

INNOVATION IN MORTGAGE FUNDING

Canada Mortgage Bonds (CMB), a new and innovative mortgage funding vehicle, are designed to offer attractive opportunities for investment into Canadian residential mortgages and help to ensure Canadians have access to affordable mortgage financing.

AN OVERVIEW OF CANADA MORTGAGE BONDS

Canada Mortgage Bonds represent the latest evolution for mortgage funding in Canada. Under the Canada Mortgage Bond Program, investors receive a fixed interest coupon bond with interest payments made semi-annually over the term of the bond and repayment of principal on a specified maturity date. The timely payment of interest and principal to investors is guaranteed by CMHC and backed by the Government of Canada.

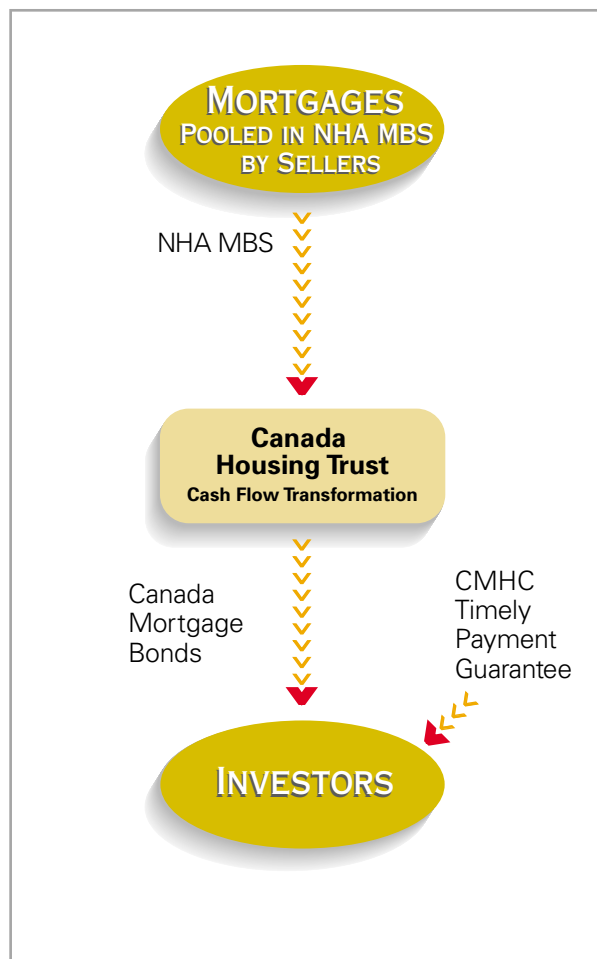
Canada Mortgage Bonds will be issued through a newly created special purpose trust known as the Canada Housing Trust (CHT).

The Trust sells non-amortizing Canada Mortgage Bonds to investors and uses the proceeds to purchase mortgages packaged in newly issued *National Housing Act* Mortgage-Backed Securities (NHA MBS) from Approved Sellers. Canada Mortgage Bond investors are then paid interest and principal from the proceeds of the underlying mortgages collected by MBS Sellers on behalf of the Trust. To provide investors with a bond like investment, the Trust

transforms the monthly cash flows from NHA MBS pools into non-amortizing bond cash flows with fixed interest payments and principal at maturity.

NHA MBS are created when a CMHC Approved Seller brings together a pool of eligible mortgages for the purpose of transforming the mortgages into securities which can be sold to investors. Approved Sellers are typically mortgage lenders such as banks, trust companies, and other types of lending institutions.

Canada Mortgage Bonds will be issued in denominations as low as \$1,000 and can be issued for any term, however, initial issues will likely be for a five year term. As an attractive investment opportunity, Canada Mortgage Bonds will be easily accessible to both institutional



and retail investors and can be bought through investment dealers, banks, trust companies, and other types of financial institutions.

ELIGIBLE MORTGAGES

The Canada Housing Trust will purchase insured mortgages packaged into newly issued NHA MBS pools that meet a certain eligibility criteria from Approved Sellers. For example, each pool must have a minimum portfolio value of \$2 million and contain mortgages that mature no sooner than six months prior to bond maturity.

CMB MARKET PARTICIPANTS

The delivery of Canada Mortgage Bonds requires the involvement of several key market participants including: Approved NHA MBS Sellers; a Trustee and Trust Administrator for the special purpose trust; a Central Paying Agent (CPA); a Custodian; and CMHC as the Guarantor and Financial Services Advisor (FSA).

Approved MBS Sellers are financial institutions that have been approved by the Guarantor to sell mortgages packaged into newly issued NHA MBS into the Trust. They must be federally or provincially regulated and must have a minimum net worth and credit rating as specified by the Guarantor.

The special purpose trust for Canada Mortgage Bonds is established by a trust company who also acts as trustee. The Trust issues bonds guaranteed by the Guarantor and with the proceeds purchases eligible NHA MBS from Approved Sellers. The day-to-day activities of the Trust are administered through a Trust Administrator.

CMHC, as Guarantor, establishes requirements that the Trust must meet in order to obtain the guarantee from

CMHC. As Financial Service Advisor, CMHC will provide the Trust with certain financial advisory services relating to determining market demand for bond issuance, and engagement of an underwriting syndicate to underwrite bond issues.

The Central Paying Agent acts on behalf of the Trust to carry out certain payment functions including collection of monthly payments from NHA MBS purchased by the Trust and the administration of cash flows.

The Custodian maintains custody of all documentation on behalf the Trust relating to mortgages, securities, and all other collateral documentation.

CMB BENEFIT HOMEBUYERS AND THE HOUSING INDUSTRY

Canada Mortgage Bonds further enhance investment into the Canadian residential mortgage market, benefiting homebuyers and the entire Canadian housing industry.

Canada Mortgage Bonds provide the market with a competitive and alternate source of mortgage funds, which will help reduce mortgage financing costs for Canadians.

As a tool for managing liquidity, capital, and risk, Canada Mortgage Bonds enable the mortgage lending industry to further increase the supply of low cost mortgage funds available to Canadians.

Canada Mortgage Bonds allow for more retail and institutional investment in Canadian residential mortgages, while providing investors with high quality, easily tradable, guaranteed investments.