Lender Update

Genworth Canada

November 30, 2016

Subject: Low-Ratio Mortgage Insurance Changes

Revision to previous Lender Update dated October 17, 2016

Upon further consultation with the Department of Finance, additional clarification was obtained regarding the low-ratio mortgage insurance eligibility requirements, specifically to Section F of this update (highlighted wording reflects changes from previous update):

- The previous update had a reference to "reasonable efforts" being applied against certain criteria (loan purpose and original amortization period) by the new Lender for a loan being switched. This expectation is no longer required.
- Further clarity has been provided to the application of the low-ratio eligibility criteria on collateral charges.

Please replace the Lender Update dated October 17, 2016 with this version.

On Monday, October 3, 2016 the Minister of Finance announced changes to the eligibility rules for new government-backed insured residential mortgages. The following update reflects low-ratio mortgage insurance changes only. Refer to the Lender Update dated October 13, 2016 for high-ratio mortgage insurance changes.

Changes to Low-Ratio Mortgage Insurance Eligibility Requirements (Loans with LTV <= 80%)

Effective November 30, 2016, for insured low ratio (<=80% LTV) mortgages, the following mortgage insurance criteria will apply to both transactional mortgage insurance loans and portfolio insured loans. Further guidance on the application of these rules based on the transaction type (transactional or portfolio insurance) is located in Sections D and F below.

A. Grandfathered Loans

The new rules for low-ratio eligibility requirements will not apply to applications that meet any of the following criteria:

- a mortgage insurance application was received prior to October 17, 2016;
- prior to October 17, 2016, the lender made a legally binding commitment to make the loan; or,
- prior to October 17, 2016, the borrower entered into a legally binding agreement of purchase and sale.

Loans that are grandfathered will continue to remain grandfathered at subsequent loan term renewals if the grandfathered loan is switched to a new Lender, provided the original loan terms remain substantially unchanged.

B. Transition Period

In addition, low-ratio loans that qualify under any of the following transition period criteria are not required to conform to the new low-ratio eligibility requirements provided the loan is funded prior to May 1, 2017:

- a mortgage insurance application was received after October 16, 2016 and before November 30, 2016;
- the lender made a legally binding commitment to make the loan after October 16, 2016 and before November 30, 2016; or,
- the borrower entered into a legally binding agreement of purchase and sale after October 16, 2016 and before November 30, 2016.

For loans that are documented to be funded prior to May 1, 2017 but is delayed due to unforeseen circumstances beyond the borrower's control, the loan must be funded prior to November 1, 2017.

The eligibility criteria will not apply to loans that met the transition period requirements at subsequent loan term renewals if the transition period loan is switched to a new Lender, provided the original loan terms remain substantially unchanged.

C. Existing Genworth Insured Loans

Loans insured by Genworth prior to October 17, 2016 are not required to meet the new eligibility criteria at subsequent loan events (i.e., loan term renewal).

D. Low-Ratio Transactional Mortgage Insurance

The new low-ratio eligibility requirements align the high-ratio policies to low-ratio loans. As such, the following new criteria will apply to low-ratio loans:

1) A loan whose purpose includes the purchase of a residential property or subsequent renewal of such a loan.
2) A maximum amortization length of 25 years.
3) A property value below $1,000,000.
4) For variable-rate loans that allow fluctuations in the amortization period, loan payments that are recalculated at least once every five years to conform to the established amortization schedule.
5) A minimum credit score of 600 at the time the loan is approved (refer to "Credit Score Exception" section below for further details)
6) A maximum gross debt service ratio of 39 per cent and a maximum total debt service ratio of 44 per cent, calculated by applying the greater of the mortgage contract rate or the Bank of Canada conventional five-year fixed posted mortgage interest rate.
7) If the property is a single unit, it will be owner-occupied (1-4 unit owner occupied properties and 2-4 unit non-owner occupied properties are permitted).

The low-ratio eligibility criteria will be assessed at the time of submission of the transactional mortgage insurance application. A loan that met the eligibility criteria and is insured does not need to be re-assessed over the life of the insured loan.

E. Credit Score Exception

The credit score exceptions basket (no more than 3% of a lender's funded high-ratio portfolio have credit scores less than 600) that exists for high-ratio mortgage insurance will be extended to include low-ratio mortgage insurance (both transactional insurance and portfolio insurance). As such, one credit score exception basket will be monitored based on the lenders total insured portfolio (both high-ratio and low-ratio).

Given the expansion of the credit score exception basket to include low-ratio loans, the existing minimum 580 credit score requirement for loans greater than 60% up to and including 80% LTV will no longer apply.

F. Portfolio Insurance & "Low-Ratio Underwriting" (LRU) Process for Portfolio Insurance

Note: for clarity, this section applies to transactions where a lender is requesting portfolio insurance and also includes loans within the portfolio that have been adjudicated through Genworth's LRU process. For loans adjudicated under transactional mortgage insurance, refer to Section D.

The treatment of loans within a collateral charge will be dependent on whether the collateral charge was registered by the originating Lender or a new Lender paying out the outstanding balance of the existing collateral charge:

- If the collateral charge was registered by the originating Lender, all amortizing mortgage components must adhere to the new low-ratio eligibility criteria.
- If the transaction was to pay out the outstanding balance of another Lender's collateral charge, the total outstanding balance within the collateral charge (irrespective of the underlying components) is permitted, provided the new low-ratio eligibility criteria are met.

For portfolio insurance requests of <u>uninsured</u> low-ratio loans, the seven new low-ratio loan criteria (as stated in Section D) must be applied as follows:

Note: where the term "switch" is indicated in the following table, this only applies to transfer of mortgages where it was initiated by the borrower(s).

New Low-Ratio Eligibility Criteria	Timing of Eligibility Test
1) A loan whose purpose includes the purchase of a residential property or subsequent renewal of such a loan	The application of the loan purpose criteria will be applied as follows: • If the loan is with the same originating Lender, the originating Lender must confirm that the original loan purpose of the loan was a purchase transaction (inclusive of all amortizing mortgage components within a collateral charge); OR, • If the original loan is switched from one Lender to a new Lender, the new Lender is not required to confirm the original loan purpose of that same loan (inclusive of the new Lender paying out the outstanding balance of the originating Lender's collateral charge). Note: if a loan is switched, the new Lender may not increase the outstanding balance or increase the amortization as this would be deemed a refinance transaction. Allowable modifications are noted in Section G.
2) A maximum amortization length of 25 years 4) For variable-rate loans that allow fluctuations in the amortization period, loan payments that are recalculated at least once every five years to conform to the established amortization schedule	The Lender must assess the borrower/loan attributes based on the following scenarios: • If the loan is with the same originating Lender, the originating Lender must confirm that the original amortization period of the loan does not exceed 25 years; OR, • If the loan is switched from one Lender to a new Lender, the new Lender must ensure the amortization period of the loan they provide at the time of the switch does not exceed the lesser of the remaining amortization based on the original amortization schedule or 25 years; OR, • If the new Lender is paying out the outstanding balance of the originating Lender's collateral charge, the amortization period must not exceed 25 years.
3) A property value below $1,000,000 6) A maximum gross debt service ratio of 39 per cent and a maximum total debt service ratio of 44 per cent, calculated by applying the greater of the mortgage contract rate or the Bank of Canada conventional five-year fixed posted mortgage interest rate 7) The property will be owner-occupied where it is comprised of one residential unit or where each unit in the property is separately titled	The Lender must assess the borrower/loan attributes based on the following scenarios (note: the Lender is required to complete this assessment only once at any point during the loan history): • At the time of purchase; or any subsequent renewal of the loan (same original Lender holding the loan); OR, • At the time of renewal if the loan is switched from one Lender to a new Lender; or any subsequent renewal of the loan (new Lender holding the loan)
5) A minimum credit score of 600 at the time the loan is approved	This criteria will be assessed at the time of request for portfolio insurance. Note, the credit score exception basket will also be applicable.

Upon a loan being portfolio insured, the loan is not required to be re-assessed to the low-ratio eligibility criteria over the life of the insured loan.

G. Allowable Modifications to Low-Ratio Loans

The following transactions do not impact the eligibility for low-ratio mortgage insurance:

- A loan is switched from one Lender to a new Lender for a more competitive interest rate/terms;
- Transactions where the current outstanding balance is increased to the amount based on the original scheduled amortization curve (i.e., re-borrowing of pre-payments made by the borrower).
- Transactions with a modest increase in the insurable principal amount associated with transaction costs related to lender charges. Any increase in the principal balance for this purpose should not exceed $3,000.
- Any transaction where the portability feature or assumption feature is permitted.

If you have any questions or concerns related to this update, please feel free to contact your appropriate Genworth representative below.

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Regards,

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Changes to Low-Ratio Mortgage Insurance Eligibility Requirements (Loans with LTV <= 80%)

Questions & Answers

1) Do the new low-ratio eligibility criteria apply to loans being switched if the loan met the 'grandfathered loan' requirements?

Provided the loan remains unchanged, the grandfathered loan may be switched to another lender without the requirement to meet the low-ratio eligibility criteria if the new lender subsequently requests mortgage insurance.

2) Do the new low-ratio eligibility criteria apply to loans being renewed if the loan met the 'grandfathered loan' requirements?

Provided the loan remains unchanged, the loan may be renewed without the requirement to meet the low-ratio eligibility criteria if the lender subsequently requests mortgage insurance.

3) Are non-owner occupied 2-4 unit properties eligible for mortgage insurance?

Yes, rental properties that are 2-4 units will continue to be eligible for mortgage insurance. Note, one-unit rental properties will not be eligible for insurance.

4) How is the new minimum 600 credit score requirement determined?

At least one credit score on the application must be greater than or equal to 600.

5) Will the current requirement for minimum credit score of 580 for loan with 60-80% LTV still apply?

No, the 580 minimum credit score requirement will no longer apply. The new credit score exception basket will replace this requirement.

6) How are the new eligibility criteria applied to low-ratio transactional mortgage insurance or LRU applications?

The new low-ratio eligibility criteria will be applied at time of underwriting of the application for transactional mortgage insurance as outlined in section D. For LRU submissions, the criteria outlined in section F will be applied. Upon approval, the file will be eligible for portfolio insurance after the loan has funded.

7) If the Lender has a binding agreement to make the loan or the borrower has a binding purchase and sale agreement in place prior to October 17, 2016 but has not submitted a mortgage insurance application (transactional or LRU) prior to October 17, 2016, will the application continue to be eligible for the low-ratio eligibility requirements prior to these recent changes?

Yes, given the borrower(s) have a binding agreement in place dated prior to October 17, 2016, the new low-ratio eligibility requirements do not apply.

8) How should 'switches' be submitted if LRU is requested?

Lenders should submit the file as a "refinance" loan and include the current outstanding principal balance on the mortgage. It is also encouraged to utilize the lender loan notes to indicate that the transaction is a switch.

9) Do portfolio insurance tranches need to be submitted prior to a certain date?

No, there isn't a restriction as to when portfolio insurance tranches need to be submitted. Loans contained within the tranches may be comprised of grandfathered loans, transitional period loans, and loans that must comply to the new regulations.

10) Is the credit score requirement applied at time of origination, subsequent renewal or time of portfolio insurance request?

For portfolio insurance tranches, Genworth will assess the current credit score(s) at the time of the portfolio insurance request. This current score will be utilized for the credit exception basket.

11) If a Lender is switching in a mortgage, does the new Lender have to confirm that the original loan purpose of the loan was a purchase transaction or that the original amortization period was set at 25 years?

No, the new Lender is not required to complete any due diligence to confirm the original loan purpose or the original amortization period. However, the amortization period at time of the loan transfer must be the lesser of the remaining amortization on the loan or 25 years.

12) As per the "Timing of Eligibility Test" in section F, with respect to the application of criteria #1 (loan purpose) and #2 (amortization period), the following examples provide further clarity:

Consider a mortgage (5-year fixed rate term) originated by Lender A in 2017 with an amortization period of 30 years (note: this loan would be ineligible for mortgage insurance at origination given amortization period exceeds 25 years):

- **Scenario #1**: Loan is renewed with Lender A in 2022 with a remaining amortization of 25 years
  - Loan would continue to be ineligible for mortgage insurance given the originating Lender initially funded that same loan with an amortization period greater than 25 years.

- **Scenario #2**: Loan is switched to Lender B in 2022 with a remaining amortization of 25 years
  - Given the amortization period at the time of the switch is not greater than 25 years, the loan is eligible for mortgage insurance for Lender B.

- **Scenario #3**: Loan is renewed with Lender A in 2022 with a remaining amortization of 25 years (remains uninsurable); then the loan is switched to Lender B in 2027 (remaining amortization of 20 years) and additional funds are advanced on the mortgage and/or Lender B extends the amortization period back to 25 years.
  - Loan would be ineligible for mortgage insurance given Lender B refinanced the loan (increased the loan amount or increased the amortization period).

- **Scenario #4**: Loan is switched to Lender B in 2020 with a remaining amortization of 27 years.
  - Loan would be ineligible for mortgage insurance for Lender B at the current amortization period of 27 years, however, if Lender B reduces the amortization period to 25 years, the loan will be eligible for mortgage insurance.

13) As per the "Timing of Eligibility Test" in section F, with respect to the treatment of collateral charges, the following examples provide further clarity:

- **Scenario #1**: If the originating Lender would like to set up a new collateral charge on a purchase transaction, how does the low-ratio eligibility criteria apply?
  - Only the amortizing mortgage components within the collateral charge may be insured and are subject to the low-ratio eligibility criteria. Note – any subsequent amortizing mortgage component initiated after the original purchase would not be eligible for mortgage insurance (considered a refinance transaction).

- **Scenario #2**: If Lender B would like to pay out Lender A that has registered a collateral charge - e.g., $500,000 total limit, $300,000 outstanding balance – how does the low-ratio eligibility criteria apply?
  - Lender B would be permitted to pay out the $300,000 outstanding balance and apply the applicable eligibility criteria. Given Lender B may not be aware of the composition of the collateral charge (i.e., amortizing mortgage components, revolving components), the total outstanding balance would be allowed to be paid out and transferred. Lender B must ensure that a maximum 25 year amortization period is set at time of the transfer and the amount of the amortizing mortgage does not exceed the total outstanding on the collateral mortgage ($300,000 in this example).

- **Scenario #3**: If a Lender has set up a collateral charge prior to October 17, 2016, how does the low-ratio eligibility criteria apply to the amortizing mortgage components?
  - The grandfathering and transition period provisions (see Sections A & B of this update) would be applicable to any amortizing mortgage component within a collateral charge.
  - If the amortizing mortgage component is not grandfathered, the loan would be subject to the new low-ratio eligibility criteria. In this specific scenario, given the new component would be considered a refinance transaction, it would be ineligible for mortgage insurance.

14) For portfolio insurance (including LRU submissions), the criteria related to the value must be below $1,000,000, what if the Lender is switching in a loan where the original purchase price was less than $1,000,000 and the current market value is greater than $1,000,000?

As per section F of the update, the timing of the eligibility of this specific requirement (value <$1,000,000) may be applied at the time of purchase or at time of renewal. In this case, given the original purchase price was less than $1,000,000, this loan would have met this specific requirement.

15) Will there be changes to the data fields required for portfolio insurance tranches?

The required data fields are currently being assessed and any additional requirements will be communicated shortly.