



## Unclassified

April 12, 2007

### By Mail

Ms. Deborah Crossman  
Director, Banking Operations  
Canadian Bankers Association  
Box 34, Commerce Court West  
Toronto, ON M5L 1G2

Dear Ms Crossman:

### **Subject: Loan-to-value requirement for preferential risk weights on residential mortgages**

I am writing to you with regard to the definition of residential mortgages that attract a fifty percent preferential risk weight under the capital rules for federally regulated deposit-taking institutions.

Bill C-37 (*An Act to amend the law governing financial institutions and to provide for related and consequential amendments*) has recently received royal assent and is expected to soon come into force. These amendments include an increase in the threshold above which residential mortgages must be insured from the current seventy five percent loan-to-value (LTV) to a new threshold of eighty percent.

OSFI guidelines for Basel I and Basel II require residential mortgages and collateral mortgages (Home Equity Lines of Credit where the lender holds all prior claims) to have a maximum LTV of seventy five per cent or less in order to get a preferential risk weight (50 percent under Basel I and 35 percent under Basel II).

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Based on our current understanding of the risk profile of a diversified portfolio of residential mortgages, OSFI is prepared to allow federally regulated deposit-taking institutions to increase the qualifying LTV threshold from seventy five percent to eighty percent upon the coming into force of the amended statutory requirements. This will ensure an appropriate risk weight under our current framework as institutions begin to make uninsured residential mortgage loans in the 75 to 80 percent LTV range.

This change will also be reflected in a number of house-keeping amendments we plan to make to the CAR Guideline implementing Basel II (CAR A and CAR A-1) prior to their effective dates in November 2007 and, for institutions with a calendar year end, January 2008.

Yours truly,

Robert Hanna  
Acting Assistant Superintendent, Regulation Sector  
Office of the Superintendent of  
Financial Institutions Canada

c.c.: Ted Price  
Richard Gresser