

## INTRODUCING COUNTERPARTY RATING AS A NEW NHA MBS PROGRAM REQUIREMENT

### PURPOSE

To permit the use by NHA MBS participants of specified new counterparty ratings developed by credit rating agencies in response to bank recapitalization or “bail-in” resolution regimes.

The new policy becomes effective October 1, 2018.

### BACKGROUND

In response to bail-in regimes being implemented in various jurisdictions across the globe, credit rating agencies have put in place specific counterparty ratings. Such ratings are meant to address the drop in the expected level of default risk on certain payment obligations or contractual commitments (e.g., derivative contracts, operating obligations) as a result of the implementation of effective resolution structures and bail-in requirements.

The new bail-in regime in Canada provides for various means to preserve financial stability of a non-viable financial entity, including recapitalization via conversion of specific debt obligations, and as such counterparty ratings provide a better assessment of CMHC’s exposure under the NHA MBS Program.

Under the current terms of the NHA MBS Program Guide, long-term unsecured, unguaranteed, unenhanced debt credit ratings (“long-term debt ratings”) are used as ratings triggers applied in relation to all Issuers as well as to loans originated in Quebec. Specified changes in long-term debt ratings are intended to prompt Issuers to prepare and execute registerable mortgage assignments and related security, in the former case, and registerable Quebec mortgage assignments, in the latter case.

### POLICY AMENDMENT

The applicable NHA MBS Program Guide definitions will be revised to : a) include, in all instances, references to counterparty ratings to the extent such ratings are available, otherwise long-term debt ratings will continue to apply, and b) replace, in all instances, references to “investment grade rating” with “minimum acceptable rating”. All other aspects, including minimum requirements and the documentation rating trigger threshold at minimum acceptable rating (formerly “investment grade”) will also continue to apply unchanged.

The existing policy language will be modified as follows:

#### **With respect to conditions applied to loans originated in Quebec**

- *“For Loans securitized by Issuers with minimum acceptable rating that are Regulated Institutions, CMHC can rely on the Power of Attorney (Quebec), CMHC 2841Q, provided in lieu of registerable Quebec mortgage assignments.*

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- For Loans securitized by Issuers with minimum acceptable rating that are Regulated Institutions, the following trigger events apply for the preparation and/or execution of registerable Quebec mortgage assignments:
  - The Issuer’s applicable rating is, at any time, reduced below the minimum acceptable rating . . .”

**With respect to mortgage documentation trigger events applied to all Issuers**

- “If the Issuer is rated and its rating is, at any time, reduced below minimum acceptable rating, the Issuer will be required to provide the Custodian with registerable mortgage assignments of all mortgages in all outstanding Pools on demand, failing which CMHC shall be entitled to unfettered access to books, records and accounts as described below and will complete the assignments itself by way of the Powers of Attorney that CMHC has from the Issuer & Registered Holder(s) of pooled mortgages.”

**With respect to transfers of issuer responsibilities to substitute Issuers**

“The substitute Issuer must also execute and give the Custodian a copy of the Mortgage Pools Transfer Agreement, CMHC 2836, and the applicable registered Power of Attorney, CMHC 2841, for all Loans originated in all provinces and territories other than the Province of Quebec. The substitute Issuer must complete a Mortgage Pool Transfer and Servicing Agreement (Quebec), CMHC 2835, an Assignment of Universality of Claims, CMHC 2837, and the appropriate mortgage assignment documentation for all Loans originated in Quebec. If the substitute Issuer has a minimum acceptable rating, an executed Power of Attorney for the Province of Quebec, CMHC 2841Q, may be provided and filed with the Custodian in lieu of completing the assignments. Document triggers as described in Chapter 7 for assignment documentation will apply.”

**With respect to definitions**

“**Minimum acceptable rating**” means, with respect to a party,

- the rating of the unsecured, unguaranteed and unenhanced long-term debt obligations of such party, or
- its counterparty rating or assessment of the type specified under the name of the respective Rating Agency, by any Rating Agency, at or above the level indicated in the following tables:

	<b>DBRS</b>	<b>Fitch</b>	<b>Moody’s</b>	<b>S&amp;P</b>
<b>Unsecured, unguaranteed and unenhanced long-term debt</b>	BBB(low)	BBB-	Baa3	BBB-

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DBRS	Fitch	Moody's		S&P
Critical Obligations Rating	Derivative Counterparty Rating	Counterparty Risk Rating	Counterparty Risk Assessment	Counterparty Resolutions Rating
BBB(low)	BBB-(dcr)	Baa3	Baa3(cr)	BBB-

**“Counterparty rating or assessment”** means with respect to Rating Agency, the rating or assessment of the type specified under that Rating Agency’s name in the defined term “minimum acceptable rating.”

### Effective Date of Change

This policy will take effect on October 1, 2018 and applies to new and existing Approved Issuers at that date as well as to loans originated in Quebec and securitized after that date.

### ENQUIRIES

For further details on counterparty rating requirement, please contact Maki Okamoto 416-250-3261.

For more information on the NHA MBS Program visit the CMHC Web site at [www.cmhc.ca](http://www.cmhc.ca) or contact CMHC by email at [securitization@cmhc.ca](mailto:securitization@cmhc.ca) or by telephone at 416-250-2700 or by fax at 416-218-3312.

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