CMHC Announces Covered Bond Framework

OTTAWA, December 17, 2012 — Canada Mortgage and Housing Corporation (CMHC) announced today the details of the legal framework for Canadian covered bonds. The framework will support financial stability by helping lenders further diversify their sources of funding and by attracting more international investors to the market for Canadian covered bonds, making the market for covered bonds more robust.

“The new framework establishes a high standard of disclosure for covered bonds for lending institutions across the country” said Karen Kinsley, President and CEO, CMHC. “The framework strikes a balance between issuer and investor needs and takes into account evolving international best practices.”

As part of the 2012 Federal Budget, amendments were made to the National Housing Act charging CMHC with administering a legal framework for covered bonds. Federally and provincially regulated financial institutions that meet the requirements of the program will be able to issue covered bonds under the framework.

CMHC has consulted with a variety of stakeholders and industry participants while developing the framework. The framework will operate on a cost-recovery basis.

Assets which may be held as covered bond collateral include loans secured by one to four unit residential properties located in Canada. Insured mortgages are not permitted to be used as covered bond collateral and covered bond issues are not guaranteed by CMHC or the Government of Canada.

A registered covered bond is a bond that is issued through a covered bond program that has been registered by CMHC pursuant to the National Housing Act (NHA). Issuers of registered covered bonds will benefit from being able to reach a broader investor base as some international investors are restricted from purchasing bonds issued under a non-legislative framework. Issuers will also benefit from gaining access to an alternative source of funding.

In addition to the high standard of disclosure, covered bond investors will benefit from having recourse to both the covered bond issuer and to the assets in the cover pool. In the event of issuer default, the bondholder continues to be paid from the cash flow of the cover pool assets.

“We are pleased that the government created legislation for a covered bond framework in Canada and for the opportunity to provide our input as the CMHC developed that framework,”
said Terry Campbell, President of the Canadian Bankers Association. “A robust market for Canadian covered bonds is important to enable the Canadian financial sector to have access to global sources of financing and compete with other financial institutions in these markets.”

As Canada's national housing agency, CMHC draws on more than 65 years of experience to help Canadians access a variety of quality, environmentally sustainable and affordable housing solutions. CMHC also provides reliable, impartial and up-to-date housing market reports, analysis and knowledge to support and assist consumers and the housing industry in making informed decisions.

The Canadian Registered Covered Bond Programs Guide is available on CMHC’s website at [www.cmhc.ca/coveredbonds](http://www.cmhc.ca/coveredbonds).

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**Backgrounder**

As noted in the 2012 Federal Budget, CMHC will administer a legal framework for covered bonds.

**What is a Covered Bond?**

Covered bonds are debt instruments that are issued by a financial institution and secured by a segregated pool of high quality assets (the “cover assets”), primarily uninsured Canadian residential mortgages. The issuer of a covered bond pays periodic interest and principal on the bond to investors, in accordance with terms that are set upon issuance.

A Registered Covered Bond is a bond that is issued under a Covered Bond Program that has been registered by CMHC pursuant to the National Housing Act (NHA). In order to be registered, an issuer must comply with all of the requirements in the [Canadian Registered Covered Bond Programs Guide](http://www.cmhc.ca/coveredbonds) which is available on the CMHC website.

Issuers of registered covered bonds will benefit from being able to reach a broader investor base as some international investors are restricted from purchasing bonds issued under a non-legislative framework. Issuers will also benefit from gaining access to an alternative source of funding.

**The Legal Framework**

In administering the legal framework for covered bonds, CMHC will establish, maintain and make available to the public a registry containing:
- the names and addresses of registered issuers;
- a list of registered programs and information relating to those programs;
- a list of registered issuers whose right to issue is suspended and the reasons for the suspension; and
- any other information that in the Corporation’s opinion is necessary.

CMHC will establish fees for costs incurred to develop and maintain the program which will operate on a cost recovery basis. The Government and CMHC do not provide any guarantees or backing for covered bond issues. CMHC’s role in administering the legal framework for covered bonds is separate and distinct from its securitization activities.

The legal framework applies to any registered cover bond issuer based in Canada. Canadian registered covered bonds can be issued in different currencies and can be sold to both Canadian and international investors.

**A Brief History of Canadian Covered Bonds**

Since 2007, covered bonds have been issued in Canada under a contractual framework. Assurance that the assets in the cover pool would be used for the benefit of investors had been provided through the prospectus.

Under the new legal framework, there is now statutory protection for the covered bond investor. This results in increased certainty for investors with respect to the continuity of payment and the recovery of their investment in the event of issuer default.

In 2007, the Office of the Superintendent of Financial Institutions (OSFI) issued guidance permitting Canadian covered bond issuance provided that the aggregate amount issued by any deposit-taking financial institution did not exceed 4% of its total assets.

Prior to 2010, only three Canadian banks had issued mortgage-covered bonds. During 2011, seven Canadian institutions marketed 19 new issuances worth almost $26 billion.

**Annual Issuance and Outstanding Volume of Covered Bonds, 2007 – 2011**
Source: CMHC, adapted from DBRS Monthly Canadian Covered Bond Report and Issuers’ Monthly Covered Bond Program Investor Reports

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