April 30, 2018

CANADA GUARANTY

LENDER UPDATE

Low-Ratio Mortgage Insurance Clarification: Borrower-Initiated Switches

Dear Valued Partner,

As a follow-up to Canada Guaranty's Lender Update regarding "Low-Ratio Mortgage Insurance Eligibility Requirements" effective November 30, 2016 (last updated Dec. 1, 2016), we would like to provide additional clarity regarding the insurability of previously refinanced loans (i.e., loans with any increase to the outstanding balance or an extended amortization), when the borrower switches a prior uninsured loan from one Approved Lender to another at arm's length.

After additional consultation with the Department of Finance and the other mortgage default insurers, we have received clarification that if a prior uninsured loan has already been advanced with an Approved Lender, that loan may be switched to another Approved Lender and insured, regardless of the loan originally being a refinance, purchase or having an amortization greater than 25 years. As always, the originating lender ("Lender A") cannot obtain mortgage loan insurance if they initially funded the loan as a refinance transaction or with an amortization greater than 25 years. However, the new lender that is receiving the loan as a borrower-initiated switch ("Lender B") can insure the prior uninsured loan, provided 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.

For further clarification, please take a moment to review the following examples. In each of these scenarios, the loan that is to be insured at the time of the borrower-initiated switch must meet the other insurance eligibility requirements, as outlined under the *Eligible Mortgage Loan Regulations*.

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EXAMPLES | Borrow-Initiated Switches/Transfers

Please note that these examples refer to files that would have originated *after* the low-ratio implementation effective date and therefore would 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 maximum registered limit of $300,000 and an outstanding balance of $250,000. If 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 on that loan is now 27 years and the borrower would like to transfer that 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.

Should you have any questions regarding these or any previously communicated guidelines, please do not hesitate to contact me or a member of our team.

Thank You,

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