

UPDATING THE SPECIFIED PROCEDURES REPORT IN THE NHA MBS PROGRAM

PURPOSE

To introduce the Agreed-Upon Procedures Report (AUPR) in substitution of the Specified Procedures Report (SPR) to align with the new Canadian Standard on Related Services (CSRS) 4400, *Agreed-Upon Procedures Engagement*.

BACKGROUND

As set forth on page C3-4 in the NHA MBS Guide, each Issuer participating in the Program must retain the services of an external auditor to examine its accounting processes and financial controls (as they relate to NHA MBS pool administration) and its compliance with key Program policies. The outcome is a “Specified Procedures Report” which must be submitted annually to CMHC within 90 days of the Issuer’s fiscal year-end or chosen “as at” date. The Issuer must submit a separate “Specified Procedures Report” for each specific Issuer-Servicer relationship where an Issuer uses a third party servicer.

The Specified Procedures Report is governed by applicable auditing standards. A new governing standard, the Canadian Standard on Related Services (CSRS) 4400 was issued as the revised standard for performing agreed-upon procedures engagement¹ and will become effective on January 1, 2022.

To maintain alignment with the governing standard and to reflect changes as required by the CSRS 4400, CMHC has updated the SPR and renamed it as Agreed-Upon Procedures Report (AUPR). These updates have been made under the guidance of a national accounting working group in support of the implementation of new CSRS 4400, the CPA Canada Agreed Upon Procedures Task Force.

POLICY AMENDMENT

The updates to the AUPR mainly include the following:

- The cover letter in the report has been reformatted to follow the transparency requirements under the CSRS 4400.
- The description of the procedures has been updated to use objective and acceptable terms recommended by the CSRS 4400 application guidance.

For greater clarity, there are no material substantive changes to the procedures in the report and how the procedures should be performed by the auditor.

¹ The Auditing and Assurance Standards Board (AASB) in Canada issued the CSRS 4400 to replace the existing applicable assurance standard, more details can be found in the following link: [Agreed-Upon Procedures \(Amendments to Section 9100\) \(iasplus.com\)](https://www.iasplus.com/en/standards/4400)

ADVICE NO. 14: AGREED UPON PROCEDURES REPORT AS PER CANADIAN STANDARD ON RELATED SERVICES (CSRS) 4200

The updated version of the AUPR is attached to this Advice and will also be made available on the CMHC website under the section “Updated NHA MBS Form” and under “Other Program Documentation” (www.cmhc.ca/mbs).

EFFECTIVE DATE OF CHANGE

The AUPR will take effect on January 1st, 2022. All Issuers with the fiscal year-end or chosen “as at” date falling on or after January 1st, 2022 will be required to submit their audit results in accordance with the updated AUPR.

ENQUIRIES

For further details on these policy changes please contact Geneviève Julien by email at gjulien@cmhc.ca.

For any related questions on the NHA MBS Program, please contact CMHC Securitization by email at securitization@cmhc.ca.



Carla Staresina

Vice-President, Risk Management, Strategy and Products

Agreed-Upon Procedures Report

[Attn: VP Finance, CFO, Audit Committee (as necessary)]

[Name and Address of NHA Approved Issuer]

RE: Performance and Findings of Agreed-Upon Procedures relating to NHA MBS Pool Administration by **[Name of NHA Approved Issuer]**

Purpose of this Agreed-Upon Procedures Report and Restriction on Use and Distribution

Our report is solely for the purpose of assisting **[Name of Approved NHA MBS Issuer (s/b the engaging party)]** (the “Issuer”) in providing information to Canada Mortgage and Housing Corporation (CMHC) to determine whether the accounting processes and financial controls as they relate to NHA MBS pool administration and the policies of **[Name of Approved NHA MBS Issuer]** are compliant with key Program policies of CMHC and may not be suitable for another purpose.

Responsibilities of the Issuer

The Issuer has acknowledged that the agreed-upon procedures are appropriate for the purpose of the engagement and is responsible for the subject matter on which the agreed-upon procedures are performed.

Practitioner’s Responsibilities

We have conducted the agreed-upon procedures engagement in accordance with the *Canadian Standard on Related Services (CSRS) 4400, Agreed-Upon Procedures Engagements*. An agreed-upon procedures engagement involves our performing the procedures that have been agreed with the Issuer and the CMHC, and reporting the findings, which are the factual results of the agreed-upon procedures performed. We make no representation regarding the appropriateness of the agreed-upon procedures.

This agreed-upon procedures engagement is not an assurance engagement. Accordingly, we do not express an opinion or an assurance conclusion.

Had we performed additional procedures, other matters might have come to our attention that would have been reported.

Professional Ethics

We have complied with the ethical requirements in [describe the relevant ethical requirements] and the independence requirements in accordance with [describe the relevant independence requirements].

Procedures and Findings

Agreed-Upon Procedures Report

We have performed the procedures, described on the attached *Schedule of Agreed-Upon Procedures Relating to NHA MBS Pool Administration and the CMHC Form 2840 - Issuer's Monthly Accounting Report* as at [the date of the *Agreed-Upon Procedures Report*] (the "Schedule") which were agreed upon with the Issuer.

The findings of the procedures are shown on the Schedule [and include exceptions].

[Practitioner's signature]

[Practitioner's address]

[Date of report]

Encl.

cc: Director, Securitization Operations
Canada Mortgage and Housing Corporation
CMHC Securitization Centre

Notes

- 1) For pools where an Issuer uses a third-party Servicer, CMHC requires that these agreed-upon procedures be performed for each specific Issuer-Servicer relationship. In such cases, the pools sampled should be limited to those administered by the applicable Servicer.
- 2) Assistance on interpreting these procedures or the requirements set forth in the Program Guide is available by contacting the CMHC Securitization Centre.

Schedule of Agreed-Upon Procedures Relating to NHA MBS Pool Administration and CMHC Form 2840 - Issuer's Monthly Accounting Report as at [report date]

Agreed-Upon Procedures	Findings/Exceptions/ Details
I. SAMPLE POOLS AND RELATED MATERIALS	
<p>a. Pool Selection From the Issuer's outstanding MBS pools, select a sample of pools based on the following:</p> <ul style="list-style-type: none"> • A minimum of two (2) pools from each pool type are selected unless there is only one (1) pool of a certain type, in which case that pool will be selected. • The minimum total number of pools selected should be the lower of (a) 25 pools and (b) 10% of the total number of pools outstanding. • When there are three (3) or more pools of a certain type, the pools should be selected in such a way that each pool of that pool type has a chance of selection. • Document the pools chosen for applying the procedures. <p>b. Issuer's Monthly Accounting Reports For each of the selected pools in (Ia), obtain the Issuer's Monthly Accounting Report (CMHC 2840) for the report month and the immediately preceding month. Document the months chosen for applying the procedures.</p> <p>c. NHA MBS Information Circular For each of the pools selected in (Ia), obtain the NHA MBS Information Circular, CMHC 2834.</p> <p>d. Mortgage Loan Selection From the pools selected in (Ia), select a sample of loans based on the following:</p> <ul style="list-style-type: none"> • The sample should, at a minimum, consist of 40 loans • The sample should include a minimum of five (5) loans from each pool type and at least one (1) loan from each pool selected in (Ia). Where the number of loans in the pool is less than the minimum requirement, select all loans. • When there are five (5) or more loans from a certain pool type/ pool, the loans should be selected in such a way that each loan from that pool type/ pool has a chance of selection. 	

<ul style="list-style-type: none"> Document the number of loans selected per pool and per pool type. 	
II. PRINCIPAL AND INTEREST (P & I) DUE INVESTORS	
<p>a. Total Principal For each CMHC 2840 report selected in (Ib), agree the following to the Issuer's MBS administration system:</p> <p>(i) Scheduled Principal [Box 3A] (ii) Partial Prepayments [Box 3B] (iii) Liquidations [Box 3C] (iv) Maturities [Box 3D] (v) Substitutions [Box 3E] (vi) Total Principal [Box 3G]</p> <p>Report any exceptions.</p> <p>b. Cash Distribution Due to Holders re Interest For each CMHC 2840 report selected in (Ib), perform the following procedures:</p> <p>(i) Recalculate the monthly interest rate factor in Box 3I using the methodology disclosed in <i>Appendix 7 – Mortgage Formulas and Accounting Conventions</i> of the NHA MBS Guide in force.</p> <p>(ii) Agree the coupon (Box 3H) to the rate disclosed in the NHA MBS Information Circular.</p> <p>(iii) Recalculate the amount in Box 3J by multiplying the interest rate factor (Box 3I) by the amount in Box 3M.</p> <p>Report any exceptions.</p> <p>c. Interest Penalties/Indemnities (For 964, 965, 970 & 975 pool types only) For each applicable CMHC 2840 report selected in (Ib), agree the Interest Penalties/Indemnities (Box 3K) to the Issuer's MBS administration system. Report any exceptions.</p>	
III. INTEREST PENALTIES AND INDEMNIFICATIONS	
<p>a. The NHA MBS Information Circular For each of the pools selected in (Ia), inspect the related NHA MBS Information Circular and perform the following procedures, as applicable:</p> <p>(i) For each of the loans selected in (Id), confirm that the prepayment provisions specified in the loan documentation are</p>	

<p>summarized (but not necessarily replicated) in the NHA MBS Information Circular. Report any exceptions.</p> <p>(ii) For each of the 970 and 975 pools selected in (Ia), inspect the loan prepayment provisions summarized in the NHA MBS Information Circular and confirm that:</p> <ul style="list-style-type: none"> the provisions are segregated based on whether a corresponding prepayment would or would not be exempt from the Rate Differential Indemnity (RDI) calculation those provisions disclosed as being exempt from the RDI calculation do not allow for lump-sum partial prepayments in any year to exceed 20% of the original loan balance*; and those prepayment provisions allowing borrowers to prepay more than 20% of the original loan balance have been disclosed as being subject to the RDI calculation* <p>* Exception: prepayment provision involving a bona fide sale of the underlying property (e.g., port or assumption clause) may exceed the 20% limit and may be disclosed as being exempt from the RDI. For details, see <i>Chapter 5 – Pool Types</i> of the MBS Guide.</p> <p>(iii) For each of the 965, 970 and 975 pools selected in (Ia), confirm that the corresponding NHA MBS Information Circular discloses circumstances under which an indemnity payment will be made to investors. Report any exceptions.</p> <p>(iv) For each of the 965, 970 and 975 pools selected in (Ia), confirm that the corresponding NHA MBS Information Circular includes the methodology used to calculate the indemnity due to investors for early prepayments. Report any exceptions.</p> <p>(vi) Through inquiry and discussion with management, document how the Issuer has calculated the price of an NHA MBS pool for indemnity calculation purposes, including whether the price and/or inputs are obtained from an internal and/or external source.</p> <p>b. Accuracy of Penalty Interest/Indemnity Payments (for 964, 965, 970 & 975 pool types only) <i>NOTE: When performing procedures (ii) to (vii) below, use information obtained from the mortgage file and/or mortgage administration system and supplemented through inquiry and discussion with management, where necessary.</i></p> <p>(i) From the applicable pools selected in (Ia), select a sample of loans that were liquidated during the report month and/or the preceding month based on the following:</p>	
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<ul style="list-style-type: none"> • The minimum total number of liquidated loans selected should be equal to or greater than the lower of (a) 20 loans and (b) all liquidated loans. • Where possible, the sample should include a minimum of 5 (five) loans from each of the above noted pool types and a minimum of one (1) loan liquidated due to Enforcement Action. • Document the number of loans selected per pool and per pool type. <p>(ii) For each of the loans selected in (IIIb.i) above, confirm that the Reason for Removal reported by the Issuer agrees with the following:</p> <ul style="list-style-type: none"> • the description applicable to the specified Reason for Removal; and • the information obtained from the mortgage file and/or the mortgage administration system. <p>Report any exceptions.</p> <p>(iii) From the loans selected in (IIIb.i), identify those loans on which a lump-sum partial prepayment was made or recorded, without penalty (in whole or in part), on or within thirty (30) calendar days prior to the loan's liquidation date and confirm the following:</p> <ul style="list-style-type: none"> • that the disclosures in the pool's NHA MBS Information Circular do not include a provision restricting the borrower(s) from having made that lump-sum partial prepayment without penalty; and • that the difference between the balance of the loan in the prior report month (as per the MBS administration system) and the liquidation balance reported in 6E of the report month is not greater than the sum of the lump-sum payment and one (1) regular monthly payment for that loan. <p>Report any exceptions.</p> <p>(iv) For each of the loans selected in (IIIb.i) that were liquidated due to Enforcement Action, confirm that the loan was liquidated at the end of legal action. For multi-family loans, confirm that the loan was liquidated after the mortgage loan insurance claim was paid in whole or in part or when it was rejected.</p> <p>Report any exceptions.</p> <p>For Loans Liquidated from 964 Pools</p> <p>(v) For each of the applicable loans selected in (IIIb.i), agree the interest penalty recorded in the mortgage system or discharge statement (whether or not charged to the borrower) to the amount reported in Box 6F.</p> <p>Report any exceptions.</p>	
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For Loans Liquidated from 965 Pools

(vi) From the applicable loans selected in (IIIb.i), identify those loans for which the Reason for Removal was Mortgage Payoff or Ineligible Loan, and confirm that an indemnity was passed through to the CPTA based on the calculation methodology disclosed in the NHA MBS Information Circular except where:

- the reported MBS Indemnity factor (3K-1) in the related CMHC 2840 is zero; or
- for ineligible loans, the loan was found to be ineligible prior to Final Certification of the pool.

Report any exceptions.

For Loans Liquidated from 970 or 975 Pools

(vii) From the applicable loans selected in (IIIb.i), identify those loans for which the Reason for Removal was Mortgage Payoff or Ineligible Loan and perform the following procedures:

- Confirm an indemnity was passed through to the CPTA (Box 6F) in each case except where:
- the reported MBS Indemnity Factor (3K-1) in the related CMHC 2840 is zero (0); or
- the liquidation occurred after the first 36 months (970 pools) or 60 months (975 pools) following the loan's Interest Adjustment Date; or
- for ineligible loans, the loan was found to be ineligible prior to Final Certification of the pool.
- For each of those loans that were not reported as being liquidated within 36 months (970 Pools) or 60 months (975 Pools) of their interest adjustment date, confirm that any payoff occurred after that timeframe.
- For each of those loans on which a lump-sum partial prepayment was not made or recorded, without penalty, during the 30 calendar days prior to the loan's liquidation date, confirm that the difference between the loan's reported balance in the prior report month (as per the MBS administration system) and the liquidation balance reported in 6E of the report month is not greater than one (1) regular monthly payment for the loan.

Report any exceptions

**c. Calculating the MBS Indemnity Factor
(For 965, 970 and 975 Pools only)**

<p>For each of the 965, 970 and 975 pools selected in (Ia), confirm that the methodology used to calculate the MBS Indemnity Factor (Box 3K-1) for the report month agrees with the following:</p> <ul style="list-style-type: none"> • for pools issued on or after November 1, 2014, the <i>NHA MBS Indemnity Calculation Methodology</i>, as published on the CMHC website. • for pools issued prior to November 1, 2014, the applicable disclosures in the Information Circular. <p>Report any exceptions.</p>	
<p>IV. ARREARS REPORTING</p>	
<p>a. General (All pool Types) For each of the pools selected in (Ia), obtain a report detailing all loans in arrears generated from the mortgage administration system during the report month and perform the following procedures:</p> <p>(i) Agree the number of loans reported in the loan arrears report to the number of loans reported in the CMHC 2840 report (i.e., sum of Boxes 2K, 2L and 2M).</p> <p>For 800-series pools only (ii) For each loan reported in arrears, use information obtained from the mortgage administration system to confirm that the number of months the loan was reported in arrears in the CMHC Form 2840 (i.e., “1”, “2” or “3 or more” months) represents the greater of (i) the number of months the pooled loan was in arrears or (ii) the number of months that any other obligation cross-defaulted with the pooled loan was in arrears.</p>	
<p>V. FLOATING RATE MORTGAGE POOLS (880, 885, 980, 985 & 987 POOL TYPES)</p>	
<p>a. Loan Characteristics For each of the floating rate pools selected in (Ia), and using the sample of loans selected in (Id) confirm the following, as applicable:</p> <p>(i) That the loans have an interest rate based on the same index, and that they have the same payment and interest rate reset frequency.</p> <p>(ii) Where the annual rate of the sampled loan is based on a compounding period other than monthly, that the rate was converted to a monthly compounding equivalent for NHA MBS reporting purposes based on the methodology disclosed in <i>Appendix 7</i> of the NHA MBS Guide in force.</p>	

<p>(iii) That the loans sampled from 880/980 pools are adjustable-rate loans with an interest rate based upon an index that resets at least once monthly.</p> <p>(iv) That the loans sampled from 885/985 pools are variable rate loans with an interest rate based upon an index that resets at least once monthly.</p> <p>(v) That the loans sampled from 987 pools are either all adjustable or all variable rate loans with a common interest rate reset frequency and underlying index.</p> <p>(vi) Report any exceptions</p> <p>b. Liquidations</p> <p>(i) From the floating rate pools selected in (Ia), select a sample of loans that were liquidated during the report month and/or the preceding month based on the following:</p> <ul style="list-style-type: none"> • The minimum total number of liquidated loans selected should be the lower of (a) 10 loans and (b) all liquidated loans. • Document the number of loans selected per pool and per pool type. <p>(ii) For each loan selected in (Vb.i) above, confirm that the liquidation reason reported by the Issuer agrees with the information obtained from the mortgage file and/or mortgage administration system.</p> <p>(iii) Report any exceptions.</p>	
<p>VI. COLLATERAL RATE MORTGAGE POOLS (867, 880 & 885 POOL TYPES)</p>	
<p>a. General</p> <p>For each of the collateral mortgage pools selected in (Ia), and using the sample of loans determined in (Id) perform the following procedures, as applicable:</p> <p>(i) Confirm that the sampled loans are amortizing loans.</p> <p>(ii) Where the mortgage securing the sampled loan also secures one or more other loans, confirm that those other loans have <u>not</u> been pooled under the NHA MBS Program unless they were securitized in the same pool as the sampled loan or in different pools with the same issue date.</p> <p>(iii) Report any exceptions</p> <p>b. Liquidations</p>	

<p>(i) From the collateral mortgage pools selected in (Ia), select a sample of loans reported 3 or more months in arrears during the preceding report month based on the following:</p> <ul style="list-style-type: none"> • The minimum total number of loans selected should be the lower of (a) 10 loans and (b) all loans reported 3 or more months in arrears. • Document the number of loans selected per pool and per pool type. <p>(ii) For each loan selected in (VIb.i) above, confirm that the loan was liquidated in the following month.</p> <p>(iii) Report any exceptions.</p>	
<p>VII. P & I CUSTODIAL/TRUST ACCOUNT(S)</p>	
<p>a. General (All Issuers)</p> <p>For each of the pools selected in (Ia), obtain the related <i>Letter Agreement for Issuer's P & I Custodial/Trust Account, CMHC 2806</i> as well as the corresponding bank statement for the report month, and perform the following procedures:</p> <p>(i) Where the P & I Custodial/Trust Account is used for more than one pool, confirm that separate accounting records are maintained.</p> <p>(ii) Document the date on which the applicable <i>Letter Agreement for Issuer's P & I Custodial/Trust Account, CMHC 2806</i>, was signed.</p> <p>(iii) Document the label/name of the account as specified on the bank statement.</p> <p>(iv) Document the financial institution with which the P&I Custodial/Trust Account was established and is maintained.</p> <p>(v) Confirm that the account number on the bank statement agrees with the account number provided in the related <i>Letter Agreement for Issuer's P & I Custodial/Trust Account, CMHC 2806</i>.</p> <p>(vi) Confirm that all withdrawals reflected on the bank statement obtained comply with the policies (including the investment parameters) set forth in Chapter 10 of the NHA MBS Guide (refer to <i>Establishment and Maintenance of P & I Custodial/Trust Account – Collections</i>).</p> <p>(vii) Where the Issuer does not clear loan payments to the P & I Custodial/Trust Account on a daily basis, obtain a report identifying all the outstanding pools associated with the account and confirm that an additional dollar amount (the "UPP float") was maintained at all times throughout the report month to cover deposits of unscheduled principal prepayments (UPP). The</p>	

<p>required UPP float amount shall be equal to the average monthly UPP rate for all applicable pools during the previous calendar year multiplied by the outstanding principal balance of the applicable pools as at the end of the previous year. Document the UPP float amount required, and the minimum balance maintained in the account during the report month.</p> <p>(viii) Where loan payments are not cleared daily, confirm that the amount due to investors (from the previous month and in relation to all applicable pools) as well as the UPP float were in the account (or invested on behalf of the account, as per the NHA MBS Guide) by the third business day of the report month. Document the amount due to investors for all pools associated with the account and the balance in (or invested on behalf of) the account on the third business day of the report month.</p> <p>(ix) Report any exceptions</p> <p>For Non-regulated Issuers only</p> <p>(ix) Confirm an <u>additional</u> dollar amount (i.e., the “Non-regulated Issuer float”) was maintained throughout the report month in accordance with the following:</p> <ul style="list-style-type: none"> - For the Issuer’s first year participating in the Program, an amount equivalent to 1% of the previous month’s scheduled principal payments (Box 3A plus 3D) and NHA MBS coupon payments (Box 3J) for all applicable pools. In subsequent years, this float amount shall be calculated using the Issuer’s monthly arrears ratio (based on the number of pooled loans that are one or more months in arrears). - Document the Non-regulated Issuer float amount required, and the minimum balance maintained in the account during the report month. 	
<p>VIII. TAX CUSTODIAL/TRUST ACCOUNTS – MULTI-UNIT PROJECTS (i.e., 965, 966 & 990 POOL TYPES) *</p>	
<p>*Do not complete this section if the Issuer is not collecting and remitting tax payments to the municipalities on behalf of the borrower.</p> <p>a. General (All Issuers)</p> <p>For each of the pools selected in (Ia), obtain the related <i>Letter Agreement for Issuer’s Tax Custodial/Trust Account, CMHC 2832</i> as well as the corresponding bank statement for the report month, and perform the following procedures:</p> <p>(i) Where Tax Custodial/Trust Account is used for more than one pool, confirm that separate accounting records are maintained.</p>	

<p>(ii) Document the date on which the applicable <i>Letter Agreement for Issuer's Tax Custodial/Trust Account, CMHC 2832</i>, was signed.</p> <p>(iii) Document the label/name of the account as specified on the bank statement.</p> <p>(iv) Document the financial institution with which the Tax Custodial/Trust Account was established and is maintained.</p> <p>(v) Confirm that the account number on the bank statement agrees with the account number provided in the related <i>Letter Agreement for Issuer's Tax Custodial/Trust Account, CMHC 2832</i>.</p> <p>(vi) Document the frequency of the deposits in the account during the report month.</p> <p>(vii) Confirm that all withdrawals reflected on the bank statement obtained comply with the policies set forth in Chapter 10 of the NHA MBS Guide (refer to <i>Establishment and Maintenance of Tax Custodial/Trust Account</i>).</p> <p>(viii) Report any exceptions</p>	
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