



June 6, 2012

To: Federally-Regulated Financial Institutions (FRFIs)

Subject: Interim Update on Draft Guideline B-20 – Residential Mortgage Underwriting Practices and Procedures

On March 19, 2012, OSFI published [Draft Guideline B-20](#) – Residential Mortgage Underwriting Practices and Procedures. The comment period ended on May 1, 2012. I would like to thank everyone who provided submissions.

OSFI has assessed the comments and is now in the process of preparing final Guideline B-20 for public release in the near future. Along with the final guideline, OSFI will publish a summary of the comments received and an explanation of how they were dealt with in the final version of the guideline.

The following provides a brief description of OSFI’s decisions on key issues, which will be reflected in the final Guideline.

1. Re-qualification at Renewal – Current practice regarding residential mortgage renewals has served FRFIs well. OSFI agrees, for example, that having a good payment record is one of the best indicators of credit worthiness. OSFI, therefore, expects that FRFIs themselves will remain responsible for deciding what level of review to place on borrowers’ qualifications at the time of renewal. FRFI renewal practices should be articulated in internal policies governing their underwriting of residential mortgage loans. FRFIs, however, will be expected to refresh the borrowers’ credit metrics periodically (not necessarily at renewal) so that FRFIs can effectively evaluate their credit risk.
2. Home Equity Lines of Credit (HELOCs) – OSFI is maintaining its position that the HELOC component of a mortgage be restricted to a maximum loan-to-value ratio of 65 per cent. HELOCs are inherently riskier products, given their revolving nature, persistence of debt balances and their ineligibility for mortgage insurance. However, HELOCs at or below an LTV ratio of 65 per cent will not be required to be amortized, as the revolving aspect of a HELOC is a fundamental feature of the product.

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3. Domestic vs. International Application of the Guideline – Guideline B-20 will primarily apply only to the Canadian operations of FRFIs. However, the international mortgage lending and acquisition activities of FRFIs would need to be reflected in the Residential Mortgage Underwriting Policy (RMUP) of FRFIs (or their residential mortgage underwriting policies) and in their governance and risk management frameworks (i.e., business strategy and risk appetite).
4. Disclosure Requirements – For greater transparency, clarity and public confidence in FRFIs’ mortgage operations, OSFI is maintaining disclosure requirements in Guideline B-20. These will now focus on the domestic residential mortgage operations of FRFIs and key mortgage metrics (e.g., LTV ratios and amortization). However, the disclosure requirements will not include information that is considered proprietary to FRFIs, the disclosure of which could cause a competitive disadvantage for FRFIs relative to non-FRFIs and international competitors that do not face similar requirements.
5. Residential Mortgage Underwriting Policy – Given the significance of mortgage operations to many FRFIs, OSFI expects FRFI Boards to play a substantive role in the development and assessment of the RMUP (or internal mortgage underwriting policies), as well as to provide general oversight of FRFIs’ mortgage operations and internal controls. OSFI will clarify the duties of the Board in this regard in the revised guideline.
6. Application of the Guideline to FRFIs that are Mortgage Insurers – Sound mortgage underwriting practices are critical for both mortgage originators (and acquirers) and mortgage insurers. However, given its general focus on the mortgage origination process, Guideline B-20 will only apply to FRFIs that are mortgage originators (or acquirers). A separate guideline applicable to FRFIs that are mortgage insurers will be published for consultation at a later date.
7. Automated Valuations of Property vs. On-Site Appraisals – No substantive changes will be made to the draft guideline in this regard. FRFIs are still expected to take a risk-based approach to assessing the value of a property, with more comprehensive valuation approaches for higher-risk transactions. It is OSFI’s position that FRFIs should generally not rely on any single method for property valuations.

OSFI's expectations with respect to FRFI implementation of Guideline B-20 and related timelines will be clarified at the time of the release of the final Guideline.

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