SAGEN™

Lender Update

November 17, 2022

Subject: Default Management Update to Support Homeowners Impacted by Rising Interest Rates

With the rising interest rate environment, Sagen recognizes that certain homeowners may face financial hardship related to a material increase in mortgage payments. This guidance provides clarity on the use of extended amortization as a workout option for homeowners faced with this hardship due to mortgage payment shock resulting from rising interest rates either at term renewal or during the mortgage term. For homeowners in Variable Rate Mortgages (VRM), lenders are encouraged to proactively reach out to homeowners in advance of mortgage renewal. The extension of amortization provides immediate relief to homeowners by reducing the mortgage payments and improving overall affordability.

Guidelines to Determine Financial Hardship

The lender must conduct a reasonable assessment of the homeowner's income to determine financial hardship resulting from payment shock due to an increase in the interest rate, as defined below:

- Homeowner's current Gross Debt Service Ratio (GDSR) exceeds 39%, or
- Homeowner's GDSR at time of term renewal exceeds 39%

Criteria:

- Amortization extension applies to the following situations:
  - VRMs and Adjustable Rate Mortgages (ARM) impacted or likely will be impacted by interest rate increases during the term or at renewal
  - VRMs that require payment reset due to breach in trigger point (outstanding balance exceeds 105% of original insured amount)
  - Mortgages at renewal (regardless of rate type)
- The current amortization (original Interest Adjustment Date less elapsed time) may be extended up to 15-years, to a maximum of 40 years.
- Amortization extension is permitted to bring GDSR no lower than 39%.
- Effective LTV must be greater than or equal to 70% based on current market value (lender may apply internal policies for determining current market value).
- Household income from original mortgage application may be used to determine the GDSR provided the mortgage was originated within the past 12 months. If greater than 12 months, the lender must obtain current income information and supporting documentation.
- A Financial Capacity Assessment (FCA) is not required as part of determining financial hardship.
- A one-time amortization extension may be applied to the mortgage. If subsequent assistance is required, the workout request must be referred to Sagen for review.
- Where appropriate, lenders may consider counselling borrowers to switch to a fixed rate product.

- For homeowners facing mortgage payment difficulties that do not meet the financial hardship criteria noted above, Sagen's Homeowner Assistance Program will continue to be available, please refer those borrowers to Sagen for further review.

Lenders may implement this guidance without prior approval from Sagen and will remain in effect until further notice. The flexibility to adjust the amortization back to the original schedule should be permitted if the homeowner becomes financially able to support it. Sagen will continue to monitor and assess the impact of the rising interest rate environment and may adjust this guidance as necessary.
Any future claim will be subject to Sagen's standard claim adjudication process, including the lender's application of reasonable care and prudent mortgage lending practices with regards to default management.

For information or support pertaining to default management, please contact Sagen's Homeowner Assistance Program at 1-800-511-8888 or by email at homeassist@sagen.ca

Sagen Extended Amortization Hardship Examples

The following are examples where the homeowner's GDSR exceeds 39% at the time of updating the mortgage payment or at renewal (due to increased interest rates). The amortization is extended to bring the GDSR back to 39%.

Example #1 – Amortization extended during current term (VRMs and ARMs)

$500,000 mortgage originated in January 2020 with a 2.00% 5-year variable rate amortized over 25 years. If payment was updated in January 2023 based on current rate of 5.20% and outstanding balance of $475,000 to bring amortization in line with original schedule of 22 years remaining, GDSR would exceed 39%. Therefore, loan is eligible for extended amortization.

Original Monthly Mortgage Payment	→	Updated Monthly Mortgage Payment	vs.	Updated Monthly Payment w/Amortization Extended to 37 years*
$2,119		$3,024 (+$905/month)		$2,412 (+$293/month)

**40-yr amortization - 3-yrs elapsed time*

Example #2 – Amortization extended at renewal (any mortgage rate type)

$500,000 mortgage originated in November 2017 with a 2.40% 5-year variable rate amortized over 25 years. Payment is updated at renewal in November 2022 based on current rate of 5.50% and outstanding balance of $450,000 to bring amortization in line with original schedule of 20 years remaining. Updated payment exceeds 39% GDSR. Amortization extension to 35 years brings it back to 39%.

Original Monthly Mortgage Payment	→	Monthly Mortgage Payment at Renewal	vs.	Monthly Payment at renewal w/Amortization Extended to 35 years*
$2,218		$3,096 (+$878/month)		$2,417 (+$199/month)

**40-yr amortization - 5-yrs elapsed time*

Questions and Answers

1. **What if the homeowner does not meet the criteria for extending the amortization?**

In the event the borrowers do not meet the criteria outlined in this guidance, additional workout options are available through Sagen's Homeowner Assistance Program. Please contact 1-800-511-8888 or by email at homeassist@sagen.ca.

2. **What documentation is the Lender required to obtain to confirm the financial hardship guidelines are met to apply the amortization extension?**

Lenders are only required to document their file indicating what income was used to determine the homeowner's GDSR, the GDSR, and the valuation method that was used to determine the current value.

3. **Are Lenders required to obtain updated income documentation to calculate the GDSR?**

If the mortgage was originated within the 12 months, at the time of amortization extension, the Lender may use the qualifying household income used at loan origination. Otherwise, updated income confirmation must be retained in the lender's file.

4. **Are Lenders required to complete an FCA as part of the criteria to apply the extended amortization workout option?**

No. Lenders are <u>not</u> required to complete an FCA as part of determining financial hardship.

5. **How should effective LTV be determined?**

Any reasonable method to determine current value in line with existing lender's underwriting policies may be used.

6. **Can the amortization extension be applied during the mortgage term or just at renewal?**

The amortization extension can be applied during the mortgage term and/or at renewal. Where possible, lenders are encouraged to proactively engage borrowers in VRM's during the mortgage term to determine whether an amortization extension is an eligible option to avoid the payment shock impact at renewal.

7. **How should the amortization extension be applied?**

The amortization extension is applied by determining the current amortization, based on the original interest adjustment date less time elapsed, and then adding up to 15 years (to a maximum of 40 years), in order to bring the GDSR back to, but not below 39%.

Example: Standard Variable Rate Mortgage with 25-year amortization

- Origination date: December 2020 (original IAD date; 25-year amortization)
- Payment update date: December 2023 (22-year remaining amortization)
- Revised amortization: Remaining amortization (22 years) + 15 years extension = 37year amortization

8. What if extending the amortization up to 15-years results in bringing the borrowers GDS below 39%?

The amortization should only be extended to bring the borrowers GDSR back to 39%.

9. Are bulk insured loans with an LTV between 70% and 80% eligible?

Yes, provided the effective LTV is greater than 70%.

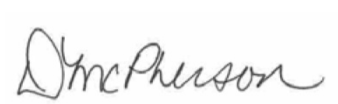
10. Are Lenders required to report amortization extensions to Sagen?

No. Lenders are not required to report instances where an amortization extension has been applied in accordance with this guidance.

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

Name	Title	Phone	E-mail
Ivy Budisavljevic	V.P. Business Development	416.986.7152	ivy.budisavljevic@sagen.ca
Annie Carpentier	V.P. Business Development	905.287.5539	annie.carpentier@sagen.ca
Mark Stamm	V.P. Business Development	514.347.5759	mark.stamm@sagen.ca
Marc Shendale	V.P. Business Development	905.287.5392	marc.shendale@sagen.ca
Kiki Sauriol-Roode	V.P. Business Development	905.287.5379	kiki.sauriol-roode@sagen.ca
Carlo Montagnese	V.P. National Sales	905.938.7643	carlo.montagnese@sagen.ca

Regards,



Debbie McPherson
Sagen
Senior Vice President, Sales and Marketing
Phone 905.287.5465
Email: debbie.mcpherson@sagen.ca