

Becoming an NHA Approved Lender

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HB-6 CMHC Ref Doc 06-E

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1. Introduction

In Canada, a lender must be an Approved Lender under the National Housing Act (NHA) in order to lend, underwrite and/or administer housing loans insured by Canada Mortgage and Housing Corporation (CMHC).

The purpose of this document is to explain the process and minimum requirements for becoming an Approved Lender under the NHA. The **CMHC Form 13-E: Becoming an NHA Approved Lender** application is accessible on CMHC's corporate website.

2. Before You Apply

2.1. TERMS AND CONDITIONS OF INSURANCE

CMHC provides mortgage loan insurance pursuant to the *National Housing Act* (NHA) and the regulations thereunder. The policy of insurance ("Policy of Insurance") comprises (i) the Master Loan Insurance Policy (MLIP), together with any riders incorporated by reference into and made a part of the MLIP, (ii) the emili Automated Approval Agreement, (iii) the CMHC Handbook, including any Advices, and (iv) with respect to each loan insured by CMHC, the commitment and any special conditions related thereto.

2.2. APPLICABLE REGULATIONS

The Housing Loan (Insurance, Guarantee and Protection) Regulations outline minimum requirements to be designated as an Approved Lender under the NHA. The Regulations can be accessed online at <http://laws-lois.justice.gc.ca/eng/regulations/SOR-2012-232/page-1.html>.

2.3. CMHC REQUIREMENTS AND MONITORING ACTIVITIES

CMHC undertakes a series of quality assurance and ongoing monitoring activities in order to evaluate loan quality, performance, and regulatory compliance in relation to the Approved Lender's underwriting and loan administration. CMHC will work with the lender, as necessary, to support improvements to observed performance issues and areas of non-compliance, through regular analytics, reporting and follow-up activities.

2.4. APPROVED LENDER DESIGNATION STATUS

There are two Approved Lender designation statuses that CMHC may approve:

Full Status

Permits a lender to request CMHC mortgage loan insurance on housing loans that it lends, underwrites and administers in the context of all CMHC insurance product lines for 1-4 unit and 5+ multi-unit residential properties in all provinces and/or territories within Canada.

Limited Status

Sets out specific parameters for which the lender is permitted to request CMHC mortgage loan insurance. Limitations placed on the lender may depend on its qualifications, expertise, incorporation, registration and licence or as otherwise determined by CMHC. Limitations may include but are not limited to insured lending in certain provinces and/or territories within Canada, loans that can be underwritten and/or administered, and specific insurance product lines.

3. Getting Started

3.1. APPLICATION PROCESS AND FEES

All applicant lenders must complete and sign **CMHC Form 13-E: Becoming an NHA Approved Lender** application, and provide CMHC with all requested documents and an application fee of \$5,000 plus applicable taxes (cheque to be issued to Canada Mortgage and Housing Corporation and provided with application **CMHC Form 13-E**). The fee will be refunded if the applicant lender obtains the Approved Lender designation.

3.2. CMHC REVIEW PROCESS TIMEFRAMES AND DECISION

The applicant lender will receive a notification from CMHC within approximately 48 hours of receipt of an application acknowledging receipt.

During the review process, CMHC may ask the applicant lender to provide additional information, which may include additional corroborating information or analysis from third parties. It is the applicant lender's responsibility to ensure that CMHC's information requirements are satisfied in a timely and complete manner.

CMHC strives to conduct thorough application assessments in a prompt manner. As the review of each application is influenced by its own specific circumstances, the completeness of the information provided, and the applicant lender's promptness in responding to additional information requests, there is no specific time limit on the review of applications. Under normal circumstances, it should be anticipated that the process will take a minimum of 8-10 weeks.

Should there be any material changes during the approval process that may have an effect on the application, the applicant lender must inform CMHC promptly and provide related information for review and consideration. An applicant lender may cancel its application at any time by providing written notice to CMHC. For cancellations, paid application fees are not refundable.

Once the review is completed, CMHC will issue a letter to advise the applicant lender of its decision.

4. Criteria for Approval

An applicant lender must demonstrate to CMHC that it meets and will continue to meet all applicable requirements for the Approved Lender designation, including those set out in the *Housing Loan (Insurance, Guarantee and Protection) Regulations*. The applicant lender must provide evidence, satisfactory to CMHC, that it has the authority to lend, underwrite and/or administer housing loans, is financially sound, and has the requisite experience, capability and resources to lend, underwrite and/or administer CMHC-insured housing loans.

As the particular circumstances and facts of each lender application are different, the information set out below should not be viewed as an exhaustive set of criteria and supporting documentation requirements. CMHC reserves the right to impose additional requirements at its discretion from time to time. In particular, additional criteria and requirements may apply in the case of lenders that lend, underwrite and/or administer loans in relation to 5+ multi-unit residential properties, which may differ from lender to lender depending on the lending model and the types of projects financed.

To be designated an Approved Lender under the NHA, lenders must meet the following eligibility requirements:

4.1. INCORPORATION AND AUTHORIZATIONS

The applicant lender must demonstrate incorporation, and legal authority, in each province and/or territory within Canada where it operates, to lend, underwrite and/or administer housing loans as well as good standing with government regulatory agencies.

Supporting Documentation

- Incorporation documents
- Letters patent and orders to commence and carry on business, as applicable
- Evidence of registration and/or licence to carry on business under applicable mortgage lending, dealing, trading or broker legislation for each applicable province and/or territory within Canada in which the applicant lender intends to lend, underwrite and/or administer housing loans
- Bylaws and any board resolution authorizing or limiting the lending authority of the applicant lender, as applicable

4.2. FINANCIAL SOUNDNESS

The applicant lender must demonstrate that its levels of funding, liquidity, quality of assets, profitability and growth are sufficient to meet its obligations as an Approved Lender for the lending, underwriting and/or administration of CMHC-insured loans.

Supporting Documentation

- Audited financial statements, including balance sheet, income statement, statement of cash flows and notes for the last three years, as applicable
- Entity's five-year business plan showing projected levels of insured lending activity and sources of funding along with pro forma financial information

- Disclosure statement or letter that the lender is not being placed under any bankruptcy or insolvency procedure or wound up and has not received any notice in relation to insolvency or non-compliance in relation to under any regulatory regime to which it is subject that has not been resolved. If this is not the case, CMHC may request additional details
- Recent business credit report prepared by a credit reporting agency, if available
- List of material creditors including their names, addresses and phone numbers

The Regulations require an entity that is not regulated (that is not a regulated financial institution or pension funds entity, or federal or provincial government entity, or an entity solely dealing with government guaranteed loans) to have at least \$3,000,000 of unencumbered paid-up capital. For the purposes of this requirement, the following interpretations will be used, as applicable:

- Unencumbered: An asset or property that is free and clear of any encumbrance, security interests such as secured parties, creditor claims or liens and that any secured creditors will subordinate themselves and have no claim to the company's principal asset or property
- Paid-up capital: The amount of money (cash) invested in a company that has been obtained through the issuance of shares, which represents a tangible injection, composed of common and/or preferred shares (provided that such shares, are perpetual, non-cumulative and non-redeemable by either holder or issuer), and is money (cash) that is not borrowed

Supporting Documentation

- Legal opinion indicating that at least \$3,000,000 of unencumbered paid-up capital is not subject to any security agreements or liens, as applicable. The **CMHC Form 14-E: Unencumbered Paid-Up Capital Opinion Letter**, is available in order to assist lenders with providing this legal opinion. Alternatives to the form are acceptable but, at a minimum, a legal opinion must include the following details:
 - Confirmation that the registrations in all relevant jurisdictions against the company were conducted and reviewed
 - Confirmation that all registered encumbrances leave at least \$3,000,000 unencumbered
 - Officer's certificate (certified by a CEO, CFO or other senior executive) or an auditor's certificate confirming that there is at least \$3,000,000 of paid-up capital and attesting that the company's principal assets and operations are in particular jurisdictions and the security and encumbrances are as disclosed

4.3. MORTGAGE CAPABILITIES AND RESOURCES

The applicant lender must demonstrate at least three years' experience underwriting and/or administering residential mortgages and have the sufficiency of processes and controls in relation to data quality, data verification, authorities, staff training, fraud prevention, and safeguarding of information and systems. For the purpose of determining if the three year minimum experience requirement has been satisfied, the date the applicant lender commenced its underwriting and/or administration operations applies.

Supporting documentation

- Written description of the entity's business model, including the following:
 - Information on sourcing, funding, and servicing
 - Date of commencement of operations for underwriting and/or loan administration, as applicable

- Minimum of two funding agreements/arrangements; if the applicant lender is authorized to take deposits, the requirement to provide a minimum of two funding agreements/arrangements may be waived, as applicable
- Fidelity bond documents
- Written description of the information technology environment, including the following:
 - Technical solutions used for mortgage underwriting, administration, security and communication
 - Any integration with third-party systems, as applicable
 - The physical location of the applicant lender and third party's data processing, communication and storage facilities
- Written description of practices, processes and performance, including the following:
 - Levels of controls, data quality, data verification, authorities
 - Processes to train and inform staff of changes
 - Fraud prevention and management
 - Safeguarding of confidential information and systems
 - Ability to provide timely and accurate information on the performance of its mortgage loans
 - Previous arrears rates and foreclosure ratios, where the applicant lender has previous uninsured residential lending experience
 - Underwriting policies, practices and procedures, as applicable
 - Loan administration policies, practices and procedures, as applicable; if not applying to administer insured housing loans, provide the agreement(s) with an Approved Lender authorized by CMHC to administer housing loans
 - Statistical information about residential mortgage loans held, underwritten and administered by the applicant lender, as well as related defaults and enforcement and foreclosure for the previous three years, as applicable

4.4. OWNERSHIP

The applicant lender must provide detailed information related to its ownership structure and control and, as applicable, provide clarity around the various relationships between related entities, such as its parent, affiliates or subsidiaries, and other Approved Lenders.

Supporting Documentation

- Corporate ownership diagram outlining its structure and control
- Information about the parent company or controlling shareholder, including latest audited financial statements, as applicable
- Disclosure (or other documentation) that provides clarity around the various relationships (direct or indirect) between related entities, such as its parent, affiliates or subsidiaries, and other Approved Lenders, as applicable

4.5. MANAGEMENT EXPERIENCE AND CAPABILITIES

The applicant lender must demonstrate that its management has the appropriate and relevant experience and capabilities to perform its obligations as an Approved Lender.

Supporting Documentation

- Curriculum vitae/biographies of senior mortgage officers involved in underwriting and/or loan administration; if the 3 year minimum experience criterion of the entity itself is not met, provide the number of years of residential mortgage experience of the senior mortgage officers
- List of members of the board of directors with their present employment, their positions and the names of other companies in which they hold directorships

5. Next Steps for Successful Applicants

5.1. AGREEMENTS AND FORMS

Successful applicants are required to sign:

- the CMHC Approval Letter that confirms the NHA Approved Lender designation
- the **emili** Automated Approval Agreement to obtain access to emili system (as applicable)

Approved Lenders will acknowledge and agree that they comply with the requirements of claim processes. Additional agreements and forms may be required, as applicable. The successful applicant will also have access to the CMHC Master Loan Insurance Policy (MLIP).

In addition, CMHC will require the completion of various forms to identify operational points of contact, request connectivity to CMHC via a 3rd party supplier (as applicable) and enable electronic transfer of premium and claims payments.

5.2. ACCESSING THE EMILI SYSTEM

emili is CMHC's proprietary mortgage loan insurance decisioning system which approves or refers loan insurance applications for 1-4 unit properties to a CMHC underwriter based on an analysis of different risk factors.

For additional information, your Regional CMHC Client Relationship Manager is available for training activities related to CMHC Mortgage Loan Insurance products and processing applications. Additionally, our **emili** professionals are available at 1-888 GO **emili** (1-888-463-6454) for accessing and using the **emili** system.

5.3. THE HANDBOOK

Once approved by CMHC, Approved Lenders can log-on to The Handbook through **emili** to access CMHC Mortgage Loan Insurance policies online. Approved Lenders have the ability to make the content available to designated employees provided the secure access is strictly controlled by the Approved Lender's designated web security administrator. Changes and clarifications to the operational guidance contained in The Handbook are communicated to Approved Lenders via Advices.

5.4. PROBATIONARY PERIOD

If CMHC approves the applicant lender for designation as an Approved Lender, the lender will be subject to an initial probationary period. The purpose of the probationary period is to limit CMHC's exposure and ensure the obligations that come with the designation can be fulfilled by the Approved Lender.

An Approved Lender on probation may be subject to the following:

- Training on CMHC mortgage loan insurance (products, application processing, fraud prevention and default management)
- More frequent financial reporting (quarterly financial statements certified by its CFO provided to CMHC within 30 days of quarter-end)
- Limitations that restrict access to CMHC mortgage loan insurance, which could include insured lending in certain provinces and/or territories within Canada, loans which can be underwritten and/or administered, and specific insurance product lines such as Portfolio Insurance
- A review of a sample file, underwriting and default management files within one year of the commencement of insured lending operations or as soon as the Approved Lender has an annual insured volume of 500 loans or more
- Increased auto-referrals at the time a request for insurance is made (residential underwriters may perform additional validations before a commitment to insure is issued)

The end of the probationary period is subject to achieving sustained satisfactory quality assurance and ongoing monitoring results and meeting the minimum annual insured volume requirement of 500 loans. Once the probationary period ends and all applicable limitations and restrictions in effect during the probationary period have been lifted by CMHC, the Approved Lender becomes regularized.

It is incumbent upon a designated Approved Lender to demonstrate to CMHC that it meets and will continue to meet all the requirements and criteria pertaining to the approval of its Approved Lender designation, including compliance with the Policy of Insurance. A designated Approved Lender is expected to exercise reasonable and prudent lending practices at all times.

6. Important Information for Applicants and Approved Lenders

6.1. NOTIFICATION OF CHANGES

The lender must notify CMHC promptly in writing of any significant changes that could impact the Approved Lender designation (before the changes take effect, wherever possible). The obligation to notify CMHC of any such changes applies during the application process and continues after the Approved Lender designation has been granted by CMHC. All relevant and appropriate information and documentation must be made available to CMHC upon request. CMHC will make a determination of how the changes impact the designation. At CMHC's discretion, the application process may be terminated or a previously approved designation may be maintained, restricted, suspended or cancelled.

Changes that must be disclosed to CMHC include the following:

- Changes to name, ownership, control, mergers, amalgamations, asset purchases or senior management
- Any significant changes to mortgage operations, including business model, third-party connectivity, servicing arrangements with an Approved Lender authorized by CMHC to administer housing loans or underwriting and/or servicing policies and guidelines
- New outsourcing agreements and/or modifications to existing outsourcing agreements or funding sources
- Changes to evidence of registration and/or licence to lend, underwrite and/or administer housing loans in applicable provinces and/or territories within Canada
- Changes to financial soundness, including significant changes to current business plan and prompt disclosure of having been placed under a bankruptcy or insolvency procedure, being wound up or having received a notice regarding insolvency
- Changes to transit numbers, telephone numbers, fax numbers or mailing/civic addresses
- Changes to Approved Lender designated contacts for correspondence or administrative matters

CMHC will notify the Approved Lender of any required supporting documentation at the time of notification of the change.

If a lender does not wish to retain its designation as an Approved Lender under the NHA, the lender must submit a request to CMHC to have the designation voluntarily withdrawn by sending an email to lenderadmin@cmhc.ca or by contacting its Regional CMHC Client Relationship Manager.

6.2. PROLONGED INACTIVITY

If an Approved Lender is inactive (that is, does not submit any requests for insurance) for a period of 24 consecutive months, CMHC reserves the right to suspend the Approved Lender designation or to otherwise review the status of the Approved Lender and, as applicable, take appropriate actions including maintaining, restricting, suspending or revoking the designation.

6.3. USE OF LENDER CORRESPONDENTS

An Approved Lender may designate a lender correspondent as an agent to act on the Approved Lender's behalf for matters that may include, but are not limited to, the processing of applications for CMHC mortgage loan insurance, administration of insured loans, mortgage enforcement as well as the acquisition and disposal of mortgage security. The Approved Lender is fully accountable for all actions of the lender correspondent that will be incorporated in the assessment of the overall performance of the Approved Lender. The Approved Lender must ensure the lender correspondent is under a clear contractual obligation to adhere to the Approved Lender's responsibilities and confidentiality and use restrictions vis-à-vis CMHC and CMHC insurance. If the lender correspondent is submitting applications for CMHC mortgage loan insurance, the loans must be committed and disbursed in the name of an Approved Lender. In order to designate a lender correspondent, an Approved Lender must complete **CMHC Form 15-E: Appointment of Lender Correspondent**.

7. Contacting CMHC

Correspondence and questions pertaining to the Approved Lender designation application process, monitoring or other queries should be directed to the following:

Email

lenderadmin@cmhc.ca

Mail address

Approved Lender Designation
Canada Mortgage and Housing Corporation
700 Montreal Road
Ottawa Ontario, K1A 0P7

8. CMHC Forms

The following CMHC forms are available in support of your application to become an NHA Approved Lender.

CMHC Form 13-E: NHA Approved Lender Application (CMHC Website)

CMHC Form 14-E: Unencumbered Paid-Up Capital Opinion Letter (Appendix B)

Appendix A – Application Checklist

Please use the checklist below when submitting your application to become an NHA Approved Lender. All of the required information is mandatory. Any information that is not available/applicable, please include a rationale to support the reason.

INCORPORATION AND AUTHORIZATIONS – REQUIRED INFORMATION

- ☐ Incorporation documents
- ☐ Letters patent and orders to commence and carry on business, as applicable
- ☐ Evidence of registration and/or licence to carry on business under applicable mortgage lending, dealing, trading or broker legislation for each applicable province and/or territory within Canada in which the applicant lender intends to lend, underwrite and/or administer housing loans
- ☐ Bylaws and any board resolution authorizing or limiting the lending authority of the applicant lender, as applicable

FINANCIAL SOUNDNESS – REQUIRED INFORMATION

- ☐ Audited financial statements, including balance sheet, income statement, statement of cash flows and notes for the last three years, as applicable
- ☐ Entity's five-year business plan showing projected levels of insured lending activity and sources of funding along with pro forma financial information
- ☐ Disclosure statement or letter that the lender is not being placed under any bankruptcy or insolvency procedure or wound up and has not received any notice in relation to insolvency or non-compliance in relation to under any regulatory regime to which it is subject that has not been resolved. If this is not the case, CMHC may request additional details.
- ☐ Recent business credit report prepared by a credit reporting agency, if available
- ☐ List of material creditors including their names, addresses and phone numbers
- ☐ Legal opinion¹ indicating that at least \$3,000,000 of unencumbered paid-up capital is not subject to any security agreements or liens, as applicable. The **CMHC Form 14-E: Unencumbered Paid-Up Capital Opinion Letter** is available in order to assist lenders with providing this legal opinion. Alternatives to the form are acceptable but, at a minimum, a legal opinion must include the following details:
 - ☐ Confirmation that the registrations in all relevant jurisdictions against the company were conducted and reviewed
 - ☐ Confirmation that all registered encumbrances leave at least \$3,000,000 unencumbered
 - ☐ Officer's certificate (certified by a CEO, CFO or other senior executive) or an auditor's certificate confirming that there is at least \$3,000,000 of paid-up capital and attesting that the company's principal assets and operations are in particular jurisdictions and the security and encumbrances are as disclosed

MORTGAGE CAPABILITIES AND RESOURCES – REQUIRED INFORMATION

- ☐ Written description of the entity's business model, including the following:
 - ☐ Information on sourcing, funding, and servicing
 - ☐ Date of commencement of operations for underwriting and/or loan administration, as applicable

¹ The Regulations require an entity that is not regulated to have at least \$3,000,000 of unencumbered paid-up capital.

- ☐ Minimum of two funding agreements/arrangements; if the applicant lender is authorized to take deposits, the requirement to provide a minimum of two funding agreements/arrangements may be waived, as applicable
- ☐ Fidelity bond documents
- ☐ Written description of the information technology environment, including the following:
 - ☐ Technical solutions used for mortgage underwriting, administration, security and communication
 - ☐ Any integration with third-party systems, as applicable
 - ☐ The physical location of the applicant lender and third party's data processing, communication and storage facilities
- ☐ Written description of practices, processes and performance, including the following:
 - ☐ Levels of controls, data quality, data verification, authorities
 - ☐ Processes to train and inform staff of changes
 - ☐ Fraud prevention and management
 - ☐ Safeguarding of confidential information and systems
 - ☐ Ability to provide timely and accurate information on the performance of its mortgage loans
 - ☐ Previous arrears rates and foreclosure ratios, where the applicant lender has previous uninsured residential lending experience
 - ☐ Underwriting policies, practices and procedures, as applicable
 - ☐ Loan administration policies, practices and procedures, as applicable; if not applying to administer insured housing loans, provide the agreement(s) with an Approved Lender authorized by CMHC to administer housing loans
 - ☐ Statistical information about residential mortgage loans held, underwritten and administered by the applicant lender, as well as related defaults and enforcement and foreclosure for the previous three years, as applicable

OWNERSHIP – REQUIRED INFORMATION

- ☐ Corporate ownership diagram outlining its structure and control
- ☐ Information about the parent company or controlling shareholder, including latest audited financial statements, as applicable
- ☐ Disclosure (or other documentation) that provides clarity around the various relationships (direct or indirect) between related entities, such as its parent, affiliates or subsidiaries, and other Approved Lenders, as applicable

MANAGEMENT EXPERIENCE AND CAPABILITIES – REQUIRED INFORMATION

- ☐ Curriculum vitae/biographies of senior mortgage officers involved in underwriting and/or loan administration; if the 3 year minimum experience criterion of the entity itself is not met, provide the number of years of residential mortgage experience of the senior mortgage officers
- ☐ List of members of the board of directors with their present employment, their positions and the names of other companies in which they hold directorships

Appendix B – Unencumbered Paid-Up Capital Opinion Letter

Unencumbered Paid-Up Capital Opinion Letter

HB-6 CMHC Form 14-E

[Click here to enter a date.](#)

CMHC Insurance – Approved Lender Designation
Canada Mortgage and Housing Corporation
700 Montreal Road
Ottawa, Ontario K1A 0P7

Re: [Click here to enter text.](#) Approved Lender Application - Security Registrations

Please be advised that we have acted on behalf of [Click here to enter text.](#) (the "**Applicant**") assisting the Applicant in its application to obtain/retain the "Approved Lender" designation with Canada Mortgage and Housing Corporation ("CMHC"). We have specifically been asked to provide to you a legal opinion, as external legal counsel to the Applicant, to confirm that the Applicant has agreed with all secured parties, creditors and lien holders that: notwithstanding any registration, agreement or provision to the contrary, that no security interest or lien will at any time encumber, attach to, or apply to at least \$3 million of Applicant's paid-up capital and that none of the security registrations (if any) made against the Applicant, or its related corporations, [Click here to enter text.](#), currently encumber, attach to, or apply to at least \$3 million of Applicant's paid-up capital. In this regard we attach herewith current searches which we have completed, and which we certify to be true and correct summaries of the search results, as against the Applicant and its related entities, in the Province of [Choose an item.](#) We confirm that the Province of [Choose an item.](#) is the sole province in which security registrations might be validly made against the Applicant, and its related entities, taking into account the location of its head office and the jurisdiction for perfecting a security interest in personal property of the Applicant that constitutes its unencumbered, paid-up capital.

We confirm that we are familiar with the security agreements entered into between the Applicant, and/or its related entities, and the secured creditors referenced in the attached search summary, and specifically are familiar with the extent of the charge of the security interest pursuant thereto, and the terms of the relevant agreements as to the permitted sale of mortgages, free and clear of such security interests. We confirm that the security registrations made against the Applicant, and its related entities, [Click here to enter text.](#), do not extend to and would not comprise a security interest, lien or encumbrance as to at least \$3 million of Applicant's paid-up capital.

This opinion may be relied upon only by the addressee hereof, for the purpose of the approval of the Applicant to become an Approved Lender or maintain its designation.

Yours Truly,

Per;

[Click here to enter text.](#)

Note: Alternatives to this form are acceptable but, at a minimum, a legal opinion must include specific elements as detailed in HB-6 CMHC Ref Doc 06-E: Becoming an NHA Approved Lender.

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