Advisory

Title	Mortgage Insurer Capital Adequacy Test Revisions for Variable Rate Mortgages
Category	Capital Adequacy Requirements
Date	September 28, 2022
Sector	Property and Casualty Companies

This Advisory applies to all Canadian mortgage insurance companies (insurers). It implements administrative interpretations to the MICAT with respect to the determination of requirements for Variable Rate Mortgages (VRMs) and Adjustable Rate Mortgages (ARMs).

Some VRMs may have payments that are fixed for a period of time, potentially until the end of a term of up to five years. As a result, in an increasing interest rate environment, the amortization of the mortgage loan could temporarily extend, until such time as the payment is reset to align with the original amortization period.

Other VRMs or ARMs may have payments that reset promptly, but not immediately, and not before the end of a reporting period.

The MICAT framework is responsive to risks associated with differing mortgage amortization periods of up to 40 years. It was not, however, designed or calibrated for situations in which mortgage amortizations are temporarily extended, in some cases well beyond 40 years.

The revisions and interpretations set out in this Advisory address these matters. This advisory will remain in effect until such time as the guidance contained herein is incorporated into the MICAT guideline or is otherwise superseded by revised guidance.

Revisions to MICAT 3.1.1.2. Base total requirement for an individual mortgage loan and 3.1.1.3. Supplementary capital requirement for an individual mortgage

loan

Within these sections of the MICAT, *T** represents the remaining amortization as of the reporting date and is measured in years.

This Advisory defines *T** to be maximized at 40 years. For greater clarity, mortgage insurers should use current information regarding amortizations reported by lenders, unless the reported amortization exceeds 40 years, in which case 40 years should be used for the purposes of calculating the MICAT requirements in sections 3.1.1.2 and 3.1.1.3.

As an administrative interpretation, further to this Advisory, an exception exists for situations in which mortgage payments are contractually required to be reset promptly, within a period not exceeding one month. If the amortization of a mortgage loan reported by a lender at the end of a reporting period does not reflect the contractually required payment reset, a mortgage insurer may calculate *T** as if that reset has occurred.