



CANADA MORTGAGE AND HOUSING CORPORATION

June 2019

Annex J Supplement

The document provides additional guidance to Issuers and Cover Pool Monitors on how to perform and interpret the procedures in Annex J of the Canadian Covered Bond Framework Guide. For information 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>)

INTRODUCTION

The supplement provides additional guidance to the Cover Pool Monitors when performing test procedures for assessing accuracy of eligible loan records and various specified procedures in relation to the Covered Bond Portfolio. The supplement also serves to provide clarity to Issuers and Investors on how Canada Mortgage Housing Corporation reviews and assesses the report prepared by the Cover Pool Monitor (“Asset Monitor Report”).

1. LEGISLATIVE FRAMEWORK

The objective underlying the covered bonds legal framework established by Part I.1 of the National Housing Act (NHA) is to develop a robust Canadian covered bonds regime designed to promote appropriate disclosure and continuity of payment (and ultimate repayment) of issued covered bonds, without intimation of a guarantee on the part of the federal government.

2. ROLE OF CANADA MORTGAGE AND HOUSING CORPORATION

Canada Mortgage and Housing Corporation is a Crown Corporation and its powers are prescribed in the Canada Mortgage and Housing Corporation Act (Canada), the Financial Administration Act (Canada) and the NHA. Under Part I.1 of the NHA, Canada Mortgage and Housing Corporation has been given responsibility to administer the legal framework for Canadian registered covered bond programs established thereunder, with discretionary authority to establish conditions and restrictions applicable to registered issuers and registered covered bond programs as defined in the guide and to oversee and enforce compliance with those conditions and terms.

3. ASSET MONITOR AGREEMENT

The Issuer, the Guarantor and the Bond Trustee appoint a Cover Pool Monitor to provide the services set out in the Asset Monitor Agreement and perform various specified procedures and arithmetic testing in relation to the Covered Bond disclosures. In the Asset Monitor Agreement, the Cover Pool Monitor details the scope of work undertaken and the specified procedures to be performed as per Annex J of the Guide.

4. RESPONSIBILITIES OF THE COVER POOL MONITOR

The Cover Pool Monitor shall prepare, an Asset Monitor Report in the order and format specified in Annex J of the Covered Bonds Guide. The Cover Pool Monitor shall and deliver to the registered Issuer, CMHC and the Bond Trustee no later than five Business Days prior to the first issuance of covered bonds under the program contemporaneous with or following its registration and no later than annually from the date of the first issuance of covered bonds. As stated in 7.3 of the Guide, the Cover Pool Monitor responsibilities include verifying the accuracy of records maintained, the arithmetical accuracy of tests and calculations in relation to the covered bond collateral.



5. ASSET MONITOR REPORT

The Asset Monitor Report details the scope of the Cover Pool Monitor's work and the procedures undertaken in performing the responsibilities under Section 7.3.1. of the Canadian Covered Bonds Guide. The report confirms that the sampling methodology used to assess the accuracy of covered bond collateral records (including a description of the pool sample and population used) accords with the Industry Standard Sampling Size (as set out in Annex J) and details the findings of the Cover Pool Monitor as a result of performing such procedures. Each Asset Monitor report must be dated (or current to a date not later than) the anniversary of the first issuance of covered bonds under the program, but may be issued or delivered to the registered issuer, CMHC and the Bond Trustee at any time within 90 days of its date or currency.

The Cover Pool Monitor reports on but does not exercise judgement with respect to his/her findings. The number of exceptions identified by the Cover Pool Monitor is assessed against an exception threshold determined based on the selected sample size and taking in consideration the confidence level and error rate defined in the Guide. If the number of exceptions in respect of a procedure exceeds the threshold, they will be considered material findings. Material findings can be addressed either by:

- a) Increasing the sample size to allow for one or more exceptions for the procedure(s) in question while meeting the required 95% confidence level.

Under certain circumstances, if the number of exceptions in respect of a procedure exceeds the threshold, CMHC may permit the issuer to select an entirely new sample unrelated to the first sample in order to re-perform the relevant procedure. Whether selection of a new sample is permitted will be determined on a case-by-case basis and is expected to be completed within a reasonable timeframe. This would generally only be appropriate where an issuer has undertaken data systems clean up to correct exceptions identified in the earlier report.

If the number of exceptions in respect of the procedure(s) still exceed the threshold, they will be considered material findings which must be addressed by b) below.

- b) If determined to be material as per Annex H.V.B of the Guide, disclosing such findings to investors in the issuer's next Annual Prospectus or in each of the Monthly Investor Reports.
 - Annual Prospectus
Where the issuer makes publicly available to investors an offering document that is updated at least annually (the "Annual Prospectus"), the material findings should be disclosed in the base prospectus. If the base prospectus has already been filed prior to the completion of the Asset Monitor Report, the disclosure can be included in a subsequent supplementary prospectus; or
 - Monthly Investor Report
The material findings should be disclosed in each subsequent Monthly Investor Report unless the issuer incorporates by reference its Monthly Investor Report into an Annual Prospectus, in which case it can be included in only one Monthly Investor Report that is incorporated by reference into the Annual Prospectus.



The material findings should be reported in each subsequent Offering Document, including, without limitation, an annual update to the Issuer's Annual Prospectus and, where the issuer does not publish an Annual Prospectus at least annually, in each of the Monthly Investor Reports until the issue(s) is cleared. Issue(s) can be cleared by a new Asset Monitor Report indicating successful completion of the procedure based on a sample taken from the entire cover pool. An Issuer can provide an Asset Monitor Report addressing only the material findings in advance of its next annual Asset Monitor Report or choose to remedy the material findings in the following annual Asset Monitor Report. In either case, the sample for the procedures exceeding the threshold must be selected from the entire pool in order to clear the material negative findings and end the obligation to report them in Annual Prospectuses, Offering Documents or Monthly Reports, as applicable.

6. LEGAL OPINION

Contemporaneous with the delivery of each Asset Monitor report, the issuer must cause to be prepared a legal opinion confirming the loans included in the sample selected by the Cover Pool Monitor comply with the requirements and qualifications set out in Sections 4.2.1(f), 4.2.1(h) and 4.2.1(i) of the Guide. [The Legal Opinion must disclose any exceptions found by the external legal counsel. If the number of exceptions exceed the threshold, they will be considered material findings. Material findings are addressed by 5 a) and/or b) above.

7. ANNUAL COMPLIANCE CERTIFICATE

An issuer will deliver within 90 days of each anniversary of the first issuance of covered bonds under the program following its registration, an annual compliance certificate as defined in Annex K of the guide. The annual compliance certificate should provide investors with meaningful disclosure that is conducive to informed decision making. Any exceptions identified by issuers in their annual compliance certificates are limited to those which would be material to investors. The annual compliance certificate is to be posted on the issuer's program website after CMHC's review of the Asset Monitor report and the related Legal Opinion.



TABLE OF CONTENTS

Part I. Confirming Accuracy of Records Maintained in relation to Covered Bond Collateral.....	8
Part I. A - Monthly Report.....	8
Part I. B - Sampling Size.....	10
Part I. C - Data Elements	10
Part I. C - Eligible Loan Test Procedures 1 to 17	11
1. Name Procedure	12
2. Address Procedure (Security and Valuation).....	13
3. Loan Number Procedure.....	15
4. Term Procedure	16
5. Interest Rate Procedure.....	17
6. Amortization Procedure.....	18
7. Amount Advanced Procedure.....	19
8. Mortgage Balance Procedure	20
9. Maturity Date Procedure.....	21
10. Valuation Amount Procedure	22
11. Valuation Date Procedure.....	23
12. Repayment Type Procedure	24
13. Property Type Procedure.....	25
14. Flag Procedure	26
15. Credit Bureau Procedure	26
16. Employment and Income Verification Procedure.....	27
17. Title Procedure.....	28



PART I. CONFIRMING ACCURACY OF RECORDS MAINTAINED IN RELATION TO COVERED BOND COLLATERAL

For each section in Part I, the table describes its purpose and provides guidance.

PART I. A - MONTHLY REPORT

Purpose and Guidance

The purpose of this procedure is to test the accuracy of the Covered Bond pool information in the monthly investor report.

The Cover Pool Monitor selects one monthly investor report (the “Subject Investor Report”) from the investor reports prepared since the date of the last asset monitor report. The Cover Pool Monitor should agree the mortgage information disclosed in the selected Investor Report with the system records, extraction files and third-party information [e.g. from rating agencies] used to prepare the report. Refer to Mortgage information in Annex H Section III & IV- Summary and Other Statistics relating to Eligible Loans in the Cover Pool for more details. The investor report contains the following information and data tables at the minimum:

- Previous month ending balance
- Current month ending balance
- Number of Eligible Loans in covered bond collateral
- Average mortgage size
- Number of properties
- Number of primary borrowers
- Types of mortgage assets
- Weighted average of LTV
- Weighted average indexed LTV
- Weighted average original LTV
- Weighted average seasoning
- Occupancy type distribution
- Rate type distribution
- Mortgage rate distribution
- Weighted average mortgage rate
- Weighted average term
- Weighted average remaining term



- Remaining term distribution
- Weighted average maturity of the Eligible Loans
- Weighted average maturity of outstanding covered bonds
- Remaining principal balance distribution
- Property type distribution
- Multi-dimensional distribution by region, LTV and arrearages
- Multi-dimensional distribution by LTV and credit score

The Cover Pool Monitor should agree the non-mortgage information disclosed in the selected Investor Report to the accounting records or other data deemed appropriate by the issuer. Refer to the non-mortgage information in Annex H Section I & II – Program Information and Test, Credit Enhancements and Triggers for more details. The investor report contains the following non-mortgage information at the minimum:

- Key parties to the program
- Credit ratings of the issuer
- Counterparties, administrative agents
- Whether or not there is an “issuer event of default” or a “guarantor entity event of default”
- Inter-company loan balance, demand loan balance, and trigger events to call the demand loan
- Initial principal amount (for each series) and CAD equivalent
- Maturity date (for each bond series), including final legal maturity and expected legal maturity for soft bullet covered bonds
- Coupon rate (for each bond series)
- Rate type (for each bond series)
- Exchange rate used for converting non Canadian dollar issued bonds (for each bond series)
- Current rating assigned (for each bond series)
- Asset Percentage (with comparison to maximum Asset Percentage established and disclosed for program)
- Asset Coverage Test and result
- Valuation Calculation and results
- Prematurity test and results (if applicable) and Ratings Trigger



- Following an “issuer event of default”, cash balance of covered bond collateral relative to sum of (x) Canadian dollar equivalent of all principal payments due under all series or tranches of hard bullet covered bonds maturing in 12 month period immediately following and (y) all prior ranking payment obligations in same period
- Amortization test and results (if applicable) and Ratings Trigger
- Other credit enhancements (e.g. Reserve Fund)
- Occurrence and performance of the remedial action required by any Ratings Trigger
- Total outstanding covered bonds relative to OSFI or other supervisory issuance limit
- Level of overcollateralization calculated in accordance with Section 4.3.8

PART I. B - SAMPLING SIZE

Purpose and Guidance

The Cover Pool Monitor selects a sample of loans from the issuer’s extraction files used to prepare the monthly investor report.

The Issuer may select from the following two options:

1. Random sample from entire cover pool or
2. Random sample from newly added or “top-up” loans since the last cover pool monitor review

The sample size must be sufficient to provide a 95% confidence level, with a tolerable deviation of 5% (an “Industry Standard Sampling Size”). This means that if the number of exceptions is below the allowable threshold, a 95% confidence is achieved and that the population being sampled does not have an exception rate above 5%. The sample size number chosen will be applied for test procedures under Part I. C, D and E of the Annex J.

If a procedure (s) exceeds the allowable number of exceptions the Issuer can increase the sample size for that procedure to meet the 95% confidence level.

PART I. C - DATA ELEMENTS

Purpose and Guidance

The objective is to confirm the information in the extraction files agrees with system records and with the underlying source mortgage documents. The Cover Pool Monitor performs the specified procedures by inspecting the data elements identified in the extraction files (used to prepare the Subject Investor Report) with original asset documents, loan files and system records. Acceptable documents for each procedure will be listed under the Guidance table.

If there are no loans added since the last date the Sample was selected, the Cover Pool Monitor can exclude sections Part I C. and D. - Eligible Loans and Substitute Assets, E- Data to the Custodian and Part III A.-Legal Opinion.

8. MORTGAGE BALANCE PROCEDURE

Procedure	Agree the mortgage balance (and the limit in the case of a HELOC) on the mortgage administration extraction file with the balance on the mortgage loan processing system at the cut-off date.
Purpose	<p><i>Test whether the correct outstanding mortgage balance is reflected in the system.</i></p> <p>The mortgage balance is the principal amount owed to the lender at any period of time during the duration of the mortgage. The statistics are disclosed in the monthly investor reports. The outstanding mortgage balance is used in the loan statistics, valuation calculation, Asset Coverage Test (ACT) and in Loan-to-Value (LTV), percentages on the report. The LTV is the relationship between the principal balance of the mortgage and the property value (original and indexed).</p>
Guidance	<p>The mortgage balance on the extraction files should equal the balance on the system of record at the cut-off date.</p> <p>A Home equity line of credit (HELOC) is a secured form of revolving credit. The borrower has access to a credit line up to a maximum limit. If the mortgage is a non-amortizing HELOC, agree the credit limit amount in the extraction files to the mortgage loan system.</p>
Tolerance Level	N/A
Examples of Exceptions	The mortgage balance in the extraction files is higher than the mortgage balance in the system at the cut-off date.

9. MATURITY DATE PROCEDURE

Procedure	Agree the maturity date of each mortgage on the primary system of record with the latest offer document or account statement, and that it is within a 30 day range (or agree it is a HELOC)
Purpose	<p><i>Test whether the maturity date corresponds to the loan document.</i></p> <p>The maturity date is the date a mortgage term ends. On the maturity date, the mortgage must either be paid off in full or renewed into a new term. The maturity date is used to calculate the remaining term. The statistics are disclosed in the monthly investor reports.</p>
Guidance	<p>The maturity date in the extraction files or system should agree with the latest document.</p> <p>A Home equity line of credit (HELOC) is a secured form of revolving credit. If the mortgage is a non-amortizing HELOC, agree it is a HELOC.</p> <p>Acceptable documents may include:</p> <ul style="list-style-type: none"> ▪ Mortgage Offer ▪ Account Statement ▪ Registered Mortgage Agreement ▪ Land Title Act Form B ▪ Mortgage Agreement/Application Form ▪ Land Registration Mortgage Document ▪ Mortgage Disclosure Statement (Original or Revised)
Tolerance Level	Difference of +/- 1 month and below
Examples of Exceptions	Difference of greater than +/- 1 month

10. VALUATION AMOUNT PROCEDURE

Procedure	Agree the valuation amount in the extraction file is less than or equal to the amount from the latest valuation, based on the underwriting policy of the registered issuer or its Affiliate (if it is the regulated lender) that was valid at the valuation date. Where there is no valuation record, please ensure lack of valuation record is compliant with the issuer's underwriting policy.
Purpose	<p><i>Test whether the property valuation amount in the extraction files is sufficient to cover the security on the property.</i></p> <p>A residential property appraisal record is an opinion value. The appraised value is used to establish the upper limit of funds that a bank is prepared to lend. The property is pledged as collateral to the bank in the event the borrower defaults on the mortgage. The property valuation amount ensures the loan was granted in accordance with the lender's underwriting policies and the LTV was less than 80% at the time of the loan pursuant to section 4.1 of the NHA.</p> <p>The valuation amount is used in the indexation methodology, valuation calculations and LTV percentages on the monthly investors report.</p>
Guidance	<p>The valuation amount in the extraction files should be less than or equal to the valuation record conducted according to the issuer's underwriting policy.</p> <p>In instances where risks models were used to assess loan amount and a valuation record is required to support the value per the lender's underwriting policy, the Cover Pool Monitor should agree the valuation amount in the extraction files to the valuation record source document.</p> <p>Must be compliant with the issuers underwriting policy if there is no valuation record.</p> <p>Acceptable documents may include:</p> <ul style="list-style-type: none"> ▪ Desk, Drive-by, Full Appraisal Report, Third Party Valuation Products (i.e., Automated Valuation Model (AVM), Low Ratio Valuation (LRV)) <p>Acceptable only in accordance with issuer's underwriting policy:</p> <ul style="list-style-type: none"> ▪ Property Assessment performed by city/municipality ▪ Sale agreement
Tolerance Level	N/A
Examples of Exceptions	The valuation amount in the extraction files is greater than the valuation record.

11. VALUATION DATE PROCEDURE

Procedure	Agree the valuation date in the extraction file with the date on the latest valuation report and check whether it is within one year of the closing date. Where there is no valuation record, please ensure lack of valuation record is compliant with the issuer's underwriting policy.
Purpose	<p><i>Test whether valuation record date agrees to the extraction files and whether the valuation date in the extraction files it is within one year of the closing date.</i></p> <p>The valuation date is the date that the property was appraised or assessed. The one year time frame from the closing date is the maximum allowable time. This ensures the valuation amount relied upon was current at the closing date and is an appropriate baseline for indexation.</p> <p>The valuation date is used in the indexation methodology.</p>
Guidance	<p>The valuation date in the extraction files should agree to the valuation record date. The valuation date in the extraction system is within one year of the closing date.</p> <p>In instances where a valuation record was not performed per the issuer's policy, the valuation date in the extraction files must be compliant per the issuer's policy.</p> <p>Must be compliant with the issuer's policy if the valuation record date is not dated within one year of the closing date.</p> <p>Must be compliant with the issuer's underwriting policy if another date (closing, funding, etc.) is used in lieu of the valuation date.</p> <p>Acceptable documents may include:</p> <ul style="list-style-type: none"> ▪ Desk, Drive-by, Full Appraisal Report, Third Party Valuation Products (i.e., Automated Valuation Model (AVM), Low Ratio Valuation (LRV)) <p>Acceptable only in accordance with issuer's underwriting policy:</p> <ul style="list-style-type: none"> ▪ Property Assessment performed by city/municipality ▪ Sale agreement
Tolerance Level	Difference of less than or equal to +/- 1 month between the valuation date extraction files and the valuation record date.
Examples of Exceptions	<p>Difference greater than +/- 1 month between the valuation date extraction files and the valuation record date.</p> <p>The valuation date in the extraction files is greater than one year of the closing date.</p> <p>Loans are assessed individually. No more than one exception for each sample loan. For example: Difference of two months between the valuation date in extraction files and valuation record date. The valuation date in the extraction files is thirteen months within the closing date. This is counted as one exception.</p>

12. REPAYMENT TYPE PROCEDURE

Procedure	Agree the repayment type (amortizing/interest only etc.) with supporting documents (which can include mortgage loan offer document or system record)
Purpose	<p><i>Test whether the repayment type corresponds to the loan document.</i></p> <p>Repayment types can be amortizing or non-amortizing (interest only). An amortizing mortgage is a fix term loan and payments go towards principal and interest. A non-amortizing mortgage is a type of loan with interest-only payments and principal remains the same.</p> <p>The statistics are disclosed in the monthly investor reports.</p>
Guidance	<p>The repayment type in the extraction files should agree to the mortgage document.</p> <p>In instances where the latest mortgage document does not contain the repayment type, the issuer must provide evidence to the Cover Pool Monitor.</p> <p>Acceptable documents may include:</p> <ul style="list-style-type: none"> ▪ Mortgage Offer ▪ Account Statement ▪ Mortgage Loan Agreement ▪ Mortgage Repayment Letter ▪ Mortgage Renewal Agreement
Tolerance Level	N/A
Examples of Exceptions	The repayment type in the system/ extraction files does not agree to the mortgage document.

13. PROPERTY TYPE PROCEDURE

Procedure	Agree the property type (single-family, condominium, multi-residential, or other) with the valuation report/record, land registry records or report on title
Purpose	<p><i>Test whether the property type in the extraction files corresponds to the valuation record.</i></p> <p>Single family and multi- residential are examples of a fee simple tenure (property owner owns both the home and land). A condo apartment is an example of a condominium (property owner owns a private residential dwelling and share ownership of the common assets). Row and Townhouse property types can either be fee simple or condominium ownership. Examples of “single family” may include the following property types: detached, semi-detached, row and townhouse. Examples of “multi-residential” may include the following property types: duplex, triplex and four-plex.</p> <p>The property type statistics are disclosed in the monthly investor’s report and the categories can vary from issuer to issuer.</p>
Guidance	<p>The property type in the extraction files should agree to the valuation record, land registry record, ROT, or other property type related source document.</p> <p>Acceptable documents may include:</p> <ul style="list-style-type: none"> ▪ Desk, Drive-by, Full Appraisal Report, Third Party Valuation Products (i.e., Automated Valuation Model (AVM), Low Ratio Valuation (LRV)) ▪ Report on Title ▪ Property Assessment performed by city/municipality ▪ Listing Agreement (i.e. MLS, Realtor, Centris) ▪ Sale agreement ▪ Property Insurance Policy
Tolerance Level	<p>The following naming conventions are interchangeable with single family: detached, semi-detached, row, and townhouse.</p> <p>The following naming conventions are interchangeable with multi-residential: duplex, triplex, and four-plex.</p>
Examples of Exceptions	<p>The property type in the extraction files does not agree to the valuation record.</p> <p>The property type in the extraction file is a single family however according to the sale agreement, the property is a multi-residential.</p> <p>The property type in the extraction file is a duplex however according to the land registry record, the property is a condo.</p>

14. FLAG PROCEDURE

Procedure	Inspect that the mortgage loan in the primary system of record (or primary medium where loans are being flagged) has a flag to indicate it is used solely for the purpose of the covered bond pool
Purpose	<i>Test whether the loans in cover pool are identified in the issuer's system.</i> The flag in the issuer's system identifies that the loan is in a cover pool and segregated from other programs.
Guidance	The flag in the system/ extraction files should indicate the loan is used for the purpose of the covered bond pool.
Tolerance Level	N/A
Examples of Exceptions	There is no flag in the system/ extraction files indicating the loan is part of the covered bond program.

15. CREDIT BUREAU PROCEDURE

Procedure	Agree the credit score with the score information reflected on the issuer's records for updated credit scores
Purpose	<i>Test the credit score was obtained for the borrower and updated in the issuer's system.</i> The credit report contains a standardized credit score that is designed to assess a borrower's credit history at a single point in time. The score provides an indicator of the relative degree of potential risk. Credit reporting agencies generally scale from 300 to 900. The higher the score, the lower the risk for the lender. The statistics are disclosed in the monthly investors report.
Guidance	The credit score obtained for the borrower on the mortgage should agree to the updated credit score on the issuer's system records Where a loan has multiple borrowers, then only one credit score from a single selected borrower is acceptable.
Tolerance Level	In instances where the borrower (s) does not have a credit score, the score is reported as N/A or unavailable.
Examples of Exceptions	The credit score obtained for any borrowers does not agree to the system records.

16. EMPLOYMENT AND INCOME VERIFICATION PROCEDURE

Procedure	<p>Agree there is evidence that the issuer has carried out income verification in accordance with the issuer's underwriting policy, to the extent that income verification is required under issuer's underwriting policy. Where evidence of income is unavailable, agree (a) that income verification was not required by the issuer's underwriting policy in effect at the time of loan origination and (b) that such underwriting policy has been disclosed to investors in each Public Offering Document or, in the case of a private placement, offering memorandum or similar disclosure document prepared in connection with the issuance of a series or tranche of covered bonds under the registered covered bond program following its registration.</p>
Purpose	<p><i>Test whether income verification has been carried out in accordance with the lender's underwriting policy. Or, if evidence of income verification is absent and not required by the issuer's underwriting policies, that this had been disclosed to investors.</i></p> <p>The bank's underwriting policies requires the loan applicant to disclose employment and income history. The verification determines if the applicant's income is sufficient to meet the mortgage loan obligations.</p>
Guidance	<p>The Cover Pool Monitor should verify there is evidence that the issuer has carried out income verification in accordance with the relevant section of the issuer's underwriting policy</p> <p>In instances where evidence of income is unavailable, the Cover Pool Monitor should agree that income verification was not required by the issuer's underwriting policy in effect at the time of loan origination or renewal and that such policy has been disclosed to investors.</p> <p>Acceptable documents may include:</p> <ul style="list-style-type: none"> ▪ Income and employment documents (pay slips, tax return/Notice of assessment, T4, additional income sources, etc.)
Tolerance Level	N/A
Examples of Exceptions	<p>The credit application form indicates \$185K of income for the borrower while the income supporting document (employment letter) indicates \$95K of income.</p> <p>The credit application form indicates \$120K gross salary for Borrower 1 and \$75K for Borrower 2 while the income supporting documents (prior two years' tax returns) indicate a \$96K gross salary for Borrower 1 and a 60K gross salary for Borrower 2.</p> <p>Insufficient or no income documents if income documentation is required by underwriting policy.</p> <p>Income verification not required but this underwriting policy has not been disclosed to investors.</p>

17. TITLE PROCEDURE

Procedure	Inspect that there is evidence of title or title insurance
Purpose	<p><i>Test whether the lender has verified title of ownership or a title insurance policy is in place.</i></p> <p>Title is legal ownership of a property and registered in the government's land registration system.</p> <p>The title insurance is a policy that protects residential property owners and lenders against losses related to the property's title or ownership.</p>
Guidance	<p>The title document or title insurance should agree to the borrower's name and property.</p> <p>In instances where the lender purchases a bulk title insurance policy to protect against certain types of defects in the mortgage, title fraud, and other defects, the issuer must provide evidence to the Cover Pool Monitor.</p> <p>Acceptable documents may include:</p> <p>Title</p> <ul style="list-style-type: none"> ▪ ROT/COT ▪ Title Opinion from Solicitor ▪ Solicitor's Notary Report on Title ▪ Mortgage registration documents ▪ Land Title Act Form B <p>Title Insurance</p> <ul style="list-style-type: none"> ▪ Title Insurance Policy
Tolerance Level	N/A
Examples of Exceptions	No evidence of title insurance policy or title.

PART I. C - SUBSTITUTE ASSETS TEST PROCEDURES 18 TO 21

For each Substitute Asset procedure, the table describes its purpose, provides guidance, describes instances of tolerance level and provides examples of exception.

The Guarantor entity may hold substitute assets in the covered bond collateral provided that the value of all Substitute Assets does not exceed 10 percent of the total value of all covered bond collateral. Eligible substitute assets include securities issued by the Government of Canada, repos of Government of Canada securities having terms acceptable to CMHC and sums derived from Government of Canada securities or repos of Government of Canada securities.

18. CUSIP

Purpose	<i>Test whether the eligible asset details in the system agree to the source documents</i>
Guidance	Agree the CUSIP recorded with the primary system of record to the source document
Tolerance Level	N/A
Examples of Exceptions	The CUSIP recorded does not agree to the source document.

19. MATURITY DATE

Purpose	<i>Test whether the eligible asset details in the system agree to the source documents</i>
Guidance	Agree the maturity date recorded with the primary system of record to the source document
Tolerance Level	N/A
Examples of Exceptions	The maturity date recorded does not agree to the source document.

20. FACE VALUE

Purpose	<i>Test whether the eligible asset details in the system agree to the source documents</i>
Guidance	Agree the face value recorded with the primary system of record to the source document
Tolerance Level	N/A
Examples of Exceptions	The face value recorded does not agree to the source document.

21. COUPON

Purpose	<i>Test whether the eligible asset details in the system agree to the source documents</i>
Guidance	Agree the coupon recorded with the primary system of record to the source document
Tolerance Level	N/A
Examples of Exceptions	The coupon rate recorded does not agree to the source document.



