

MODIFICATION TO THE NHA-MBS ALLOCATION POLICY

PURPOSE

To announce a modification to the allocation methodology for new guarantees of market NHA MBS.

BACKGROUND

This modification to the allocation policy aims to provide more equitable access to mortgage funding via CMHC securitization programs and to further the program objectives of maintaining financial stability and supporting competition. As part of Advice 5 (January 14, 2019), Issuers participating in the NHA MBS Program were required to report through the Schedule of Pooled Mortgages (2824 Form) additional loan level data for all Loans securitized on or after August 1, 2019. The data included fields such as pool administrator, servicer, originator and titleholder. Based on this data, CMHC observed that several Issuers are securitizing significant volumes of third party originated Loans relative to their total securitized Loan volumes in a given year, effectively acting as Aggregators. In addition, a significant portion of these third-party originated Loans were originated by other Issuers. When Loans originated by one Issuer are sold to and securitized by another Issuer who is not currently an Aggregator, the Loans are not deducted from the originating Issuer's NHA MBS guarantee allocation and they are not included in the issuance volume used to determine the originating Issuer's applicable guarantee fee rate.

Going forward, this policy modification is intended to limit the use of certain business models and arrangements by Issuers to (i) obtain an NHA MBS guarantee allocation for loans they originate in excess of the maximum NHA MBS guarantee allocation available to other Issuers and/or (ii) avoid higher tier guarantee fees.

POLICY AMENDMENT

To ensure that the allocation methodology is applied more equitably to all Issuers, the defined terms "Aggregator" will be revised and new defined terms, "Aggregation Ratio" and "Evaluation Period" will be added as set forth below.

Aggregator Definition

"**Aggregator**" means

- (i) an Issuer whose Aggregation Ratio for an Evaluation Period exceeds 50%; and
- (ii) an Issuer designated by CMHC as an Aggregator during the period when such designation remains in effect.

An Issuer may be designated as an Aggregator by CMHC at the time of their approval for participation in the program if they are expected to have an Aggregation Ratio in excess of 50% and may also be subsequently designated as an Aggregator for a minimum period as set forth under the heading "Evaluation Process" below in the event an Issuer's Aggregation Ratio exceeds 50% for an Evaluation Period. Issuers who are currently designated as an Aggregator will remain an Aggregator.

Aggregation Ratio Definition

“**Aggregation Ratio**” for an Issuer means the amount, expressed as a percentage, calculated by CMHC for an Evaluation Period as:

A / B, where:

A = the aggregate principal amount of Loans securitized by the Issuer in the NHA MBS program during the Evaluation Period that were originated by one or several third-party Originators or Issuers, excluding (i) Loans included in Affordability-linked Pool types and (ii) Loans originated by the Issuer’s related parties who share a consolidated maximum NHA MBS allocation with the Issuer; and

B = the aggregate principal amount of Loans securitized by the Issuer in the NHA MBS program during the Evaluation Period, excluding Loans included in Affordability-linked Pool types.

For greater clarity, an Issuer that securitizes \$100 of own originated Loans may be eligible to securitize up to an additional \$100 of third party originated Loans without exceeding an Aggregation Ratio of 50% and being designated as an Aggregator. The Issuer is responsible for monitoring Loans securitized from third party originators to ensure compliance with this policy. If there is a change to an Issuer’s mortgage origination business activity or strategy that will likely result in them having an Aggregation Ratio in excess of 50%, that Issuer is required to notify CMHC and provide details of the change in business activity or strategy.

Once an Issuer has been designated as an Aggregator:

- They will remain an Aggregator for the period determined by CMHC in its sole discretion, which shall be a minimum of three years;
- All policies related to Aggregators within the NHA MBS Guide will apply;
- As a condition for CMHC to consider removing an Issuer’s Aggregator designation the Issuer must provide a business plan (including supporting documentation) outlining a mortgage origination strategy that is likely to result in the Issuer maintaining an Aggregation Ratio that is not in excess of 50% once the Aggregator designation is removed;
- If an Issuer is determined to be an Aggregator again after having a prior Aggregator designation removed, CMHC may in its sole discretion designate the Issuer as an Aggregator on a permanent basis; and
- They may only use their own NHA MBS allocation to securitize Loans which were originated either by the Aggregator or by a Non-Issuer. In order to securitize a Loan originated by another Issuer (or a related party of that Issuer), the Aggregator must obtain a transfer of NHA MBS allocation from the originating Issuer.

Evaluation Period Definition

“**Evaluation Period**” means in the case of the first evaluation and calculation of Aggregation Ratios by CMHC, the nine-month period from (and including) January 1, 2023 to (and including) September 30, 2023, and in each subsequent year, the twelve-month period ending on (and including) the last day of the third calendar quarter of the year the evaluation and calculation of Aggregation Ratios is performed by CMHC.

Evaluation Process

The first evaluation and calculation of Aggregation Ratios for all Issuers will be completed by CMHC in Q4-2023 based on an Issuer's MBS issuances for the period Q1-2023-Q3-2023. This will ensure alignment with the Q1-2024 MBS allocation request process. Future assessments will be made on an annual basis in the 4th quarter based on the trailing twelve months issuance data (October – September). At the end of the evaluation process, CMHC will provide formal communication to each Issuer that will be designated as an Aggregator.

EFFECTIVE DATE OF CHANGE

This policy change will take effect January 1, 2023. The next update to the NHA MBS Guide will reflect this new policy. CMHC will review this policy, as required, to ensure its goals of more equitable access to mortgage funding, increased financial stability and supporting competition are met.

ENQUIRIES

For further details on this policy change please contact Geneviève Julien by email at gjulien@cmhc.ca or CMHC Securitization Centre at securitization@cmhc.ca.



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