

Specified Procedures Report
01/10/2014

Specified Procedures Report

Example: Reporting Letter from External Auditors

[Attn: VP Finance, CFO, Audit Committee (as necessary)]

[Name and Address of NHA Approved Issuer]

[Date]

RE: **[Name of NHA Approved Issuer]** (the “Issuer”)

In accordance with the NHA MBS Guide, we have performed the procedures as detailed on the attached *Schedule of Specified Procedures Relating to NHA MBS Pool Administration and CMHC Form 2840 - Issuer’s Monthly Accounting Report* as at **[report date]** (the “Schedule”). A listing of the Issuer’s outstanding NHA MBS pools is also attached.

The results of the procedures are shown on the Schedule and include **[the following/no]** exceptions [list of exceptions, if applicable]. However, these procedures do not constitute an audit of the Issuer’s CMHC Form 2840 - Issuer’s Monthly Accounting Report (the “Reports”) as at **[report date]** and therefore we do not express an opinion on the Reports.

This report has been prepared in accordance with Section 9100 of the Canadian Institute of Chartered Accountants (CICA) Handbook – Assurance, and is intended to be used solely for the purpose of assisting you in discharging your responsibilities under the NHA MBS Guide and is not to be referred to or used for any other purpose.

[Signed]

Chartered Accountants

Encl.

cc: Director, Securitization Operations
Canada Mortgage and Housing Corporation
CMHC Securitization Centre

Notes

- 1) For pools where an Issuer uses a third party Servicer, CMHC requires that these specified procedures be performed for each specific Issuer-Servicer relationship. In such cases, the pools sampled should be limited to those administered by the applicable Servicer.
- 2) Assistance on interpreting these procedures or the requirements set forth in the Program Guide is available by contacting the CMHC Securitization Centre.

Schedule of Specified Procedures Relating to NHA MBS Pool Administration and CMHC Form 2840 - Issuer's Monthly Accounting Report as at [report date]

Specified Procedures	Results/Exceptions/ Details
I. SAMPLE POOLS AND RELATED MATERIALS	
<p>a. Pool Selection From the Issuer's outstanding MBS pools, randomly select a reasonable sample of pools based on professional auditing standards, ensuring a minimum of two (2) pools from each pool type unless there is only one (1) pool of a certain type. The minimum total number of pools selected should be the lower of (a) 25 pools and (b) 10% of the total number of pools outstanding. Note the pools chosen for review.</p> <p>b. Issuer's Monthly Accounting Reports For each of the selected pools in (Ia), obtain the Issuer's Monthly Accounting Report (CMHC 2840) for the report month and immediately preceding month. Note the months chosen for review.</p> <p>c. NHA MBS Information Circular For each of the selected pools in (Ia), obtain the NHA MBS Information Circular, CMHC 2834.</p> <p>d. Mortgage Loan Selection From the pools selected in (Ia), randomly select a reasonable sample of loans based on professional auditing standards. The sample size is to be a minimum of 40 loans, and should include a minimum of five (5) loans from each pool type and at least one (1) loan from each pool selected in (Ia). Where the number of loans in the pool is less than the minimum requirement, select all loans. Note the number of loans selected per pool and per pool type.</p>	
II. PRINCIPAL AND INTEREST (P & I) DUE INVESTORS	
<p>a. Total Principal Noting any exceptions, for each CMHC 2840 report selected in (Ib) agree the following to the Issuer's MBS administration system:</p> <p>(i) Scheduled Principal [Box 3A] (ii) Partial Prepayments [Box 3B]</p>	

<p>(iii) Liquidations [Box 3C] (iv) Maturities [Box 3D] (v) Substitutions [Box 3E] (vi) Total Principal [Box 3G]</p> <p>b. Cash Distribution Due to Holders re Interest Noting any exceptions, for each CMHC 2840 report selected in (Ib), perform the following examinations:</p> <p>(i) Verify the monthly interest rate factor in Box 3I has been properly calculated (see Appendix 7 of the NHA MBS Guide).</p> <p>(ii) Agree the coupon (Box 3H) to the rate disclosed in the NHA MBS Information Circular.</p> <p>(iii) Recalculate the amount in Box 3J by multiplying the interest rate factor (Box 3I) by the amount in Box 3M.</p> <p>c. Interest Penalties/Indemnities (For 964, 965, 970 & 975 pool types only) Noting any exceptions, for each applicable CMHC 2840 report selected in (Ib), agree the Interest Penalties/Indemnities (Box 3K) to the Issuer's MBS administration system.</p>	
<p>III. INTEREST PENALTIES AND INDEMNIFICATIONS</p>	
<p>a. The NHA MBS Information Circular For each of the pools selected in (Ia), review the related NHA MBS Information Circular and perform the following examinations, as applicable:</p> <p>(i) For each of the loans selected in (Id), verify that the prepayment provisions specified in the loan documentation are summarized (but not necessarily replicated) in the NHA MBS Information Circular. Note any exceptions.</p> <p>(ii) For each of the 970 and 975 pools selected in (Ia), review the loan prepayment provisions summarized in the NHA MBS Information Circular and verify that:</p> <ul style="list-style-type: none"> - the provisions are segregated based on whether a corresponding prepayment would or would not be exempt from the Rate Differential Indemnity (RDI) calculation; - those provisions disclosed as being exempt from the RDI calculation do not allow for lump-sum partial prepayments in any year to exceed 20% of the original loan balance*; and - those prepayment provisions allowing borrowers to prepay more than 20% of the original loan balance have been disclosed as being subject to the RDI calculation* <p>* Exception: prepayment provision involving a bona sale of the</p>	

underlying property (e.g. port or assumption clause) may exceed the 20% limit and may be disclosed as being exempt from the RDI. For details, see Chapter 5 – Pool Types of the MBS Guide.

(iii) For each of the 965, 970 and 975 pools selected in (Ia), verify the NHA MBS Information Circular discloses the circumstances under which an indemnity payment will be made to investors. Note any exceptions.

(iv) For each of the 965, 970 and 975 pools selected in (Ia), verify the NHA MBS Information Circular includes the calculation methodology used to determine the indemnity due to investors for early prepayments. Note any exceptions.

(vi) Through inquiry and discussion with management, note how they calculate the price of an NHA MBS pool for indemnity calculation purposes, including whether the price and/or inputs are obtained from an internal and/or external source.

b. Accuracy of Penalty Interest/Indemnity Payments (for 964, 965, 970 & 975 pool types only)

NOTE: When performing procedures (ii) to (vii) below, use information obtained from the mortgage file and/or mortgage administration system and supplemented through inquiry and discussion with management, where necessary.

(i) From the applicable pools selected in (Ia), select a reasonable sample of loans that were liquidated during the report month and/or preceding month. The minimum total number of liquidated loans selected should be equal to or greater than the lower of (a) 20 loans and (b) all liquidated loans. Where possible, the sample should include a minimum of 5 (five) loans from each of the above noted pool types and a minimum of one (1) loan liquidated due to Enforcement Action.

(ii) For each of the loans selected in (IIIb.i) above, verify that the Reason for Removal reported by the Issuer agrees with the following:

- the description applicable to the specified Reason for Removal; and
- the information obtained from the mortgage file and/or the mortgage administration system. Note any exceptions.

(iii) From the loans selected in (IIIb.i), identify those loans on which a lump-sum partial prepayment was made or recorded, without penalty (in whole or in part), on or within thirty (30) calendar days prior to the loan's liquidation date and verify the following:

- that the disclosures in the pool's NHA MBS Information Circular do not include a provision restricting the borrower(s)

from having made that lump-sum partial prepayment without penalty; and

- that the difference between the balance of the loan in the prior report month (as per the MBS administration system) and the liquidation balance reported in 6E of the report month is not greater than the sum of the lump-sum payment and one (1) regular monthly payment for that loan.

Note any exceptions.

(iv) For each of the loans selected in (IIIb.i) that were liquidated due to Enforcement Action, verify the loan was liquidated at the end of legal action. For multi-family loans, verify the loan was liquidated after the mortgage loan insurance claim was paid in whole or in part or when it was rejected. Note any exceptions.

For Loans Liquidated from 964 Pools

(v) For each of the applicable loans selected in (IIIb.i), verify the interest penalty recorded in the mortgage system or discharge statement (whether or not charged to the borrower) agrees with the amount reported in Box 6F. Note any exceptions.

For Loans Liquidated from 965 Pools

(vi) From the applicable loans selected in (IIIb.i), identify those loans for which the Reason for Removal was Mortgage Payoff or Ineligible Loan , and verify that, in each case, an indemnity was passed through to the CPTA based on the calculation methodology disclosed in the NHA MBS Information Circular except where:

- the reported MBS Indemnity factor (3K-1) in the related CMHC 2840 is zero; or
- for ineligible loans, the loan was found to be ineligible prior to Final Certification of the pool..

Note any exceptions.

For Loans Liquidated from 970 or 975 Pools

(vii) From the applicable loans selected in (IIIb.i), identify those loans for which the Reason for Removal was Mortgage Payoff or Ineligible Loan and perform the following procedures on those loans:

- Verify an indemnity was passed through to the CPTA (Box 6F) in each case except where:
 - the reported MBS Indemnity Factor (3K-1) in the related CMHC 2840 is zero (0); or
 - the liquidation occurred after the first 36 months (970 pools) or 60 months (975 pools) following the loan's Interest Adjustment Date; or

<ul style="list-style-type: none"> • for ineligible loans, the loan was found to be ineligible prior to Final Certification of the pool. - For each of those loans that were not reported as being liquidated within 36 (970 Pools) or 60 months (975 Pools) of their interest adjustment date, verify that the payoff occurred after that timeframe. - For each of those loans on which a lump-sum partial prepayment was not made or recorded, without penalty, during the 30 calendar days prior to the loan’s liquidation date, verify that the difference between the loan’s reported balance in the prior report month (as per the MBS administration system) and the liquidation balance reported in 6E of the report month is not greater than one (1) regular monthly payment for the loan <p>c. Calculating the MBS Indemnity Factor (For 965, 970 and 975 Pools only)</p> <p>For each of the 965, 970 and 975 pools selected in (Ia), verify that the methodology used to calculate the MBS Indemnity Factor (Box 3K-1) for the report month agrees with the following:</p> <ul style="list-style-type: none"> - for pools issued on or after November 1, 2014, the <i>NHA MBS Indemnity Calculation Methodology</i>, as published on the CMHC website. - for pools issued prior to November 1, 2014, the applicable disclosures in the Information Circular. <p>Note any exceptions.</p>	
IV. ARREARS REPORTING	
<p>a. General (All pool Types)</p> <p>For each of the pools selected in (Ia), obtain a report detailing all loans in arrears generated from the mortgage administration system during the report month and perform the following procedures:</p> <p>(i) Agree the number of loans reported in the loan arrears report to the number of loans reported in the CMHC 2840 report (i.e. sum of Boxes 2K, 2L and 2M).</p> <p>For 800-series pools only</p> <p>(ii) For each loan reported in arrears, use information obtained from the mortgage administration system to verify that the number of months the loan was reported in arrears in the CMHC Form 2840 (i.e. “1”, “2” or “3 or more” months) represents the greater of (i) the number of months the pooled loan was in arrears or (ii) the number of months that any other obligation cross-defaulted with the pooled loan was in arrears.</p>	

<p>V. FLOATING RATE MORTGAGE POOLS (880, 885, 980, 985 & 987 POOL TYPES)</p>	
<p>a. Loan Characteristics Noting any exceptions, for each of the floating rate pools selected in (Ia), and using the sample of loans selected in (Id) verify the following, as applicable:</p> <p>(i) That the loans have an interest rate based on the same index, and that they have the same payment and interest rate reset frequency.</p> <p>(ii) Where the annual rate of the sampled loan is based on a compounding period other than monthly, that the rate was converted to a monthly compounding equivalent for NHA MBS reporting purposes (see Appendix 7 of the NHA MBS Guide).</p> <p>(iii) That the loans sampled from 880/980 pools are adjustable rate loans with an interest rate based upon an index that resets at least once monthly.</p> <p>(iv) That the loans sampled from 885/985 pools are variable rate loans with an interest rate based upon an index that resets at least once monthly.</p> <p>(v) That the loans sampled from 987 pools are either all adjustable or all variable rate loans with a common interest rate reset frequency and underlying index.</p> <p>b. Liquidations (i) From the floating rate pools selected in (Ia), select a reasonable sample of loans that were liquidated during the report month and/or preceding month. The minimum total number of liquidated loans selected should be the lower of (a) 10 loans and (b) all liquidated loans.</p> <p>(ii) For each loan selected in (Vb.i) above, verify that the liquidation reason reported by the Issuer agrees with the information obtained from the mortgage file and/or mortgage administration system. Note any exceptions.</p>	
<p>VI. COLLATERAL RATE MORTGAGE POOLS (867, 880 & 885 POOL TYPES)</p>	
<p>a. General Noting any exceptions, for each of the collateral mortgage pools selected in (Ia), and using the sample of loans determined in (Id) verify the following, as applicable:</p> <p>(i) That the sampled loans are amortizing loans.</p> <p>(ii) Where the mortgage securing the sampled loan also secures one or more other loans, verify those other loans have <u>not</u> been</p>	

<p>pooled under the NHA MBS Program unless they were securitized in the same pool as the sampled loan or in different pools with the same issue date.</p> <p>b. Liquidations</p> <p>(i) From the collateral mortgage pools selected in (Ia), select a reasonable sample of loans reported 3 or more months in arrears during the preceding report month. The minimum total number of loans selected should be the lower of (a) 10 loans and (b) all loans reported 3 or more months in arrears.</p> <p>(ii) For each loan selected in (VIb.i) above, verify that the loan was liquidated in the following month. Note any exceptions.</p>	
<p>VII. P & I CUSTODIAL/TRUST ACCOUNT(S)</p>	
<p>a. General (All Issuers)</p> <p>Noting any exceptions, for each of the pools selected in (Ia), obtain the related <i>Letter Agreement for Issuer’s P & I Custodial/Trust Account, CMHC 2806</i> as well as the corresponding bank statement for the report month, and perform the following examinations:</p> <p>(i) Where the P & I Custodial/Trust Account is used for more than one pool, verify that separate accounting records are maintained.</p> <p>(ii) Note the date on which the applicable <i>Letter Agreement for Issuer’s P & I Custodial/Trust Account, CMHC 2806</i>, was signed.</p> <p>(iii) Note the label/name of the account as specified on the bank statement.</p> <p>(iv) Note the financial institution with which the P&I Custodial/Trust Account was established and is maintained.</p> <p>(v) Verify that the account number on the bank statement agrees with the account number provided in the related <i>Letter Agreement for Issuer’s P & I Custodial/Trust Account, CMHC 2806</i>.</p> <p>(vi) Verify that all withdrawals reflected on the bank statement obtained comply with the policies (including the investment parameters) set forth in Chapter 10 of the NHA MBS Guide (refer to <i>Establishment and Maintenance of P & I Custodial/Trust Account – Collections</i>).</p> <p>(vii) Where the Issuer does not clear loan payments to the P & I Custodial/Trust Account on a daily basis, obtain a report identifying all the outstanding pools associated with the account and verify an additional dollar amount (the “UPP float”) was maintained at all times throughout the report month to cover</p>	

<p>deposits of unscheduled principal prepayments (UPP). The required UPP float amount shall be equal to the average monthly UPP rate for all applicable pools during the previous calendar year multiplied by the outstanding principal balance of the applicable pools as at the end of the previous year. Note the UPP float amount required and the minimum balance maintained in the account during the report month.</p> <p>(viii) Where loan payments are not cleared daily, verify that the amount due to investors (from the previous month and in relation to all applicable pools) as well as the UPP float were in the account (or invested on behalf of the account, as per the NHA MBS Guide) by the third business day of the report month. Note the amount due to investors for all pools associated with the account and the balance in (or invested on behalf of) the account on the third business day of the report month.</p> <p>For Non-regulated Issuers only</p> <p>(ix) Verify an <u>additional</u> dollar amount (the “Non-regulated Issuer float”) was maintained throughout the report month in accordance with the following:</p> <ul style="list-style-type: none"> - For the Issuer’s first year participating in the Program, an amount equivalent to 1% of the previous month’s scheduled principal payments (Box 3A plus 3D) and NHA MBS coupon payments (Box 3J) for all applicable pools. In subsequent years, this float amount shall be calculated using the Issuer’s monthly arrears ratio (based on the number of pooled loans that are one or more months in arrears). <p>Note the Non-regulated Issuer float amount required and the minimum balance maintained in the account during the report month.</p>	
<p>VIII. TAX CUSTODIAL/TRUST ACCOUNTS – MULTI-UNIT PROJECTS (i.e. 965, 966 & 990 POOL TYPES)*</p>	
<p>*Do not complete this section if the Issuer is not collecting and remitting tax payments to the municipalities on behalf of the borrower.</p> <p>a. General (All Issuers)</p> <p>Noting any exceptions, for each of the pools selected in (Ia), obtain the related <i>Letter Agreement for Issuer’s Tax Custodial/Trust Account, CMHC 2832</i> as well as the corresponding bank statement for the report month, and perform the following examinations:</p> <p>(i) Where Tax Custodial/Trust Account is used for more than one pool, verify that separate accounting records are maintained.</p>	

<p>(ii) Note the date on which the applicable <i>Letter Agreement for Issuer's Tax Custodial/Trust Account, CMHC 2832</i>, was signed.</p> <p>(iii) Note the label/name of the account as specified on the bank statement.</p> <p>(iv) Note the financial institution with which the Tax Custodial/Trust Account was established and is maintained.</p> <p>(v) Verify that the account number on the bank statement agrees with the account number provided in the related <i>Letter Agreement for Issuer's Tax Custodial/Trust Account, CMHC 2832</i>.</p> <p>(vi) Note the frequency of the deposits in the account during the report month.</p> <p>(vii) Verify that all withdrawals reflected on the bank statement obtained comply with the policies set forth in Chapter 10 of the NHA MBS Guide (refer to <i>Establishment and Maintenance of Tax Custodial/Trust Account</i>).</p>	
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