Lender Update

Genworth Canada

April 30, 2018

Subject: Low-Ratio Mortgage Insurance - Clarification on Borrower-Initiated Switches

Following the Lender Update regarding “Low-Ratio Mortgage Insurance Changes” dated November 30, 2016, further clarity with respect to insurability of previously refinanced loans (i.e. loans with any increase to the outstanding balance or amortization extension) when the borrower switches a prior uninsured loan from one Approved Lender to another at arm’s length is noted below.

After consultation with the Department of Finance and other mortgage insurers, it has been clarified that if a prior uninsured loan has already been advanced with an Approved Lender, the loan may be switched to another Approved Lender and insured regardless if the loan was originally a refinance, purchase or had an amortization greater than 25 years. The originating lender (“Lender A”) will not be able to obtain mortgage loan insurance if they initially funded the loan as a refinance transaction or with an amortization greater than 25 years. However, a lender that is receiving the loan as a borrower-initiated switch (“Lender B”) will be able to insure the prior uninsured loan provided that the amount of the outstanding balance is not increased at the time of transfer and the amortization period does not exceed the lesser of the remaining amortization or 25 years. In addition, in each of the examples noted below, the loan to be insurable at the time of borrower-initiated switch must meet the other insurance eligibility requirements under the *Eligible Mortgage Loan Regulations*.

Examples

(Note: examples refer to files originated after the low-ratio implementation effective date and do not meet the grandfathering provisions)

1) **Lender A originates a refinance loan. The borrower wants to transfer the prior uninsured loan (no increase to the outstanding balance or remaining amortization period) to Lender B. Will the loan be insurable for Lender B?**

   Yes, given that Lender B is transferring in the loan and is not the originating lender that funded the refinance, the loan would be insurable. The amortization of the loan with Lender B must be the lesser of the remaining amortization or 25 years.

2) **Lender A has a collateral charge with a global limit of $300,000 and with an outstanding balance of $250,000. The borrower increases the balance up to the global limit of $300,000 before the transfer (with Lender A). Will the $300,000 loan balance be insurable for Lender B?**

   Yes, given that Lender B is transferring in the loan from a previous collateral charge and is not the originating lender that funded the refinance, the loan would be insurable with Lender B provided that the amount of the outstanding balance is not increased at the time of transfer and the amortization of the loan with Lender B does not exceed 25 years.

3) **Lender A originates a loan with an amortization period of 30 years. The remaining amortization period is 27 years and the borrower would like to transfer the prior uninsured loan to Lender B. Will the loan be insurable with Lender B?**

To be insurable with Lender B, the maximum amortization period of the loan must be the lesser of the remaining amortization or 25 years. In this example, given the remaining amortization is above 25 years, Lender B must reduce the amortization to 25 years in order for the loan to be insurable.

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

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