,673) is higher than the amount advanced in mortgage agreement (\$204,994). |

8. MORTGAGE BALANCE PROCEDURE

| | |
|-------------------------------|---|
| Procedure | Agree the mortgage balance (and the limit in the case of a HELOC) on the mortgage administration extraction file with the balance on the mortgage loan processing system at the cut-off date. |
| Purpose | <p><i>Test whether the correct outstanding mortgage balance is reflected in the system.</i></p> <p>The mortgage balance is the principal amount owed to the lender at any period of time during the duration of the mortgage. The statistics are disclosed in the monthly investor reports. The outstanding mortgage balance is used in the loan statistics, valuation calculation, Asset Coverage Test (ACT) and in Loan-to-Value (LTV), percentages on the report. The LTV is the relationship between the principal balance of the mortgage and the property value (original and indexed).</p> |
| Guidance | <p>The mortgage balance on the extraction files should equal the balance on the system of record at the cut-off date.</p> <p>A Home equity line of credit (HELOC) is a secured form of revolving credit. The borrower has access to a credit line up to a maximum limit. If the mortgage is a non-amortizing HELOC, agree the credit limit amount in the extraction files to the mortgage loan system.</p> |
| Tolerance Level | N/A |
| Examples of Exceptions | The mortgage balance in the extraction files is higher than the mortgage balance in the system at the cut-off date. |

9. MATURITY DATE PROCEDURE

| | |
|-------------------------------|---|
| Procedure | Agree the maturity date of each mortgage on the primary system of record with the latest offer document or account statement, and that it is within a 30 day range (or agree it is a HELOC) |
| Purpose | <p><i>Test whether the maturity date corresponds to the loan document.</i></p> <p>The maturity date is the date a mortgage term ends. On the maturity date, the mortgage must either be paid off in full or renewed into a new term. The maturity date is used to calculate the remaining term. The statistics are disclosed in the monthly investor reports.</p> |
| Guidance | <p>The maturity date in the extraction files or system should agree with the latest document.</p> <p>A Home equity line of credit (HELOC) is a secured form of revolving credit. If the mortgage is a non-amortizing HELOC, agree it is a HELOC.</p> <p>Acceptable documents may include:</p> <ul style="list-style-type: none"> ▪ Mortgage Offer ▪ Account Statement ▪ Registered Mortgage Agreement ▪ Land Title Act Form B ▪ Mortgage Agreement/Application Form ▪ Land Registration Mortgage Document ▪ Mortgage Disclosure Statement (Original or Revised) |
| Tolerance Level | Difference of +/- 1 month and below |
| Examples of Exceptions | Difference of greater than +/- 1 month |

10. VALUATION AMOUNT PROCEDURE

| | |
|-------------------------------|--|
| Procedure | Agree the valuation amount in the extraction file is less than or equal to the amount from the latest valuation, based on the underwriting policy of the registered issuer or its Affiliate (if it is the regulated lender) that was valid at the valuation date. Where there is no valuation record, please ensure lack of valuation record is compliant with the issuer's underwriting policy. |
| Purpose | <p><i>Test whether the property valuation amount in the extraction files is sufficient to cover the security on the property.</i></p> <p>A residential property appraisal record is an opinion value. The appraised value is used to establish the upper limit of funds that a bank is prepared to lend. The property is pledged as collateral to the bank in the event the borrower defaults on the mortgage. The property valuation amount ensures the loan was granted in accordance with the lender's underwriting policies and the LTV was less than 80% at the time of the loan pursuant to section 4.1 of the NHA.</p> <p>The valuation amount is used in the indexation methodology, valuation calculations and LTV percentages on the monthly investors report.</p> |
| Guidance | <p>The valuation amount in the extraction files should be less than or equal to the valuation record conducted according to the issuer's underwriting policy.</p> <p>In instances where risks models were used to assess loan amount and a valuation record is required to support the value per the lender's underwriting policy, the Cover Pool Monitor should agree the valuation amount in the extraction files to the valuation record source document.</p> <p>Must be compliant with the issuers underwriting policy if there is no valuation record.</p> <p>Acceptable documents may include:</p> <ul style="list-style-type: none"> ▪ Desk, Drive-by, Full Appraisal Report, Third Party Valuation Products (i.e., Automated Valuation Model (AVM), Low Ratio Valuation (LRV)) <p>Acceptable only in accordance with issuer's underwriting policy:</p> <ul style="list-style-type: none"> ▪ Property Assessment performed by city/municipality ▪ Sale agreement |
| Tolerance Level | N/A |
| Examples of Exceptions | The valuation amount in the extraction files is greater than the valuation record. |

11. VALUATION DATE PROCEDURE

| | |
|-------------------------------|---|
| Procedure | Agree the valuation date in the extraction file with the date on the latest valuation report and check whether it is within one year of the closing date. Where there is no valuation record, please ensure lack of valuation record is compliant with the issuer's underwriting policy. |
| Purpose | <p><i>Test whether valuation record date agrees to the extraction files and whether the valuation date in the extraction files it is within one year of the closing date.</i></p> <p>The valuation date is the date that the property was appraised or assessed. The one year time frame from the closing date is the maximum allowable time. This ensures the valuation amount relied upon was current at the closing date and is an appropriate baseline for indexation.</p> <p>The valuation date is used in the indexation methodology.</p> |
| Guidance | <p>The valuation date in the extraction files should agree to the valuation record date. The valuation date in the extraction system is within one year of the closing date.</p> <p>In instances where a valuation record was not performed per the issuer's policy, the valuation date in the extraction files must be compliant per the issuer's policy.</p> <p>Must be compliant with the issuer's policy if the valuation record date is not dated within one year of the closing date.</p> <p>Must be compliant with the issuer's underwriting policy if another date (closing, funding, etc.) is used in lieu of the valuation date.</p> <p>Acceptable documents may include:</p> <ul style="list-style-type: none"> ▪ Desk, Drive-by, Full Appraisal Report, Third Party Valuation Products (i.e., Automated Valuation Model (AVM), Low Ratio Valuation (LRV)) <p>Acceptable only in accordance with issuer's underwriting policy:</p> <ul style="list-style-type: none"> ▪ Property Assessment performed by city/municipality ▪ Sale agreement |
| Tolerance Level | Difference of less than or equal to +/- 1 month between the valuation date extraction files and the valuation record date. |
| Examples of Exceptions | <p>Difference greater than +/- 1 month between the valuation date extraction files and the valuation record date.</p> <p>The valuation date in the extraction files is greater than one year of the closing date.</p> <p>Loans are assessed individually. No more than one exception for each sample loan. For example: Difference of two months between the valuation date in extraction files and valuation record date. The valuation date in the extraction files is thirteen months within the closing date. This is counted as one exception.</p> |

12. REPAYMENT TYPE PROCEDURE

| | |
|-------------------------------|--|
| Procedure | Agree the repayment type (amortizing/interest only etc.) with supporting documents (which can include mortgage loan offer document or system record) |
| Purpose | <p><i>Test whether the repayment type corresponds to the loan document.</i></p> <p>Repayment types can be amortizing or non-amortizing (interest only). An amortizing mortgage is a fix term loan and payments go towards principal and interest. A non-amortizing mortgage is a type of loan with interest-only payments and principal remains the same.</p> <p>The statistics are disclosed in the monthly investor reports.</p> |
| Guidance | <p>The repayment type in the extraction files should agree to the mortgage document.</p> <p>In instances where the latest mortgage document does not contain the repayment type, the issuer must provide evidence to the Cover Pool Monitor.</p> <p>Acceptable documents may include:</p> <ul style="list-style-type: none"> ▪ Mortgage Offer ▪ Account Statement ▪ Mortgage Loan Agreement ▪ Mortgage Repayment Letter ▪ Mortgage Renewal Agreement |
| Tolerance Level | N/A |
| Examples of Exceptions | The repayment type in the system/ extraction files does not agree to the mortgage document. |

13. PROPERTY TYPE PROCEDURE

| | |
|-------------------------------|---|
| Procedure | Agree the property type (single-family, condominium, multi-residential, or other) with the valuation report/record, land registry records or report on title |
| Purpose | <p><i>Test whether the property type in the extraction files corresponds to the valuation record.</i></p> <p>Single family and multi- residential are examples of a fee simple tenure (property owner owns both the home and land). A condo apartment is an example of a condominium (property owner owns a private residential dwelling and share ownership of the common assets). Row and Townhouse property types can either be fee simple or condominium ownership. Examples of “single family” may include the following property types: detached, semi-detached, row and townhouse. Examples of “multi-residential” may include the following property types: duplex, triplex and four-plex. The property type statistics are disclosed in the monthly investor’s report and the categories can vary from issuer to issuer.</p> |
| Guidance | <p>The property type in the extraction files should agree to the valuation record, land registry record, ROT, or other property type related source document.</p> <p>Acceptable documents may include:</p> <ul style="list-style-type: none"> ▪ Desk, Drive-by, Full Appraisal Report, Third Party Valuation Products (i.e., Automated Valuation Model (AVM), Low Ratio Valuation (LRV)) ▪ Report on Title ▪ Property Assessment performed by city/municipality ▪ Listing Agreement (i.e. MLS, Realtor, Centris) ▪ Sale agreement ▪ Property Insurance Policy |
| Tolerance Level | <p>The following naming conventions are interchangeable with single family: detached, semi-detached, row, and townhouse.</p> <p>The following naming conventions are interchangeable with multi-residential: duplex, triplex, and four-plex.</p> |
| Examples of Exceptions | <p>The property type in the extraction files does not agree to the valuation record.</p> <p>The property type in the extraction file is a single family however according to the sale agreement, the property is a multi-residential.</p> <p>The property type in the extraction file is a duplex however according to the land registry record, the property is a condo.</p> |

14. FLAG PROCEDURE

| | |
|-------------------------------|---|
| Procedure | Inspect that the mortgage loan in the primary system of record (or primary medium where loans are being flagged) has a flag to indicate it is used solely for the purpose of the covered bond pool |
| Purpose | <i>Test whether the loans in cover pool are identified in the issuer's system.</i> The flag in the issuer's system identifies that the loan is in a cover pool and segregated from other programs. |
| Guidance | The flag in the system/ extraction files should indicate the loan is used for the purpose of the covered bond pool. |
| Tolerance Level | N/A |
| Examples of Exceptions | There is no flag in the system/ extraction files indicating the loan is part of the covered bond program. |

15. CREDIT BUREAU PROCEDURE

| | |
|-------------------------------|---|
| Procedure | Agree the credit score with the score information reflected on the issuer's records for updated credit scores |
| Purpose | <i>Test the credit score was obtained for the borrower and updated in the issuer's system.</i> The credit report contains a standardized credit score that is designed to assess a borrower's credit history at a single point in time. The score provides an indicator of the relative degree of potential risk. Credit reporting agencies generally scale from 300 to 900. The higher the score, the lower the risk for the lender. The statistics are disclosed in the monthly investors report. |
| Guidance | The credit score obtained for the borrower on the mortgage should agree to the updated credit score on the issuer's system records Where a loan has multiple borrowers, then only one credit score from a single selected borrower is acceptable. |
| Tolerance Level | In instances where the borrower (s) does not have a credit score, the score is reported as N/A or unavailable. |
| Examples of Exceptions | The credit score obtained for any borrowers does not agree to the system records. |

16. EMPLOYMENT AND INCOME VERIFICATION PROCEDURE

| | |
|-------------------------------|---|
| Procedure | Agree there is evidence that the issuer has carried out income verification in accordance with the issuer's underwriting policy, to the extent that income verification is required under issuer's underwriting policy. Where evidence of income is unavailable, agree (a) that income verification was not required by the issuer's underwriting policy in effect at the time of loan origination and (b) that such underwriting policy has been disclosed to investors in each Public Offering Document or, in the case of a private placement, offering memorandum or similar disclosure document prepared in connection with the issuance of a series or tranche of covered bonds under the registered covered bond program following its registration. |
| Purpose | <p><i>Test whether income verification has been carried out in accordance with the lender's underwriting policy. Or, if evidence of income verification is absent and not required by the issuer's underwriting policies, that this had been disclosed to investors.</i></p> <p>The bank's underwriting policies requires the loan applicant to disclose employment and income history. The verification determines if the applicant's income is sufficient to meet the mortgage loan obligations.</p> |
| Guidance | <p>The Cover Pool Monitor should verify there is evidence that the issuer has carried out income verification in accordance with the relevant section of the issuer's underwriting policy</p> <p>In instances where evidence of income is unavailable, the Cover Pool Monitor should agree that income verification was not required by the issuer's underwriting policy in effect at the time of loan origination or renewal and that such policy has been disclosed to investors.</p> <p>Acceptable documents may include:</p> <ul style="list-style-type: none"> Income and employment documents (pay slips, tax return/Notice of assessment, T4, additional income sources, etc.) |
| Tolerance Level | N/A |
| Examples of Exceptions | <p>The credit application form indicates \$185K of income for the borrower while the income supporting document (employment letter) indicates \$95K of income.</p> <p>The credit application form indicates \$120K gross salary for Borrower 1 and \$75K for Borrower 2 while the income supporting documents (prior two years' tax returns) indicate a \$96K gross salary for Borrower 1 and a 60K gross salary for Borrower 2.</p> <p>Insufficient or no income documents if income documentation is required by underwriting policy.</p> <p>Income verification not required but this underwriting policy has not been disclosed to investors.</p> |

17. TITLE PROCEDURE

| | |
|-------------------------------|---|
| Procedure | Inspect that there is evidence of title or title insurance |
| Purpose | <p><i>Test whether the lender has verified title of ownership or a title insurance policy is in place.</i></p> <p>Title is legal ownership of a property and registered in the government's land registration system.</p> <p>The title insurance is a policy that protects residential property owners and lenders against losses related to the property's title or ownership.</p> |
| Guidance | <p>The title document or title insurance should agree to the borrower's name and property.</p> <p>In instances where the lender purchases a bulk title insurance policy to protect against certain types of defects in the mortgage, title fraud, and other defects, the issuer must provide evidence to the Cover Pool Monitor.</p> <p>Acceptable documents may include:</p> <p>Title</p> <ul style="list-style-type: none"> ▪ ROT/COT ▪ Title Opinion from Solicitor ▪ Solicitor's Notary Report on Title ▪ Mortgage registration documents ▪ Land Title Act Form B <p>Title Insurance</p> <ul style="list-style-type: none"> ▪ Title Insurance Policy |
| Tolerance Level | N/A |
| Examples of Exceptions | No evidence of title insurance policy or title. |

PART I. C - SUBSTITUTE ASSETS TEST PROCEDURES 18 TO 21

For each Substitute Asset procedure, the table describes its purpose, provides guidance, describes instances of tolerance level and provides examples of exception.

The Guarantor entity may hold substitute assets in the covered bond collateral provided that the value of all Substitute Assets does not exceed 10 percent of the total value of all covered bond collateral. Eligible substitute assets include securities issued by the Government of Canada, repos of Government of Canada securities having terms acceptable to CMHC and sums derived from Government of Canada securities or repos of Government of Canada securities.

18. CUSIP

| | |
|-------------------------------|--|
| Purpose | <i>Test whether the eligible asset details in the system agree to the source documents</i> |
| Guidance | Agree the CUSIP recorded with the primary system of record to the source document |
| Tolerance Level | N/A |
| Examples of Exceptions | The CUSIP recorded does not agree to the source document. |

19. MATURITY DATE

| | |
|-------------------------------|--|
| Purpose | <i>Test whether the eligible asset details in the system agree to the source documents</i> |
| Guidance | Agree the maturity date recorded with the primary system of record to the source document |
| Tolerance Level | N/A |
| Examples of Exceptions | The maturity date recorded does not agree to the source document. |

20. FACE VALUE

| | |
|-------------------------------|--|
| Purpose | <i>Test whether the eligible asset details in the system agree to the source documents</i> |
| Guidance | Agree the face value recorded with the primary system of record to the source document |
| Tolerance Level | N/A |
| Examples of Exceptions | The face value recorded does not agree to the source document. |

21. COUPON

| | |
|-------------------------------|--|
| Purpose | <i>Test whether the eligible asset details in the system agree to the source documents</i> |
| Guidance | Agree the coupon recorded with the primary system of record to the source document |
| Tolerance Level | N/A |
| Examples of Exceptions | The coupon rate recorded does not agree to the source document. |

PART I. D - ELIGIBLE LOANS, SUBSTITUTE ASSETS AND CASH

For each procedure in Part I.D, the table describes its purpose, provides guidance, describes instances of tolerance level and provides examples of exception.

Using the Sample, the Cover Pool Monitor shall inspect the Underlying Source Mortgage Documents and agree that the cover pool assets comprise Eligible Loans and Substitute Assets, including cash, meet the criteria specified in Sections 4.1.1, 4.1.2 and 4.1.3 of the Guide.

| | |
|-------------------------------|---|
| Section 4.1.1 | <p>A guarantor entity may hold the following:</p> <ul style="list-style-type: none"> (a) Eligible Loans; (b) all sums derived from Eligible Loans (whether on account of principal, interest or otherwise and whether received from the borrower or a guarantor thereof); and (c) securities issued by the Government of Canada, repos of Government of Canada securities having terms acceptable to CMHC and sums derived from Government of Canada securities or repos of Government of Canada securities (collectively, "Substitute Assets"), provided that the value of all Substitute Assets does not exceed 10 percent of the total value of all covered bond collateral, as covered bond collateral for purposes of this Guide and Part I.1 of the NHA, and may also hold: <ul style="list-style-type: none"> (a) all sums, securities and other assets pledged or otherwise transferred to the guarantor entity as collateral for the obligations of a Counterparty under or pursuant to a Covered Bond Collateral Hedge; and (b) contracts (and associated rights) relating to the covered bond collateral of the guarantor entity or to any covered bond guaranteed by the guarantor entity or otherwise entered into in connection with the registered covered bond program (including inter-company loans), and sums related thereto. |
| Purpose | <i>Test whether the eligible loans, substitute assets and cash, meet the criteria outlined in Section 4.1.1 of the Guide.</i> |
| Guidance | <p>The Cover Pool Monitor should agree each sampled loan meet the Eligible Loan criteria.</p> <p>For substitute assets and cash, the Cover Pool Monitor should agree the assets are permitted as outlined in Section 4.1.1 b) and c)</p> |
| Tolerance Level | N/A |
| Examples of Exceptions | The guarantor holds ineligible securities or Substitute Assets in excess of 10 percent of the value of covered bond collateral. |

| | |
|-------------------------------|--|
| Section 4.1.2 | All cash and Substitute Assets of a guarantor entity must be held in one or more accounts in the name of the guarantor entity maintained at the account bank (or other financial institution at which an account may be maintained) of the guarantor entity and, in the case of Substitute Assets, segregated from the assets of the account bank (or financial institution), provided that nothing herein shall be construed to preclude the commingling of the guarantor entity's cash with that of the registered issuer, servicer or cash manager of a registered covered bond program in compliance with Section 6.3.3 of this Guide. |
| Purpose | <i>Test whether the eligible loans, substitute assets and cash, meet the criteria outlined in Section 4.1.2 of the Guide.</i> |
| Guidance | <p>For a selected date, the Cover Pool Monitor should obtain a list of all bank accounts, bank account agreements and statements for the guarantor entity.</p> <p>Inspect that the bank account agreement and statement are in the guarantor entity's name.</p> <p>If applicable, ensure substitute assets are segregated from the assets of the bank accounts.</p> |
| Tolerance Level | N/A |
| Examples of Exceptions | <p>The bank account is not in the name of the guarantor entity.</p> <p>Substitute assets are not segregated from the Issuing entity's bank accounts.</p> |

| | |
|-------------------------------|--|
| Section 4.1.3 | The assets of a guarantor entity of a registered covered bond program (including assets pledged or otherwise transferred to the guarantor entity as collateral for the obligations of a Counterparty under or pursuant to a Covered Bond Collateral Hedge and Trigger Collateral) may not include cash in excess of cash necessary to meet the guarantor entity's payment obligations for the immediately succeeding six months pursuant to the provisions of the transaction documents of the program or such greater amount as CMHC may, at its discretion, permit, provided that, to the extent the cash receipts of the guarantor entity cause the cash held by the guarantor entity to exceed the limit prescribed therefor by this Section 4.1.3, such excess cash holdings shall not be considered to be in breach of this Section 4.1.3 if applied or distributed by the guarantor entity in accordance with Section 6.3.4 of this Guide or reinvested in Eligible Loans or Substitute Assets complying with the requirements of this Guide and Part I.1 of the NHA (in each case, within 31 days of their receipt). |
| Purpose | <i>Test whether the eligible loans, substitute assets and cash, meet the criteria outlined in Section 4.1.3 of the Guide.</i> |
| Guidance | <p>The Cover Pool Monitor should obtain the prescribed cash limit calculated for the guarantor entity as at the sample date selected and report the method of calculation.</p> <p>Inspect and agree the aggregate cash balances as at the sample date per the bank statements is within the prescribed limit amount.</p> <p>Inspect whether the cash balance in the bank account was in excess of cash required to meet the guarantor entity's payment obligations for the immediately succeeding six months pursuant to the provisions of the transaction documents.</p> |
| Tolerance Level | N/A |
| Examples of Exceptions | In excess of six months cash necessary to meet payment obligations |

PART I. D - ELIGIBLE LOANS

For each procedure in Part I.D, the table describes its purpose, provides guidance, describes instances of tolerance level and provides examples of exception.

In order to assess whether assets are Eligible Loans pursuant to 4.1.1(a), the Cover Pool Monitor must agree that the assets meet the criteria for Eligible Loans as set out in Sections 4.2.1 (a), (b), (c), (d), (e), (g) and (j) and report any exceptions. The criteria for Eligible Loans set out in 4.2.1 (f), (h) and (i) are to be the subject of a legal opinion, as outlined Part III. A.

A. NO ARREARS AT THE TIME OF TRANSFER

| | |
|-------------------------------|---|
| Section 4.2.1 a) | A loan shall not qualify as an Eligible Loan if, at the time of transfer to the guarantor entity, one or more payments of principal or interest payable thereunder are in arrears. |
| Purpose | <i>Test whether the loans were current at the time of transfer to the covered bond pool.</i> |
| Guidance | <p>The Cover Pool Monitor should independently verify the arrears balance was nil at the time of transfer to the covered bond pool.</p> <p>Acceptable procedures /documents may include:</p> <ul style="list-style-type: none"> ▪ System records ▪ Mortgage History/Report ▪ Mortgage statement ▪ System screenshot ▪ System generated file |
| Tolerance Level | N/A |
| Examples of Exceptions | The loan had one or more payment in arrears at the time of transfer to the covered bond pool. |

B. LOAN PAYMENT

| | |
|-------------------------------|---|
| Section 4.2.1 b) | A loan shall not qualify as an Eligible Loan until one or more payments of principal or interest (or blended payment(s) of principal and interest) have been made in accordance with the terms of the loan. |
| Purpose | <i>Test that the borrower made at least one payment on the loan prior to being transferred to the covered bond pool.</i> |
| Guidance | <p>The Cover Pool Monitor should independently verify that at least one payment was made on the loan prior to being transferred to the covered bond pool.</p> <p>Acceptable procedures /documents may include:</p> <ul style="list-style-type: none"> ▪ System records ▪ Mortgage History/Report ▪ Mortgage Statement ▪ System Screenshot ▪ System generated file |
| Tolerance Level | N/A |
| Examples of Exceptions | No evidence of payment of principal and interest (or blending payment(s) of principal and interest) made in accordance with the terms of the loan at the time of transfer to the covered bond pool. |

C. FIRST SECURITY

| | |
|-------------------------------|---|
| Section 4.2.1 c) | A loan shall not qualify as an Eligible Loan for so long as the mortgage or hypothecary instrument charging the residential property securing such loan does not represent a first priority perfected security interest (subject to encumbrances or claims customarily permitted by a prudent lender). |
| Purpose | <i>Test that the mortgages represent a first priority security interest.</i> |
| Guidance | <p>The Cover Pool Monitor should independently verify and confirm there are no senior security interest on title.</p> <p>Acceptable Documents may include:</p> <p>Title</p> <ul style="list-style-type: none"> ▪ ROT/COT ▪ Title Opinion from Solicitor ▪ Title Insurance Certificate ▪ Title Search ▪ Solicitor's /Notary Report on Title |
| Tolerance Level | N/A |
| Examples of Exceptions | No evidence that the loan represents a first priority interest. |

D. SHARED INTEREST

| | |
|-------------------------------|---|
| Section 4.2.1 d) | A loan shall not qualify as an Eligible Loan (i) unless, at the time of transfer to the guarantor entity, the loan, the mortgage or hypothecary instrument securing the loan and (in the case of a loan extended or advanced upon the security of a mortgage or hypothecary instrument also securing Retained Loans) all Retained Loans are beneficially owned (or owned) by the same Lender (disregarding, for such purposes, nominee title holders) and (ii) for so long as the loan, all sums derived from the loan (whether on account of principal, interest or otherwise and whether received from the borrower or a guarantor thereof) and the mortgage or hypothecary instrument charging the residential property securing the loan are not clear of any ownership interests, security interests, encumbrances or other claims other than (A) encumbrances or claims customarily permitted by a prudent lender or that will cease to apply to such loan, sums and mortgage or hypothecary instrument upon the purchase by or contribution to the guarantor entity of the loan, (B) those of the guarantor entity, (C) those in favour of holders of covered bonds issued under the registered covered bond program (or the Bond Trustee on behalf of such holders) or in favour of other Secured Creditors (in each case to secure the payment of amounts owing to them by the guarantor entity) and (D) those which may be reflected in a Security Sharing Agreement and are the subject of a Release of Security delivered by each Lender to the Custodian in trust upon and subject to the provisions of the Security Sharing Agreement or are otherwise provided for (in compliance with the requirements of this Guide) under the transaction documents of the registered covered bond program. |
| Purpose | <i>Test that there is not shared interests in mortgages securing the loans in the cover pool.</i> |
| Guidance | <p>The Cover Pool Monitor should review relevant underlying source documents and confirm that there are no interest, encumbrances or claims solicited by 4.2.1 (d).</p> <p>Acceptable documents may include:</p> <p>Title</p> <ul style="list-style-type: none"> ▪ ROT/COT ▪ Title Opinion from Solicitor ▪ Solicitor's/Notary Report on Title ▪ Security Sharing Agreement |
| Tolerance Level | N/A |
| Examples of Exceptions | <p>The loan is not clear of any prohibited security interests, encumbrances or other claims.</p> <p>No evidence of first priority.</p> |

E. UNINSURED MORTGAGE

| | |
|-------------------------------|---|
| Section 4.2.1 e) | A loan shall not qualify as an Eligible Loan if one or more other loans are extended or advanced under the same mortgage or hypothecary instrument which have been insured by CMHC, Canada Guaranty Mortgage Insurance Company, the Genworth Financial Mortgage Insurance Company of Canada, the PMI Mortgage Insurance Company Canada, any other private mortgage insurer recognized by CMHC for purposes hereof or otherwise identified in the Protection of Residential Mortgage or Hypothecary Insurance Act (Canada), or any successor to any of them. |
| Purpose | <i>Test the loans in the cover pool and any related loans secured by the mortgage is not insured by a mortgage insurer.</i> |
| Guidance | <p>The Cover Pool Monitor should review relevant underlying source documents to confirm the loan segments are uninsured.</p> <p>Acceptable procedures /documents may include:</p> <ul style="list-style-type: none"> ▪ System records ▪ Mortgage History/Report ▪ Mortgage Statement ▪ System Screenshot ▪ System generated file |
| Tolerance Level | N/A |
| Examples of Exceptions | <p>The loan is insured by a mortgage insurer.</p> <p>The retained loan secured by the same mortgage is insured by a mortgage insurer.</p> |

G. DISPUTE PROCEEDING

| | |
|-------------------------------|--|
| Section 4.2.1 g) | A loan shall not qualify as an Eligible Loan if, at the time of transfer to the guarantor entity, it is subject to any dispute proceeding, set-off, counterclaim or defence whatsoever. |
| Purpose | <i>Test whether the loans are subject to any dispute proceedings, set-off, counterclaim or defence.</i> |
| Guidance | <p>The Cover Pool Monitor should review relevant underlying source documents and confirm there is no evidence that the loan was at the time of transfer the subject of a dispute proceeding, set-off, counterclaim or defence.</p> <p>Acceptable procedures /documents may include:</p> <ul style="list-style-type: none"> ▪ Letters to or from lawyers. ▪ Consultation/Confirmation and with the Legal Department ▪ System generated file ▪ Legal Action Indicator in the system ▪ Flag/Alerts for legal issues in the system |
| Tolerance Level | N/A |
| Examples of Exceptions | The loan is in legal action status. |

J. UNDERWRITING POLICY

| | |
|-------------------------------|--|
| Section 4.2.1 j) | A loan shall not qualify as an Eligible Loan unless it was originated or otherwise complies with the registered issuer's or, where it is the regulated lender, its Affiliate's approved underwriting policies (in effect or otherwise applicable at the time the loan was originated). A loan is understood to "otherwise comply" with an underwriting policy to the extent that an independent third-party prudent lender conducting a credit assessment of the loan would be able to apply all aspects of the applicable underwriting policy, based on available documentation, and arrive at the same credit decision. |
| Purpose | <i>Test whether the Issuer's loans comply with the underwriting policies.</i> |
| Guidance | <p>The Cover Pool Monitor should review the following criteria which are elements of underwriting policies and assess each loan in the sample against criteria contained therein.</p> <p>Criteria expected to be assessed include:</p> <ul style="list-style-type: none"> ▪ Amortization ▪ Loan to Value ▪ Down payment Amount [NTD: do not expect Monitor to verify source of down payment] ▪ Credit Bureau scores ▪ Gross Debt Service (GDS) ▪ Total Debt Service (TDS) ▪ Employment and Income verification ▪ Appraisal <p>Acceptable documents may include:</p> <ul style="list-style-type: none"> ▪ Supporting documents in accordance with relevant excerpts of the issuer's underwriting policy at the time of loan approval |
| Tolerance Level | N/A |
| Examples of Exceptions | The amortization is 30 years where the lender's amortization policy is less than or equal to 25 years. |

PART I. E - DATA TO THE CUSTODIAN

For the Custodian procedure, the table describes its purpose, provides guidance, describes instances of tolerance level and provides examples of exception.

| | |
|-------------------------------|--|
| Procedure | Using the Sample, agree the data provided to the Custodian with the Underlying Source Documents |
| Purpose | <i>Test whether the eligible loan details provided to the Custodian agree to the Issuer's source documents.</i> |
| Guidance | <p>The Cover Pool Monitor should agree the Eligible Loan Details loan in the Custodian file (as per Section 3.6.8 of the Guide) to each sample loan.</p> <p>Eligible Loan Details</p> <ul style="list-style-type: none"> a) registered issuer's loan number; b) borrower(s)' full name; c) property address (no., street, city/town, province, postal code); d) loan principal balance amount; e) authorized loan amount (at origination or last renewal); f) interest adjustment date (at origination or last renewal); g) mortgage maturity date; and h) mortgage lender on title if other than the registered issuer. <p>If applicable, agree the substitute asset details in the Custodian file to the source document.</p> <p>Substitute Asset Details</p> <ul style="list-style-type: none"> a) asset type (e.g. Government of Canada bond); b) coupon; c) interest payment dates; d) maturity date; e) principal amount; and f) CUSIP, if applicable. |
| Tolerance Level | N/A |
| Examples of Exceptions | <p>The borrower's name is missing in the Custodian file.</p> <p>The maturity date does not agree to the source document.</p> |

PART II. CONFIRMING ARITHMETICAL ACCURACY OF TESTS AND CALCULATIONS

For each section and procedure in Part II, the table describes its purpose, provides guidance and provides examples of exception.

A. SELECTION OF MONTHLY REPORT

| | |
|------------------|---|
| Procedure | The Cover Pool Monitor shall annually select at random a Monthly Report prepared in respect of the registered covered bond program in the preceding year and subsequent to the last Cover Pool Monitor report selected for this purpose. |
| Guidance | The Cover Pool Monitor can either use the same monthly report used to confirm the accuracy of records in Part I. A or select another monthly report prepared in the preceding year and subsequent to the last Asset Monitor Report |

B. RECALCULATE THE ASSET COVERAGE TEST, LEVEL OF OVERCOLLATERALIZATION AND/OR AMORTIZATION TEST

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| Procedure | The Cover Pool Monitor shall recalculate the results of the Asset Coverage Test, level of overcollateralization pursuant to Section 4.3.8, and/or Amortization Test disclosed in the selected Monthly Report. |
| Purpose | <i>Test the arithmetic accuracy and agree the calculations to the requirements of the Guide and Asset Monitor Agreement.</i> |
| Guidance | <p>The Cover Pool Monitor should confirm that the Asset Coverage Test is (ACT) prepared in accordance with Annex D of the Guide or the Asset Monitor Agreement and recalculate the results.</p> <p>The Cover Pool Monitor should confirm that the overcollateralization calculation is prepared in accordance with Section 4.3.8 of the Guide or the Asset Monitor Agreement and recalculate the results.</p> <p>In the event of issuer default, an amortization test is required. If applicable, the Cover Pool Monitor should confirm the Amortization Test is prepared in accordance with Annex I of the Guide or the Asset Monitor Agreement and recalculate the results.</p> |
| Examples of Exceptions | <p>There is an error in the ACT calculation.</p> <p>The calculated values are reported incorrectly in the monthly investor report.</p> <p>The calculation did not agree to the requirements of the Guide or the Asset Monitor Agreement.</p> |

C. RECALCULATE VALUATION CALCULATION

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| Procedure | <p>The Cover Pool Monitor shall recalculate the Valuation Calculation disclosed in the selected Monthly Report. In addition, the Cover Pool Monitor shall enquire whether, in calculating the Present Value for purposes of the Valuation Calculation disclosed in the selected Monthly Report, expected future cash flows are discounted using the publicly posted mortgage rates or using the current market interest rates for mortgage loans with credit risks similar to those of the Performing Eligible Loans, and report findings/responses.</p> <p>Where current market interest rates for mortgage loans with credit risks similar to those of the Performing Eligible Loans are used to discount expected future cash flows, the Cover Pool Monitor shall enquire whether the same discounting methodology has been used as that used as part of the fair value disclosure in the registered issuer's audited financial statements, and report findings/responses.</p> <p>The Cover Pool Monitor shall agree the Valuation Calculation to the requirements set forth in Annex E and Section 4.6 of this Guide.</p> <p>Additionally, the Cover Pool Monitor shall enquire as to the determination of the Trading Values of:</p> <ul style="list-style-type: none"> (i) all Substitute Assets, (ii) assets pledged or otherwise transferred to the guarantor entity as collateral for the obligations of the Counterparty under or pursuant to a Covered Bond Collateral Hedge and (iii) the covered bond liabilities, in each case used in the Valuation Calculation disclosed in the selected Monthly Report, and report findings/responses. |
| Purpose | <p><i>Test the arithmetic accuracy and agree the calculation to the requirements in Annex E and Section 4.6 of the Guide.</i></p> |
| Guidance | <p>The Cover Pool Monitor should confirm if the Valuation Calculation is prepared in accordance with Annex E of the Guide or the Asset Monitor Agreement and recalculate the results.</p> <p>The discounting curve being used must either be: i) publicly posted mortgage rate; or ii) current market mortgage interest rates with credit risk similar to those of the Performing Eligible Loans. The Cover Pool Monitor should report findings if discounting methodology is different from i) or ii).</p> <p>If ii) current market mortgage rates are used, the Cover Pool Monitor should enquire whether the same discounting methodology has been used in the fair value disclosure in the issuer's audited financial statements and report findings.</p> <p>The Cover Pool Monitor should enquire and note the determination of the Trading values for:</p> <ul style="list-style-type: none"> i) all Substitute Assets, ii) assets pledged or transferred to the guarantor entity, and iii) the covered bond liabilities <p>in each case used in the Valuation Calculation disclosed in the selected monthly investor report</p> |
| Examples of Exceptions | <p>There is an error in the calculation.</p> |

D. RATINGS TRIGGER SECTION 3.5.2 (E)

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| Procedure | <p>The Cover Pool Monitor shall obtain from the registered issuer the ratings, if any, assigned to the registered issuer by each Rating Agency and relevant to the Ratings Trigger contemplated by Section 3.5.2(e) of this Guide.</p> <p>Following the occurrence of a Ratings Trigger contemplated by Section 3.5.2(e) of this Guide, if the registered issuer has issued one or more series of hard bullet covered bonds, obtain a schedule from the registered issuer computing the covered bond collateral required by the Ratings Trigger, and perform recalculation procedures on the schedule.</p> <p>Additionally, the Cover Pool Monitor shall enquire whether the registered issuer's covered bond collateral complies with the Ratings Trigger, and report findings/responses.</p> |
| Purpose | <p><i>Test whether the credit ratings agree to the ratings assigned by the Rating Agency and are within the Rating Trigger thresholds. If applicable determine whether the Pre-Maturity Test has been breached.</i></p> <p><i>Note: This procedure is only applicable if there are outstanding Hard Bullet Covered Bonds</i></p> |
| Guidance | <p>If applicable, the Cover Pool Monitor should obtain a schedule required to fund the Pre-Maturity Liquidity Ledger and perform recalculation procedures on the schedule.</p> <p>Inspect and verify whether the assets standing to the credit of the Pre-Maturity Liquidity Ledger are Pre-Maturity Liquidity Eligible Assets and whether such assets are in an amount greater or equal to the Pre-Maturity Liquidity Required Amount. Assess adequacy of the information received from the issuers.</p> |
| Examples of Exceptions | <p>Incorrect calculations.</p> <p>The Pre-Maturity Liquidity Assets are less than the Pre-Maturity Liquidity Required Amount.</p> |

E. RATINGS TRIGGER SECTION 3.5.2 (D)

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| Procedure | <p>The Cover Pool Monitor shall obtain from the registered issuer the ratings, if any, assigned to the registered issuer by each Rating Agency and relevant to the Ratings Trigger contemplated by Section 3.5.2(d) of this Guide.</p> <p>Following the occurrence of Ratings Trigger contemplated by Section 3.5.2(d) of this Guide, obtain a schedule from the registered issuer of the Reserve Fund required by the Ratings Trigger, and perform recalculation procedures on the schedule.</p> <p>Additionally, enquire whether the registered issuer's covered bond collateral complies with the Ratings Trigger, and report findings/responses.</p> |
| Purpose | <p><i>Test whether the credit ratings agree to the ratings assigned the Rating Agency and are within the Rating Trigger thresholds.</i></p> <p><i>If applicable determine based on the Reserve Fund Required Amount Ratings, the Reserve Fund Required Amount is greater than nil.</i></p> |
| Guidance | <p>If applicable, the Cover Pool Monitor should obtain a schedule of the Reserve Fund Required Amount and perform recalculation procedures on the schedule.</p> <p>Inspect and verify whether the assets standing to the credit of the Reserve Ledger complies with the terms of the Guarantor Agreement. Confirm adequacy of the Reserve Fund details and eligibility of assets in the Reserve Fund.</p> |
| Examples of Exceptions | Incorrect calculations. |

F. ARITHMETICAL INACCURACY

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| Procedure | <p>If an arithmetical inaccuracy is found in the disclosed results of any such test or calculation, the Cover Pool Monitor shall be required to recalculate the results of each such test and calculation disclosed in the Monthly Reports prepared in respect of the registered covered bond program</p> <ul style="list-style-type: none"> (i) for the last month of each quarter of the preceding year (ii) for each month of the next succeeding year until the results of each test are found to be free of arithmetical error for three consecutive months and (iii) thereafter, for the last month of each remaining quarter in the next succeeding year. |
| Purpose | <i>Test the arithmetical accuracy of the calculations.</i> |
| Guidance | If a material arithmetical inaccuracy is found in the Asset Coverage Test, Level of Overcollateralization, Amortization test, and/or Valuation Calculation the Cover Pool Monitor is required to recalculate the tests for i) ii) |
| Examples of Exceptions | Incorrect calculations in the preceding month. |

PART III. OTHER TESTS REGARDING ASSETS AND LIABILITIES OF REGISTERED COVERED BOND PROGRAM

For each section and procedure in Part III, the table describes its purpose, provides guidance, and provides examples of exception.

A. SAMPLE SELECTION FOR LEGAL OPINION 4.2.5

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| Description | <p>The Cover Pool Monitor shall select a sample of assets comprising Eligible Loans to be used by the issuer's legal counsel to agree that the assets meet the criteria for Eligible Loans set out in Sections 4.2.1 (f), (h) and (i) of the Guide. The random sample selected must be of an Industry Standard Sampling Size in accordance with Part 1.B and may be the same as, a subset of, or a smaller or larger sample than the Sample used to complete procedures in Part I of the Cover Monitor Report.</p> <p>For all reports subsequent to the initial Section 4.2.5 opinion with respect to a covered bond program, the Cover Pool Monitor may select the sample only from loans added since the sample used to prepare the last Section 4.2.5 opinion was selected. The criteria for Eligible Loans set out in Sections 4.2.1 (f), (h), and (i) are to be the subject of a legal opinion delivered contemporaneously with the report of the Cover Pool Monitor pursuant to Section 4.2.5 of the Guide.</p> |
| Purpose | <i>The Cover Pool Monitor selects a sample size to be used by the issuer's legal counsel. The Cover Pool Monitor is not required to perform any procedures with respect to this criteria since the verification is performed by legal counsel.</i> |
| Guidance | The Cover Pool Monitor may select the sample from the entire cover pool provided that for the sample after the initial Section 4.2.5 opinion, the selection may be made from loans added since the date the sample used to prepare the previous legal opinion was selected. The sample for the legal opinion can be the same sample used to complete the Asset Monitor report procedures or the Cover Pool Monitor can select a new random sample of industry standard size. |
| Examples of Exceptions | <i>*If applicable, exceptions must be noted in the Legal Opinion.</i> |

B. RISK MITIGATION AND COLLATERAL HEDGE

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| Procedure | <p>For each offering of a series or tranche of covered bonds under a registered covered bond program, enquire of the guarantor entity as to whether, at the time of issuance, the guarantor entered into or already had in place one or more contracts the purpose or effect of which was to materially mitigate its risk of financial loss or exposure from fluctuations in interest rates or currency exchange rates affecting, or which may come to affect, its obligations to make one or more payments and report findings/responses.</p> <p>Additionally, enquire whether the Covered Bond Collateral Hedge has been documented using ISDA documentation, and report findings/responses.</p> |
| Purpose | <i>Test the covered bond risk and collateral hedge.</i> |
| Guidance | <p>The Cover Pool Monitor should enquire of the guarantor entity as to whether, at the time of issuance, the guarantor entered into or already had in place one or more contracts the purpose or effect of which was to materially mitigate its risk of financial loss or exposure from fluctuations in interest rates or currency exchange rates affecting, or which may come to affect, its obligations to make one or more payments.</p> <p>The Cover Pool Monitor should enquire whether the Covered Bond Collateral Hedge has been documented using ISDA documentation and report findings/responses.</p> |
| Examples of Exceptions | No mitigation of financial loss or exposure from fluctuations in interest rates or currency exchange rates. |

C. MARKET VALUE CALCULATIONS

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| Procedure | <p>The Cover Pool Monitor shall select one month falling subsequent to the date of its last report (or, in the case of the report to be delivered no later than five Business Days prior to the first issuance of covered bonds under a covered bond program contemporaneous with or following its registration, a month ending not more than 45 days prior to the date of the report) and obtain a schedule of Market Value calculations with respect to all Eligible Loans as of the last day of that month.</p> <p>Using an Industry Standard Sampling Size, inspect that : (x) on or before July 1, 2014, the calculation of the “Market Value” of the residential property has been determined by either adjusting its Original Market Value, at least quarterly, to account for subsequent price developments, or by reference to the Original Market Value and (y) after July 1, 2014, the calculation of the Market Value of the residential property has been determined by adjusting its Original Market Value, at least quarterly, to account for subsequent price developments.</p> |
| Purpose | <i>Test whether the property value has been adjusted to account for price developments since latest property valuation on file.</i> |
| Guidance | <p>The Cover Pool Monitor selects a month since the previous Asset Monitor Report and obtains a schedule of market value calculations with respect to all eligible loans as of the last day of the month.</p> <p>The Cover Pool Monitor may use the same sample in Part 1. C or select a new sample of industry standard size.</p> <p>Inspect the Market Value calculation of the residential properties by taking the original appraisal value (or latest appraisal) and multiplying it by the index factor and compare the results to the respective market values in the extraction file.</p> <p>The market value adjustment must be done at least quarterly.</p> <p>If no adjustment has occurred on the loan, the market value would be the original appraised value. For example, if a loan was added to the pool in June and the market value calculations occurred the same month, there is no market value adjustment.</p> |
| Examples of Exceptions | <p>Indexation values have not been updated quarterly to account for market price developments.</p> <p>The index was not updated for the loan.</p> |