

Advice No. 11 | October 22, 2020
 Important Information for Approved Issuers

UPDATES TO THE NHA MBS INFORMATION CIRCULAR – FORM CMHC 2834

PURPOSE

To announce a number of updates to the NHA MBS Information Circular - form CMHC 2834 (also known as CMHC 2834), including updates to the tax section, CDOR Fallback Language, and added clarity regarding floating rate coupons.

BACKGROUND

Issuers participating in the NHA MBS Program are required to prepare and submit CMHC 2834 (in addition to the other required CMHC forms and documentation) on or before their Pool Issue Date. This form provides a standard description of the NHA MBS to be issued and discloses to Investors a summary of the terms and provisions in the mortgage documents that may materially affect the cash flow behaviour of the Pool.

As part of regular and continuous updates to the NHA MBS Program documentation, CMHC has made revisions to this form in order to explicitly state certain Program provisions to provide greater clarity to investors and Program participants on the calculation of floating rate coupons and tax considerations for all NHA MBS.

POLICY AMENDMENT

Based on a recent review of the Program documentation and to align with market evolution with regards to CDOR, CMHC is making necessary updates to the wording in the common general section in CMHC 2834. The revisions are as follows:

Pool Type	Revisions
All NHA MBS pool types	<ul style="list-style-type: none"> Under the paragraph <i>Eligibility for Investment</i> the language has been revised to clarify that NHA MBS will not be qualified investments under the Income Tax Act (Canada) for a trust governed by a deferred profit sharing plan or revoked plan for which any employer is the Issuer or is an employer with whom the Issuer, if the Issuer is a corporation, does not deal at arms length within the meaning of the Income Tax Act (Canada). Under the section <i>Investors Resident in Canada</i> language has been inserted to clarify under what circumstances NHA MBS may be an “investment contract” as defined in the Income Tax Act (Canada). In addition, language has been inserted to state the income tax implications of any penalty or bonus received by a Canadian Investor because of the repayment of all or part of the principal amount of a pooled mortgage loan before its maturity.

ADVICE NO. 11: UPDATES TO THE NHA MBS INFORMATION CIRCULAR – FORM CMHC 2834

	<ul style="list-style-type: none"> • Other miscellaneous minor edits.
<p>Variable (885 & 985) and Adjustable Rate (880 & 980)</p>	<ul style="list-style-type: none"> • Under the section <i>Payments of Principal and Interest</i> the language has been updated to expressly state that if the rate of interest determined from the applicable reference rate of interest, plus or minus the applicable spread in basis points, is less than zero with respect to any interest period, no interest shall be owing or payable by or to the Issuer for that interest period. • Under the section <i>Payments of Principal and Interest</i> new paragraphs have been added to explicitly define One-Month Canadian Dollar Offered Rate (CDOR), in addition to defining the alternative reference rate to use if CMHC determines that the One-Month CDOR has been permanently or indefinitely discontinued (interim fallback language). Note that this interim fallback language will be replaced with the final language at such time as it has been finalized by the Canadian Alternative Reference Rate Working Group.
<p>Weighted Average Mortgage Rate (WAC) (987)</p>	<ul style="list-style-type: none"> • Under the section <i>Payments of Principal and Interest</i> the language has been updated to expressly state that if the rate of interest determined from the applicable reference rate of interest, plus or minus the applicable spread in basis points, is less than zero with respect to any interest period, no interest shall be owing or payable by or to the Issuer for that interest period.

ADVICE NO. 11: UPDATES TO THE NHA MBS INFORMATION CIRCULAR – FORM CMHC 2834

EFFECTIVE DATE OF CHANGE

This policy will take effect on November 1, 2020 and will apply to all pools issued by Issuers participating in the NHA MBS Program on and after this date. Issuers and Investors can find all of the NHA MBS Forms on our website here: <https://www.cmhc-schl.gc.ca/en/finance-and-investing/nha-mortgage-backed-securities/updated-nha-mbs-forms>

ENQUIRIES

For further details on these policy changes please contact Thérèse Chen at (514) 283-8703.

For more information on the NHA MBS Program visit the CMHC Web site at www.cmhc.ca or contact CMHC by email at securitization@cmhc.ca or by telephone at 1-800-668-2642.



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