

CANADA MORTGAGE AND HOUSING CORPORATION

Covered Bonds Business Supplement

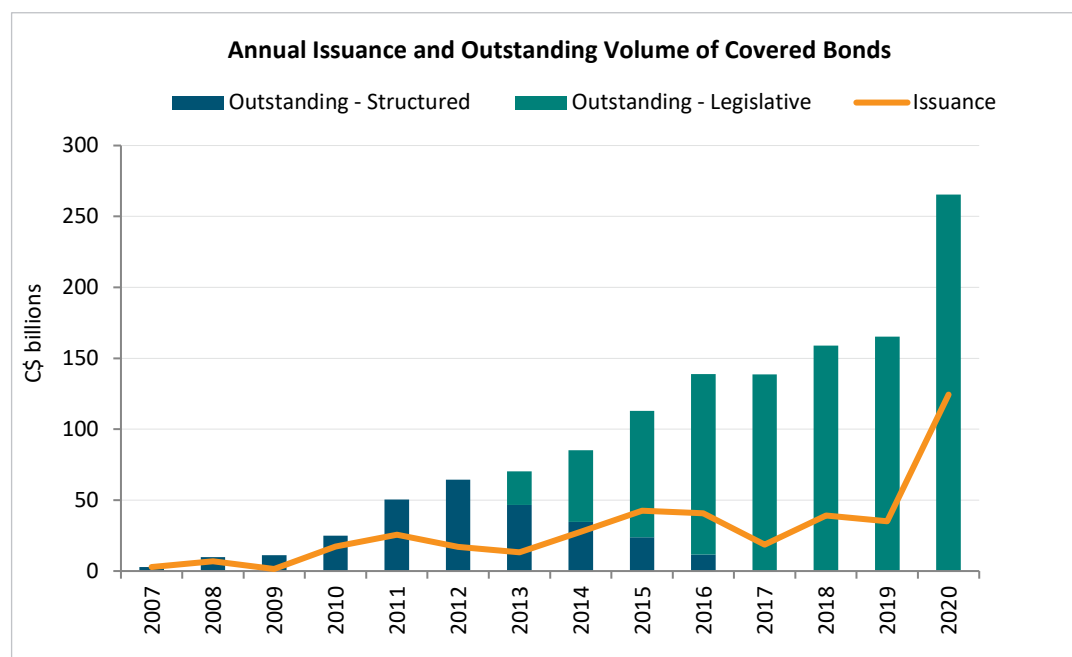
THIRD QUARTER
September 30, 2020

The Covered Bonds Business Supplement document is based on publicly available information and provides an overview of covered bond activities undertaken by Canadian financial institutions. For greater details on the requirements and policies of Canadian registered covered bonds, refer to the *Canadian Registered Covered Bond Programs Guide* (<https://www.cmhc-schl.gc.ca/en/finance-and-investing/canadian-registered-covered-bonds/canadian-registered-covered-bond-programs-guide>).

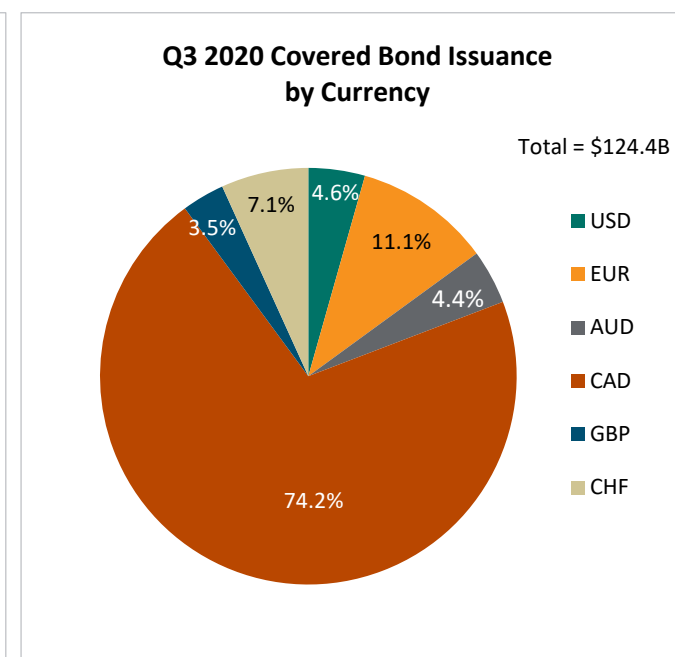
ANNUAL ISSUANCE AND OUTSTANDING VOLUME OF COVERED BONDS

The 2012 amendments to the *National Housing Act* established a legal framework for the registration of covered bond programs in Canada. Under the Act, CMHC is responsible for maintaining a registry of covered bonds issuers and programs and acts as the administrator for the legislative covered bonds framework. Prior to 2012, covered bonds issued by Canadian financial institutions were issued under structured programs without statutory protection for investors. The Government and CMHC do not provide any guarantees or backing for covered bonds, and covered bond collateral must be composed of one- to four-unit uninsured residential mortgage loans.

The amount of covered bonds outstanding issued by Canadian financial institutions has increased gradually since 2007. As of September 30, 2020, the amount of covered bonds outstanding issued under the legislative framework amounted to \$265.5 billion and the 2020 issuance amounted to \$124.4 billion.



Source: Registered Issuers' websites



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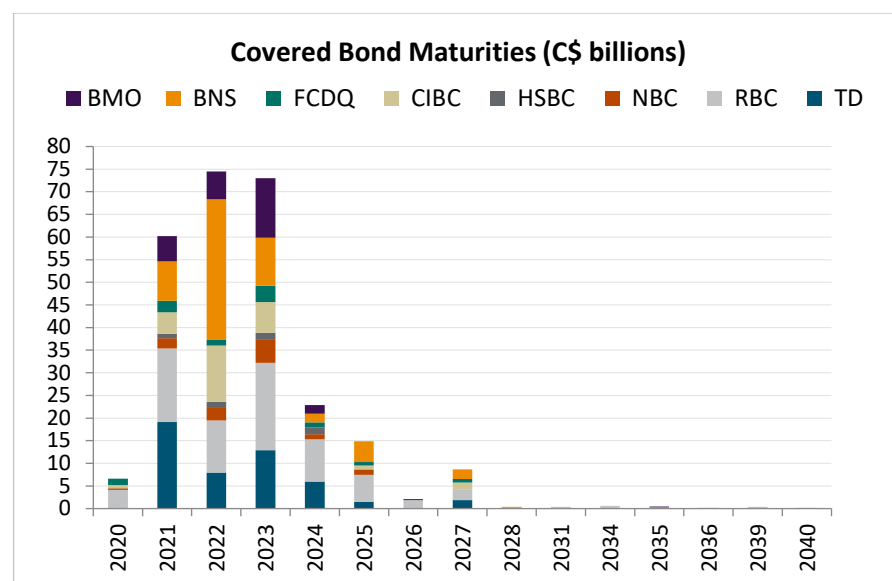


COVERED BONDS ISSUANCE CAPACITY

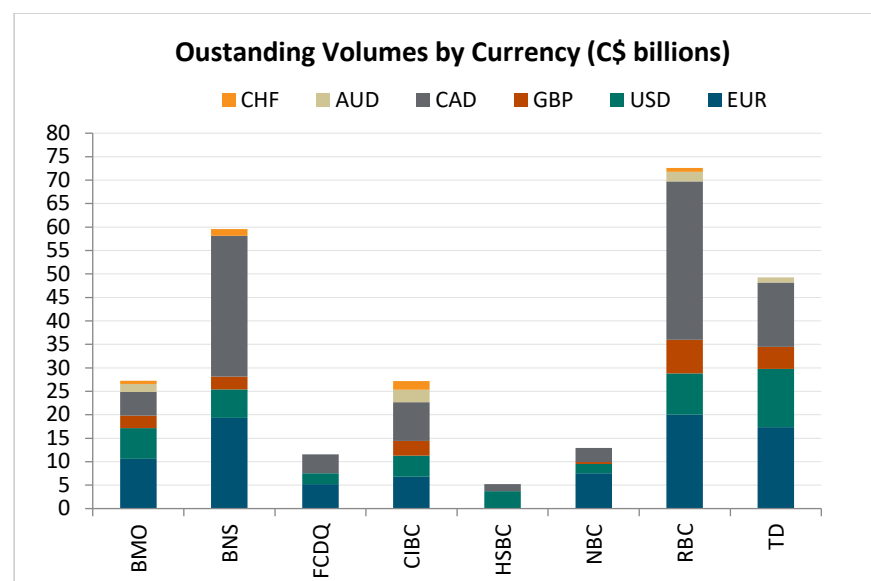
Canada's seven largest banks (Bank of Montreal, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, HSBC Bank Canada, National Bank of Canada, Royal Bank of Canada, Toronto-Dominion Bank) and Fédération des caisses Desjardins du Québec have registered covered bonds programs.

Under federal and provincial regulatory requirements, the amount of assets pledged for covered bonds by an institution cannot exceed 5.5% of its total assets as set and calculated by the regulatory bodies. In March 2020, the regulatory bodies temporarily increased the limit on total assets that may be pledged for covered bonds from 5.5% of the deposit taking institution's assets to 10%, resulting in additional issuance capacity. The additional issuance capacity may only be used to permit issuers to pledge covered bonds as collateral to the Bank of Canada. The maximum amount of pool assets relating to market instruments remains limited to 5.5% of the issuer's on-balance sheet assets. The combined regulatory covered bond limit was \$703 billion as at September 2020. At this point, all Issuers have the capacity to issue additional covered bonds. Future covered bond redemptions will also provide additional issuance capacity.

As at September 30, 2020	BMO	BNS	FCDQ	HSBC	CIBC	NBC	RBC	TD	TOTAL
Total Covered Bonds Outstanding (C\$ Equivalent)	27.2	59.5	11.5	5.2	27.1	12.9	72.5	49.2	265.5
Total Temporary Regulatory Covered Bond Limit	97.3	116.9	29.5	12.5	76.8	32.2	168.3	169.7	703.5
Assets Remaining Available to be Pledged	68.1	53.6	17.4	6.7	47.6	18.1	90.1	117.8	419.6
Total Assets Pledged as a % of Regulatory Limit	30%	54.2%	40.8%	45.9%	37.9%	43.7%	46.4%	30.6%	40.3%



Source: Registered Issuers' websites

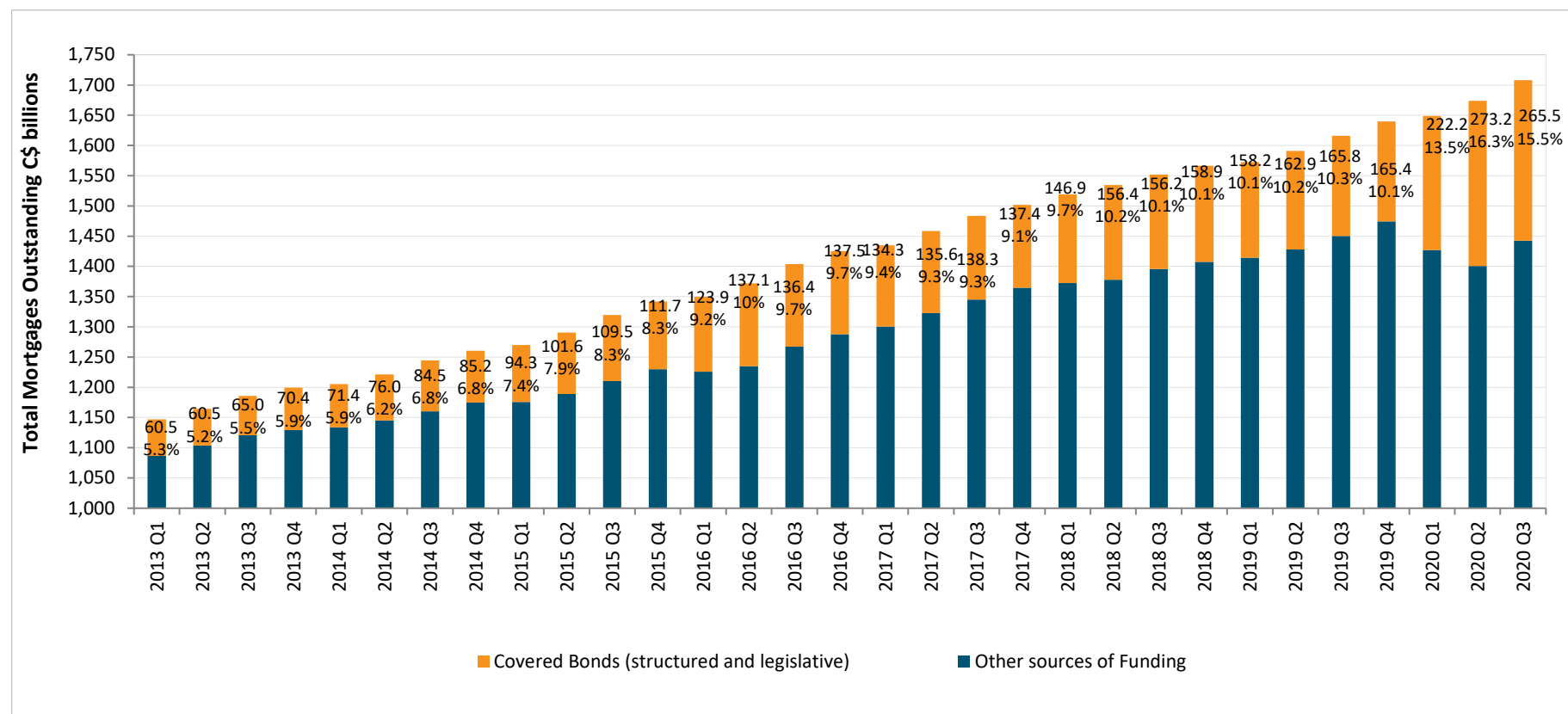


Source: Registered Issuers' websites



COVERED BONDS AS A SOURCE OF FUNDING

Canadian lenders have continually increased their use of covered bonds as a source of funding. Covered bond funding as a percentage of the total mortgage market increased from 5% in early 2013 to over 10% in 2019. In September 2020, covered bond funding as percentage of the mortgage market is 15.5%.



Sources: Bank of Canada website, Registered Issuers' websites



REVENUES AND EXPENSE FOR THE ADMINISTRATION OF THE COVERED BONDS FRAMEWORK

The NHA requires that fees for the registration of covered bond issuers and programs be commensurate with the expenses incurred by CMHC in performing its duties with respect to the administration of the registered covered bond framework.

The fee structure at the inception of the program was \$350,000 for the application fee and \$350,000 for the annual fee. In 2019, the application fee decreased from \$350,000 to \$100,000 while the annual fee per issuer decreased from \$175,000 to \$125,000. CMHC will continue to monitor the fees and related expenses to ensure CMHC administers the legislative covered bond program on a cost recovery basis.

	Application Fee	Issuer Annual Fee
2020	100,000	125,000
2019	100,000	125,000
2018	350,000	175,000
2017	350,000	225,000
2016	350,000	250,000
2013-2015	350,000	350,000

	Total since inception (2012 – 2019)	YTD 2020
Fees Earned	15,925,000	1,000,000
Expenses		
Internal	9,361,175	1,316,677
External	5,176,530	31,865
Total Expenses*	14,537,705	1,348,542

* Expenses are estimated

