COVID-19

Homeowner Mortgage Relief Options (1 to 4 units)

In all cases in this document, the term Borrower refers to: Borrower, Co-Borrower, Spouse.

Objective

Developed by **Canada Guaranty**, **Canada Mortgage and Housing Corporation**, and **Genworth Canada** this Default Management Playbook outlines the default management tools/recommended solutions available for homeowner borrowers (1 to 4 units) facing hardship due to the COVID-19 pandemic. Our objective is to support your efforts to assist your clients who are directly impacted by the pandemic by helping them understand the options available.

Implementation

Due to the continued uncertainty of the length of the COVID-19 pandemic and its impacts on borrowers, this document will remain in effect until further notice. Lenders will be advised by all three mortgage loan insurers when this document will no longer be applicable.

Application

This temporary reference document provides additional guidance as an extension to the mortgage insurer's existing policies and guidelines. Unless otherwise noted in this document, standard mortgage insurance policies and guidelines apply. Lenders are permitted to propose any reasonable alternatives to the respective mortgage loan insurer.

Previous communications or directives related to COVID-19 remain in effect and are not superseded by this document.

Any future claim will be subject to the Insurer's standard claims adjudication process, including the lender's application of reasonable care and prudent mortgage lending practices with regards to default management.

Lender Authorities

The default management tools/recommended solutions outlined in this Playbook are within the lender's authority to implement without prior approval from the respective mortgage loan insurer. It is recommended that lenders consult with the mortgage loan insurer to obtain clarity or to seek approval for default management tools outside of the lender's authority.

Lender Responsibilities

- This document does not replace the lender's responsibility to perform due diligence in reviewing each borrower's unique situation. In line with current default management requirements, lenders must conduct a full assessment of the borrower in its application of any of the default management tools/solutions. This should include but is not limited to: gathering borrower information such as updated income and calculating the updated Gross Debt Service (GDS) and Total Debt Service (TDS) ratios;
- The lender must take all reasonable and appropriate measures to reduce claims, including the management of borrower default situations;
- The lender must exhaust all viable options and default management tools to assist borrowers in bringing the loan into good standing;
- The lender must ensure that the priority of the loan and security is not adversely affected by any default management steps taken;
- Supporting documentation and explanatory comments must be retained in the lender's loan file to support the lender's analysis and rationale for pursuing a particular default management tool/solution. This should include but is not limited to: the reason for default, contact with the borrower, assessment of borrower's financial capacity to remedy the default and rationale for the approach taken to manage the default.

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Situation: Income Can No Longer Sustain The Mortgage

Scenario 1	Examples
The Borrower is experiencing **a reduction of HOUSEHOLD income** that cannot support the mortgage obligation.	**(1)** The Borrower has been temporarily unemployed and is relying on government support until the situation stabilizes and has stable employment to return to. **(2)** The Borrower remains employed but is faced with reduced hours due to crisis measures. **(3)** The Borrower works in an industry that is not deemed essential but will be back to work as restrictions are lifted. Teachers & teacher aides, retail, barber shops/hair salons, hotel/tourism, massage therapists, professionals (dentists, veterinarians), restaurant industry, chiropractors, personal fitness trainers, construction workers, sales representatives, etc. **(4)** The Borrower, has either changed jobs or industry, resulting in an overall decrease in HOUSEHOLD income.
Default Management Options	
Payment Deferral: Not recommended – this category of Borrowers have positive cash flow.	**Workout (Special Payment Arrangement): Not recommended** – the Borrower has been assesed to be able to afford regular monthly payments resulting from a loan restructure.
Capitalization: Recommended – when the Borrower has the capacity to make increased mortgage payments. If the Borrower cannot recover the deferred mortgage payments and other deferred payments (e.g. taxes/condo fees), then the total deferred amount can be capitalized and not wait until end of term. Can be used in combination with extended amortization.	**Extended Amortization: Recommended** – if increased payments following capitalization are unmanageable. Amortization increase permitted only to keep Gross Debt Service (GDS) ratio below 39%. If GDS is less than 39%, increased amortization is not an option.
Recommended Solution	
Capitalization of deferred amounts which can be used in combination with extended amortization to reduce monthly payments. Re-amortization is limited to 5 year increments up to 40 years (from IAD) until the GDS is below 39%. At that time, no further increments are permitted.	

Scenario 2	Examples
The Borrower has experienced **a complete loss of HOUSEHOLD income**. There is insufficient income to sustain any portion of the mortgage obligations, and no immediate employment/income opportunities in the near future. **BUT THERE IS A HIGH PROBABLITY OF RECOVERY**.	The Borrower's employer shut down operations permanently, but the Borrower has other employment opportunities. The Borrower may have suffered a loss/closure from their self-employed business(es), whose business will get back on track once the economy fully opens.
Default Management Options	
Payment Deferral: **Conditionally recommended** – if the Borrower has not been under any previous mortgage deferral agreement other than the flexibility for mortgage payment deferrals up to 6-months due to impacts from the COVID-19 pandemic. The Borrower can access up to 4 additional months of mortgage payment deferrals under the regular default management tools. Lenders are to apply extra due diligence when assessing the feasibility of this tool on a case-by-case basis.	**Workout (Special Payment Arrangement): Recommended** – Interest only workout payment arrangement.
Capitalization: Not recommended.	**Extended Amortization: Not recommended.**
Recommended Solution	
Interest only workout payment arrangement OR additional deferrals of up to 4 months to provide more time for the Borrower to stabilize their employment/income situation.	

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Situation: Income Can No Longer Sustain The Mortgage

Scenario 3	Examples
The Borrower has experienced **a complete loss of HOUSEHOLD income.** There is insufficient income to sustain any portion of the mortgage obligations, and no employment opportunities in the near future.	The Borrower's employer shut down operations permanently, and there are no immediate prospects. The Borrower may have suffered a loss/closure from their self-employed business(es) with no immediate prospects.

Default Management Options	
Payment Deferral: Not recommended – **UNLESS** consideration of a Sale by Borrower, if feasible (market conditions permitting), the Borrower could be extended additional payment deferrals to facilitate a sale. Limited to 4 additional deferrals.	**Workout (Special Payment Arrangement): Not recommended** – there is insufficient income to meet any type of payment arrangement.
Capitalization: Not recommended – the Borrower has no means to make any payments.	**Extended Amortization: Not recommended** – the Borrower has no means to make any payments, even decreased payments.

Recommended Solution

There are no standard default management tools available for this scenario.

Situation: Income Can Now Sustain The Mortgage

Scenario 4	Examples
The Borrower **has returned to their pre-crisis HOUSEHOLD income**, but may have accumulated tax/condo arrears in addition to the deferred mortgage payments during the 6-month deferral period.	The Borrower has regained regular employment and is back to work.

Default Management Options	
Payment Deferral: Not recommended – this category of Borrowers have positive cash flow whereby additional deferrals are no longer needed.	**Workout (Special Payment Arrangement): Not Recommended** – the Borrower has sufficient income to maintain the mortgage. Focus on recovery of deferred payments.
Capitalization: Recommended – if the Borrower cannot recover the deferred mortgage payments and other deferred payments (e.g. taxes/condo fees). The Borrower should have capacity to make increased monthly mortgage payments.	**Extended Amortization: Recommended** – if the Borrower cannot maintain increased mortgage payments after capitalization and current GDS is above 39%.

Recommended Solution

Loan restructure to provide a combination of more sophisticated default management tools to accelerate the path to getting the mortgage back on track as quickly as possible.
Capitalization of deferred amounts which can be used in combination with extended amortization to reduce monthly payments.
Re-amortization is limited to 5 year increments up to 40 years (from IAD) until the GDS is below 39%. At that time, no further increments are permitted.

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