



Guideline Impact Analysis Statement

Guideline B-21 Residential Mortgage Insurance Underwriting Practices and Procedures

November 2014

I. Background

Mortgage (default) insurance is a financial product offered by a mortgage insurer that protects a lender against losses caused by a borrower's default on a mortgage loan. Given the exposure to potential losses, a mortgage insurer's safety and soundness is strongly influenced by its mortgage insurance underwriting policies, practices, and risk management.

Following the financial crisis that began in 2007, international principles and standards around residential mortgage loan origination and mortgage insurance have evolved. A number of international standard-setting and coordinating bodies have published reports outlining recommendations for prudential supervisors with respect to sound mortgage loan origination, acquisition and mortgage insurance. Notably among these are reports by the Financial Stability Board¹ and the Joint Forum^{2, 3}.

Alongside the development of international principles and recommendations, OSFI has taken steps to review and consider domestic guidance. In June 2012, following a public consultation process, OSFI published [Guideline B-20 "Residential Mortgage Underwriting Practices and Procedures"](#). Guideline B-20 was guided, in part, by international policy development, input from the public consultation, and OSFI's own domestic work that focused on retail lending products, which yielded observations around industry practices. Given the focus of the Guideline on the residential mortgage origination process, OSFI decided to apply Guideline B-20 only to federally regulated financial institutions (FRFIs) that are mortgage originators or acquirers of residential mortgage loan assets and not to mortgage insurers.

¹ Financial Stability Board. April 2012. "[FSB Principles for Sound Residential Mortgage Underwriting Practices](#)".

² Joint Forum. January 2010. "[Review of the Differentiated Nature and Scope of Finance Regulation: Key Issues and Recommendations](#)." Bank for International Settlements, Basel Switzerland.

³ Joint Forum. August 2013. "[Mortgage Insurance: Market Structure, Underwriting Cycle and Policy Implications](#)". Bank for International Settlements, Basel Switzerland.



II. Problem Identification

A sound mortgage insurance market and institutions are particularly important for Canada, where mortgage insurance is a fundamental feature of the residential mortgage market.⁴ With the application of Guideline B-20 only to mortgage originators and acquirers of residential mortgage loan assets, clear guidance about OSFI's prudential expectations in respect of mortgage insurance underwriting remains outstanding.

III. Objectives

The main objectives of the Guideline are to:

- Provide federally regulated mortgage insurers with clarity about OSFI's prudential expectations in respect of residential mortgage insurance underwriting practices and procedures;
- Promote sound industry practices that contribute to the safety and soundness of federally regulated mortgage insurers;
- Address international principles and recommendations (e.g., Joint Forum, Financial Stability Board) aimed at prudential supervisors in the area of mortgage insurance underwriting; and
- Develop guidance that complements the Government of Canada's mortgage insurance guarantee framework.⁵

IV. Options and Assessment

Option 1 – Status Quo

Under this option, OSFI would not issue any guidance for mortgage insurers around the insurance underwriting process. OSFI and the industry would primarily rely on existing OSFI guidance. While this would appear to avoid potential regulatory burden, this option would overlook strengthened international principles and recommendations with respect to mortgage insurance in an area that is important to Canada. Moreover, existing OSFI guidance does not specifically focus on the residential mortgage insurance underwriting process and does not consider recent internal reviews. The Government of Canada's mortgage insurance guarantee framework does set out certain rules and limits on the parameters for mortgage insurance, but

⁴ Requirements for mortgage insurance for residential mortgage loans are established in federal laws. See the [Bank Act, subsections 418\(1\) and \(2\)](#); [Trust and Loan Companies Act, subsections 418\(1\) and \(2\)](#); [Insurance Companies Act, subsections 469\(1\) and \(2\)](#); and the [Cooperative Credit Associations Act, subsections 382.1 \(1\) and \(2\)](#).

⁵ See the [Protection of Residential Mortgage or Hypothecary Insurance Act \(PRMHIA\)](#), the [National Housing Act \(NHA\)](#), and each of their associated Regulations, which are key components of the framework.

also does directly not focus on insurers' underwriting practices and procedures, governance, internal controls and risk management.

Option 2 – Identify Elements of Guideline B-20 Applicable to Mortgage Insurers

Under this option, OSFI would seek to identify and apply specific elements in Guideline B-20 applicable to mortgage insurers. However, Guideline B-20 focuses on the residential mortgage loan origination process and the interaction between lenders and borrowers, which differs from the insurance underwriting process in important ways. Direct application to mortgage insurers by way of reference to Guideline B-20 would likely create uncertainty and, given the objectives, be inappropriate. Additionally, certain mortgage insurance underwriting principles (e.g., expectations around mortgage insurers' due diligence into lenders' practices) are not included in Guideline B-20.

Option 3 – Develop a Separate Guideline for Mortgage Insurers

Under this option, OSFI would develop a separate guideline. It would consider recent international principles and recommendations in respect of mortgage insurance underwriting as well as OSFI's findings from internal reviews. A separate guideline would more appropriately address the specific characteristics relevant to mortgage insurers, including their underwriting governance, internal controls, risk management, and their interactions with lenders. It would also ensure that OSFI's expectations are clearly and evenly applied to all mortgage insurers.

Notwithstanding the differences between Guideline B-20 and Guideline B-21, there are similarities among the Guidelines in a number of areas (e.g., principles related to appropriate governance, documentation retention, etc.). Given Guideline B-20 has been in full implementation since fiscal year-end 2012, OSFI believes that implementation of Guideline B-21 is unlikely to result in material regulatory burden on mortgage insurers and other stakeholders.

V. Consultations

OSFI undertook a public consultation on Draft Guideline B-21. Comments were due by May 23, 2014. OSFI received a total of 15 submissions from various stakeholders following the release of the draft. OSFI reviewed and considered all comments prior to finalizing the Guideline. A summary of stakeholder comments and OSFI responses has been appended to the cover letter that accompanies the final guideline.

VI. Recommendations

Option 3 addresses all of the objectives outlined above and provides the most effective means of clearly disseminating OSFI's expectations regarding prudent mortgage insurance underwriting

practices and procedures and in a way that is appropriately focused on the specific roles of mortgage insurers.

VII. Implementation & Evaluation

Full implementation of Guideline B-21 by FRMIs is expected no later than June 30, 2015, with the relevant public disclosures beginning with the quarter ending September 30, 2015. The implementation deadline of June 30, 2015, allows sufficient time for FRMIs to implement any systems or process changes that may be required.

In the meantime, FRMIs should conduct self-assessments of compliance with this Guideline and establish a plan to address any deficiencies before the implementation deadline.

OSFI plans to evaluate implementation prior to and following the implementation deadline.