



PRESS RELEASE



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CMHC to Introduce Variable Rate Mortgage-Backed Securities

OTTAWA, Ontario, September 2, 2003 — "Variable Rate Mortgage-Backed Securities (VRMBS), Canada Mortgage and Housing Corporation's (CMHC) newest housing finance initiative to improve the supply of low-cost mortgage funds in Canada, will be introduced in September", says Karen Kinsley, President, Canada Mortgage and Housing.

"Canadian home buyers will benefit because the VRMBS will provide the mortgage market with an additional competitive source of funds which will help lower mortgage financing costs," added Ms. Kinsley.

The introduction of VRMBS will allow Canadian financial institutions to pool variable rate mortgages into Mortgage-Backed Securities for the first time. This will facilitate the funding of variable rate mortgages which represent a large proportion of the Canadian mortgage market. Once pooled into VRMBS, they may be sold to the Canada Housing Trust for purposes of issuing Canada Mortgage Bonds.

Canada Mortgage Bonds provide investors with an attractive fixed income investment opportunity featuring: semi-annual interest payments; repayment of principal at maturity and; a full timely payment guarantee by CMHC on behalf of the Government of Canada. Canada Mortgage Bonds, CMHC's internationally recognized program provides Canadians with both an attractive and secure investment opportunity, and an important new source of funds to further enhance the efficiency of the secondary mortgage market, and ultimately lowering the cost of mortgage financing in Canada.

CMHC pioneered the development of the Canadian secondary mortgage market with NHA Mortgage Backed Securities in 1987. Since the introduction of the Canada Mortgage Bonds Program in June of 2001, CMHC has provided its timely payment guarantee for over \$24 billion of bonds issued by the Canada Housing Trust. The innovative program received international awards in two consecutive years (2001 and 2002) for "Non-dollar bloc Deal of the Year" and "Canadian Dollar Deal of the Year" from Euromoney.

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A fact sheet detailing the introduction of Variable Rate Mortgage-Backed Securities follows.



Media Fact Sheet New 985 NHA MBS Pool Variable Rate Mortgage Backed Security (VRMBS)

- In June 2001 Canada Mortgage and Housing Corporation (CMHC) launched a new and very significant financing program called Canada Mortgage Bonds (CMB).
- The CMB Program is expected to lower mortgage interest rates for Canadian homeowners by providing financial institutions with additional, low cost mortgage funding opportunities.
- The CMB Program is transacted via the Canada Housing Trust™ (CHT), a special purpose trust that issues CMB's. These bonds are semi-annual coupon, fixed rate, bullet maturity bonds that carry the full guarantee of the Government of Canada as provided through CMHC.
- Through CMHC, the Government of Canada guarantees the timely payment of interest and principal on Canada Mortgage Bonds issued by CHT. CMB carry Canada's AAA/Aaa credit rating and a 0% capital weighting under the BIS guidelines.
- CMB issues are large, highly liquid, and issued on a regular basis. Since the initial issue in June 2001, the CHT has issued in excess of \$24 Billion in Canada Mortgage Bonds.
- With the Canada credit, guarantee, and liquidity, CMB's trade at a modest premium to Government of Canada issues and through Crown agency paper.
- The CHT utilizes the proceeds of the CMB's to purchase insured mortgages packaged into newly issued National Housing Act Mortgage-Backed Securities (MHA MBS), and transforms the monthly payments from these CMHC guaranteed securities into semi-annual coupon, fixed rate maturity bonds.
- The enhancement of the NHA MBS program to include the offering of a new 985 MBS pool type with a 5-year term, for the pooling of insured Standard VRM will increase the pool of mortgages eligible for pooling into CMB.
- VRMBS will move Canadian mortgage securitization forward in a significant way by providing the market with an additional securitization avenue that addresses the needs of a large proportion of Canadian homeowners.
- Initially, the 5-year VRMBS pools will only be permitted for sale to Canada Housing Trust (CHT).
- The inclusion of the VRMBS pools will not result in any change to the semi-annual coupon, fixed rate maturity bonds for the CMB investors.