JUST THE FACTS

Date modified: November 28, 2014

Covered Bond Framework

As part of the 2012 Federal Budget, amendments were made to the National Housing Act charging CMHC with administering a legal framework for covered bonds. Federally and provincially regulated financial institutions that meet the requirements of the program will be able to issue covered bonds under the framework.

CMHC implemented the legal framework in December 2012 and published the Canadian Registered Covered Bond Programs Guide. The Guide is available on the CMHC website: www.cmhc.ca/coveredbonds

WHAT IS A COVERED BOND?

Covered bonds are debt instruments that are issued by a financial institution and secured by a segregated pool of high quality assets (the "cover assets"), primarily uninsured Canadian residential mortgages. The issuer of a covered bond pays periodic interest and principal on the bond to investors, in accordance with terms that are set upon issuance.

A Registered Covered Bond is a bond that is issued under a Covered Bond Program that has been registered by CMHC pursuant to the National Housing Act (NHA).

THE LEGAL FRAMEWORK

The framework supports financial stability by helping lenders further diversify their sources of funding and by attracting more international investors to the market for Canadian covered bonds, making the market for covered bonds more robust.

Canadian covered bond programs have uninsured 1 to 4 unit Canadian residential mortgage loans as the primary covered bond collateral. Insured mortgages are not permitted to be held as covered bond collateral. The Government and CMHC do not provide any guarantees or backing for covered bond issues.

BENEFITS TO INVESTORS

- The framework establishes a high standard of disclosure for covered bonds for lending institutions across the country.
- Under the legal framework, there is now statutory protection for the covered bond investor. This results in increased certainty for investors with respect to the cover pool of collateral in the event of issuer default.
- Investors are provided with centralized access to information on all the registered issuances that will allow them to further analyze the covered bonds.

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BENEFITS TO ISSUERS

- Issuers of registered covered bonds benefit from being able to reach a broader investor base as some international investors are restricted from purchasing bonds issued under a non-legislative framework.
- Issuers also benefit from gaining access to an alternative source of funding.

BENEFITS FOR CANADIANS

- As an alternative source of funding for lenders, covered bonds contribute to the stability of the financial system.
- A stable and well-functioning housing finance system contributes to economic stability and is important to the health of the Canadian financial system.

A BRIEF HISTORY OF CANADIAN COVERED BONDS

Since 2007, covered bonds have been issued in Canada under a contractual framework. Assurance that the assets in the cover pool would be used for the benefit of investors had been provided through the prospectus.

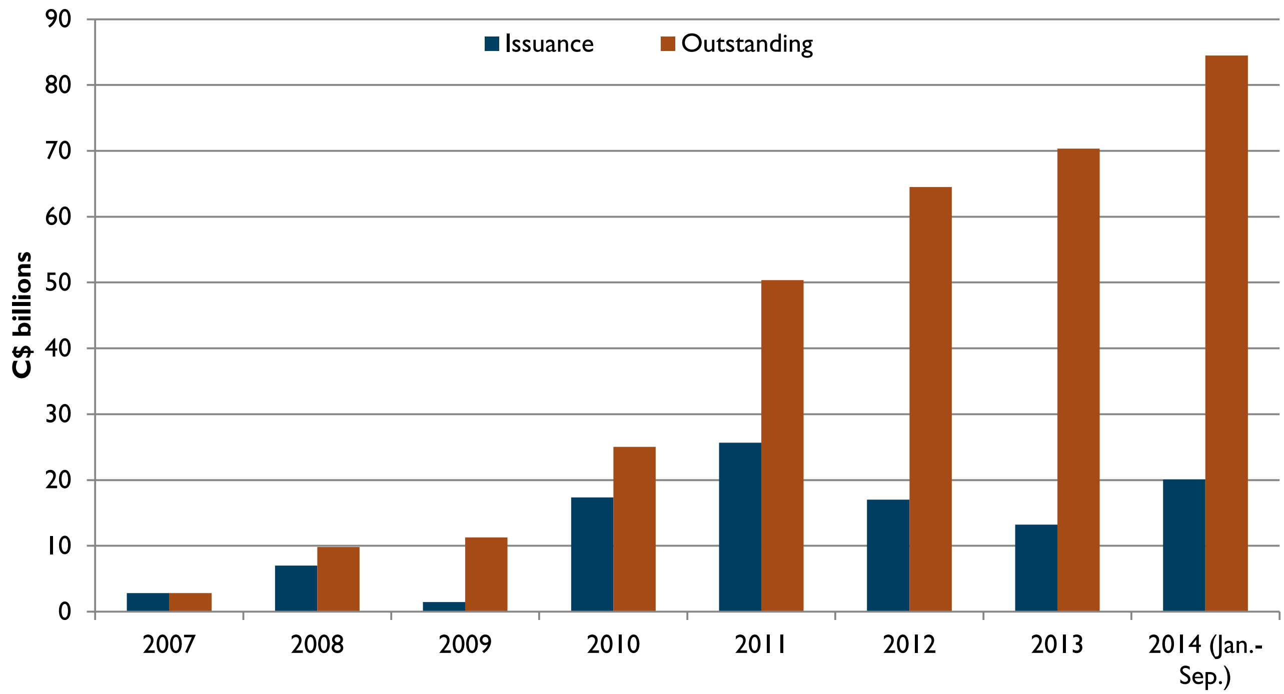
Under the new legal framework announced in December 2012, there is now statutory protection for the covered bond investor. This results in increased certainty for investors with respect to the continuity of payment and the recovery of their investment in the event of issuer default.

In 2007, the Office of the Superintendent of Financial Institutions (OSFI) issued guidance permitting Canadian covered bond issuance provided that the aggregate amount issued by any deposit-taking financial institution did not exceed 4% of its total assets.

During 2013, four covered bond programs were registered under the framework and $13.2 billion (Canadian dollar equivalent) was issued.

Subsequent to the end of the third quarter, the European Union announced that it will allow European banks to use Canadian covered bonds as Level 2A liquid assets to help them meet their Liquidity Coverage Ratio under Basel III.

ANNUAL ISSUANCE AND OUTSTANDING VOLUME OF COVERED BONDS, 2007-2014



Note: From 2007-2012, amount of issuance are for contractual covered bonds. For 2013 onwards, issuance amount is only legislative. Outstanding amounts in 2013 are $46.6 billion contractual and $23.8 billion legislative; in 2014 YTD, $40.6 billion and $43.9 billion, respectively.

Source: DBRS