

## MODIFICATION TO THE ADMINISTRATION FEE APPLICABLE TO ISSUERS' UNUSED NHA MBS GUARANTEE ALLOCATION

### PURPOSE

To announce a modification to the administration fee applicable to Issuers' unused NHA MBS guarantee allocation within the NHA MBS program.

### BACKGROUND

This modification to the administration fee aims to provide more equitable access to mortgage funding via CMHC securitization programs including being aligned with the program objective of maintaining financial stability and supporting competition.

In 2016, CMHC introduced the administration fee assessed against a portion of an Issuer's unused NHA MBS guarantee allocation in order to encourage more efficient use of the allocation and make guarantee capacity available to more Issuers throughout the year.

Since the implementation of the administration fee on April 1, 2017, we have seen significant improvements in the utilization of Issuers' quarterly NHA MBS guarantee allocations, which resulted in more NHA MBS guarantees provided to Issuers, especially in the first half of the year when re-allocation of unused NHA MBS guarantee capacity is not available.

Despite these improvements, we continue to observe that a significant amount of NHA MBS guarantee allocations were left unused by some Issuers, thereby limiting other Issuers' ability to access mortgage funding on a timely basis. In particular, in the 4<sup>th</sup> quarter of each year, despite having the option to return unused allocation in late November, some Issuers left a significant amount of NHA MBS guarantee allocation unused. The unused NHA MBS guarantee allocation from the 4<sup>th</sup> quarter can't be reallocated, further reducing other Issuers' funding options.

To further incentivize Issuers to improve their utilization of NHA MBS guarantee allocations, CMHC is modifying the administration fee calculation methodology as set forth below.

### POLICY AMENDMENT

#### Amendment to Administration Fee for the 4<sup>th</sup> Quarter of 2022

CMHC is introducing an extra 2 basis points (0.02%) administration fee that will be assessed against a portion of unused NHA MBS guarantee allocation over the established threshold for the 4<sup>th</sup> quarter of each year based on the following formula:

$$\text{MAX} [(4^{\text{th}} \text{ Quarter NHA MBS Guarantee Allocation Provided by CMHC} - \$25,000,000) * 80\% - 4^{\text{th}} \text{ Quarter Actual NHA MBS Guarantees, 0}] * 2\text{bps}$$

The change will incentivize more efficient use of the 4<sup>th</sup> quarter NHA MBS guarantee allocations for issuers whose 4<sup>th</sup> quarter allocations are above \$25,000,000. The total 4<sup>th</sup> quarter NHA MBS guarantee allocation used to determine the administration fee in the above formula will be reduced by any NHA MBS guarantee

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allocation returned by the Issuer during the same quarter.

This amendment will take effect for the 4<sup>th</sup> quarter of 2022. For clarity, the 2022 administration fee will be assessed and collected based on the following formula ("2022 Administration Fee Formula"):

$$\text{MAX} [( \text{Annual NHA MBS Guarantee Allocation Provided by CMHC} ) * 50\% - \text{Annual Actual NHA MBS Guarantees, 0}] * 1bp + \text{MAX} [( \text{4th Quarter NHA MBS Guarantee Allocation Provided by CMHC} - \$25,000,000 ) * 80\% - \text{4th Quarter Actual NHA MBS Guarantees, 0}] * 2bps$$

CMHC encourages issuers to take advantage of the opportunity to return unused NHA MBS guarantee allocation in late November to minimize the administration fee payable.

### Amendment to Administration Fee for 2023 and Future Years

For 2023 and future years, CMHC will further revise the assessment of the administration fee based on the sum of the following two admin fee components ("2023 Administration Fee Formula").

Component 1 – Administration fee for full year allocation

- For issuers with annual allocation amount of no more than \$2,000,000,000, the admin fee for full year allocation will be assessed by using following formula:

$$\text{MAX} [( \text{Annual NHA MBS Guarantee Allocation Provided by CMHC} ) * 50\% - \text{Annual Actual NHA MBS Guarantees, 0}] * 2bps$$

- For issuers with annual allocation amount of more than \$2,000,000,000, the admin fee for full year allocation will be assessed by using following formula:

$$\text{MAX} [ \$2,000,000,000 * 50\% + ( \text{Annual NHA MBS Guarantee Allocation Provided by CMHC} - \$2,000,000,000 ) * 70\% - \text{Annual Actual NHA MBS Guarantees, 0}] * 2bps$$

Component 2 – Extra administration fee for the 4<sup>th</sup> quarter allocation

$$\text{MAX} [( \text{4th Quarter NHA MBS Guarantee Allocation Provided by CMHC} - \$25,000,000 ) * 80\% - \text{4th Quarter Actual NHA MBS Guarantees, 0}] * 2bps$$

The change will further incentivize more efficient use of the NHA MBS guarantee allocations for issuers whose full-year allocations are above \$2,000,000,000. The total annual NHA MBS guarantee allocation used to determine the administration fee in the above formula will be reduced by any NHA MBS guarantee allocation returned by the Issuer during the 4<sup>th</sup> Quarter (i.e. October to December) of each year.

## EFFECTIVE DATE OF CHANGE

The 2022 Administration Fee Formula will apply to the assessment and collection of administration fees for 2022. The 2023 Administration Fee Formula will apply to the assessment and collection of administration fee for 2023 and future years.

The next update to the NHA MBS Guide will reflect these policy changes.

## ENQUIRIES

For further details on this policy change, please contact Geneviève Julien by email at [gjulien@cmhc.ca](mailto:gjulien@cmhc.ca) or CMHC Securitization Centre at [securitization@cmhc.ca](mailto:securitization@cmhc.ca).



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