Ontario

FACT SHEET
Mortgage-Backed Securities

What is a mortgage-backed security?

A mortgage-backed security (MBS) is a type of asset-backed security that is secured by a mortgage, or more commonly, a number of mortgages bundled together into a "pool". An MBS is an asset-backed security that ensures the timely payment of principal and interest set forth within the MBS instrument through a process known as securitization. Through this process, the mortgages are sold to a group of individuals (a government agency or investment bank) that "securitizes" the loans together into a security that can be sold to investors.

A significant number of social housing mortgages in Ontario are in mortgage-backed securities (MBS) instruments. The criteria for the social housing loan pool(s) may be more stringent than other types of pooled mortgage instruments.

What is the role of the Ministry of Municipal Affairs and Housing (MMAH)?

The Province facilitates the renewal of non-profit social housing mortgages on behalf of housing providers and Service Managers. MMAH arranges bundles of NHA-insured, homogeneous mortgages that are arranged by dollar value and remaining amortization periods. None of the non-profit housing mortgages in or outside of MBS pools have any prepayment privileges. With the exception of Section 26 and Section 27 mortgages, all social housing and non-profit housing mortgages are NHA-insured.

Through the Ontario Financing Authority (OFA), a tender is issued for a bundle of these mortgages. The lender that wins the tender makes the decision whether or not to invest the mortgages in an MBS financing instrument. The lender pays the mortgage acquisition fees. The calculation of the interest rate achieved includes the mortgage administration costs. All NHA-insured mortgages must have monthly principal and interest payments at a fixed interest rate and interest is calculated semi-annually, not in advance.

What are the refinancing options?

If a housing provider is contemplating refinancing, they should first consult with their Service Manager. Housing providers need to be aware that if a mortgage is refinanced outside of the MMAH pool, interest rates and subsidy costs will likely be higher. Due to penalties and restrictions, refinancing should not typically be contemplated until the end of the term/renewal date.

Service Manager flexibilities under the *Housing Services Act* (HSA)

Under the HSA, Service Managers have the flexibility to make whatever mortgage renewal decisions are locally appropriate. If a Service Manager permits a housing provider to renew a mortgage outside the provincially administered Ontario Competitive Financing Renewal Process, the housing provider is responsible for all related acquisition and administration costs incurred to acquire the new financing. The Service Manager is responsible for any increased housing subsidy, and should be aware of mortgage default risks.

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