

Spectrum Canada

MORTGAGE SERVICES INC.

Driving Mortgage Industry Efficiencies

Introduction

Spectrum-Canada Mortgage Services Inc. (“Spectrum”) is Canada’s most experienced financial intermediary in the area of non-conventional mortgage lending and has developed unique expertise in accessing, processing and funding a complete range of mortgage product.

The non-conventional segment of the mortgage market, broadly defined, deals with mortgage borrowers who do not meet typical conservative bank lending criteria. Reasons may include the difficulty in assessing self-employment income, the desire for a higher loan-to-value ratio or debt service ratio than the more conservative lenders can approve or because of past credit problems (known as sub-prime). It may also be a combination of these factors.

Spectrum’s focus on the non-conventional mortgage market segment for the last 8 years and the experience and expertise gained in this area has allowed the company to;

- Form exclusive Origination Partner relationships with more than 80 banks and credit unions across the country, referring their clients for mortgage assistance when applications fall outside of their own lending guidelines.
- Develop Specialty Partner mortgage origination channels with key non-mortgage financial institutions.
- Develop internal Lending Partner programs to purchase mortgages funded through our lending operation.
- Begin the process of developing other internal funding programs including potential securitization and other structured offerings.

Spectrum has supported its origination and lending partner programs by developing the structured infrastructure and technology platforms, by creating workflow management systems and internal quality control processes and by extending these to Spectrum’s proven mortgage underwriting and mortgage management programs.

With over \$1 Billion of mortgage throughput, Spectrum has a proven track record of experience and expertise in the non-conventional mortgage market.

For more information on the company and its operations please visit Spectrum-Canada online at:

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The Non-Conventional Mortgage Market

Industry Overview

The Canadian mortgage market is separated into the Traditional A or Prime market and the Non-conventional.

The Non-conventional segment (also known as non-conforming or specialty lending) has more recently been further divided into the near prime and sub prime markets.

As the segment of the market has developed there have been a substantial number of new lenders entering the market and there are currently upwards of 30 lenders providing more than 250 products.

The result is a fragmented industry with different lenders each offering different products and options, servicing different segments of the residential mortgage market.

This fragmentation and the dependency on mortgage brokers is causing a number of challenges in the industry. Spectrum's strategy of exclusive partnership programs and system driven processes address these issues.

Mortgage Industry

CREDIT CLASS	NIO = Non-income Qualifier	LTV							2 nd mortgages
		>70	75	80	85	90	95	100	
A Credit		Banks / CU's – A lenders							Finance companies - HSBC Finance / CIB Financial Max 100%
NIO		Alt A lenders – e.g. Maple Trust / GE / Resmor							
A - Credit		Institutional non-conventional lenders – e.g. Xceed / Wells / Accredited / Money Connect							
NIO		e.g. Home Trust Equitable Trust							
B - Credit		Private Individuals							Max 85%
NIO									
B - Credit		Private Individuals							Max 85%
NIO									
C - Credit		Private Individuals							Max 85%
NIO									

Non-Conventional Market



- ⬇️ Fastest growing segment
- ⬇️ 30% conventional market
- ⬇️ \$18 billion per annum
- ⬇️ \$65 billion potential
- ⬇️ Double in 5 years

Non-Conventional Market

Development of the non-conventional mortgage market in Canada has been slow compared to the UK and the US but is currently proving to be the fastest growing segment of the industry – providing excellent opportunities for Spectrum to capitalize on its existing position in the market.

Industry sources estimate that the non-conventional mortgage market equals approximately 25%-40% of the conventional mortgage market. This is in line with the established industry in the US.

The potential of the non-conventional market has been growing steadily and would have reached over \$40 billion in 2005 had there been sufficient product availability. Spectrum estimates the potential of the market to be \$65 billion per annum and CIBC World Markets predicts the sub-prime market will double within the next 5 years.

Non-Conventional Borrower

There is often confusion that 'non-conventional' means only credit challenged or 'sub-prime', as it is called in the US, and while they do make up a percentage it is incorrect to assume that it is the majority.

The products and, subsequently the lenders, tend to be quite different for the sub-prime borrower as for the near prime.

The majority of borrowers in both groups may be self employed individuals; they may require higher loan to value or higher debt service ratios than traditionally offered; they may require a more pragmatic view of previous credit challenges; they may wish to purchase a rental property or vacation home; or they may require secondary financing. The primary difference would be the credit quality of the sub-prime borrower would be lower, although this is normally offset by a lower loan-to-value advance.

Non-Conventional Borrower

⚡ Diverse challenges and needs

- ❖ Self employed / Employed – Can't prove income
- ❖ New Immigrants – No credit history
- ❖ High DSR / LTV – Don't qualify for CMHC
- ❖ Credit Challenges
- ❖ Debt consolidation



Spectrum-Canada Mortgage Services Inc.

Origination Operation

- ✦ Unique Origination Structure
- ✦ Dedicated call-centre based teams
- ✦ Business generated from exclusive Origination Partner agreements
 - ❖ Financial Institutions - Banks & Credit Unions
 - Refer their non-conventional clients
 - ❖ Corporate Partners - Specialty Groups
 - Offer mortgages through Spectrum



Origination Operation

Spectrum’s origination operation is unique due to its unique structure using dedicated call-centre based teams and because all of its business is generated from exclusive agreements with Origination Partners. These partners fall in to two categories – Financial Institutions (Banks and Credit Unions) and Non-Mortgage Financial Institutions (Specialty Groups)

Spectrum provides a full service alternative funding program to the Banks and Credit Unions allowing them to outsource business that does not fit their own lending guidelines.

Primarily originated through branch networks, business declines have a greater impact than simply the loss of the individual mortgage.

Rejected clients mean the loss of other business opportunities and does not maximize the cross selling or wealth management opportunities. Capturing that additional business, although indirectly, through Spectrum, allows the institution to maximize the value of its branch networks and sales forces and increase the return on the substantial investment it has made in these areas.

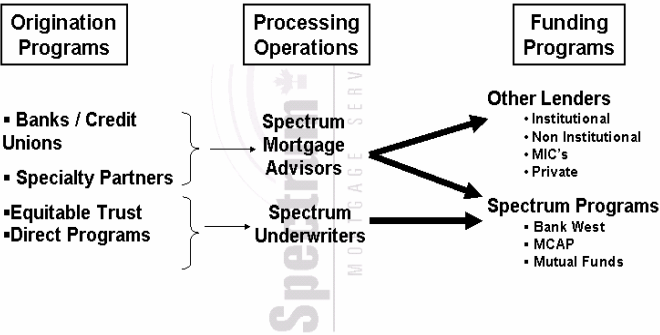
Spectrum’s Non-Mortgage Financial Institution Partners (Specialty Groups) wish to maximize their brands and client databases by offering a full mortgage services program to their clients as a value added service.

Referral fees are paid to the Origination Partner on funding and as there is no cost of staff or overhead to capture this business all fees go straight to the bottom line. Furthermore, Spectrum provides the program as a ‘turn-key’ operation making implementation extremely easy.

Call Centre Processing Operation

Spectrum’s contractual relationships with its origination channel partners have enabled the company to develop unique process driven call centre expertise to drive lead generation and vastly increase closing efficiencies. Spectrum’s unique processing systems involve teams where responsibilities are functionally distributed among specialists to take the initial client referral, process the application, deal with the potential mortgagor, and either underwrite for internal funding or match with an external lender and obtain a commitment letter. Scalability allows the company to replicate this process and “drop in” another team as volumes and programs warrant. Currently Spectrum has 6 teams (4 Vancouver, 2 Toronto), comprised of Mortgage Advisors, Research Assistants, Customer Service Specialists and Coordinators in addition to 2 mortgage underwriters for Spectrum’s internal funding programs

Operations Triage



These systems are particularly well suited for companies promoting conventional mortgage products through database marketing and telemarketing activities to their customers. Spectrum believes that it is unique in providing this service to its partners and can provide a ‘turn-key’ mortgage operation to organizations wishing to add mortgage product availability to their other financial services products

Lending Operation

As testament to the expertise it has developed in the alternative mortgage lending industry and its recognition as a leader, Spectrum has developed partnerships with several Lending Partners and provides adjudication and servicing functions to these correspondent relationships. It co-developed the underwriting specifications for each of the programs with the Partners and then sourced and funded qualifying mortgage portfolios based on the agreed upon lending parameters.

Additionally, by co-developing adjudication guidelines with many different industry participants, Spectrum has leveraged its own expertise in the non-conventional lending arena far greater than would be the case on its own.

It has also developed a unique mortgage participation origination program with Equitable Trust to leverage their own access to markets.

Currently Spectrum originates mortgages for Correspondent Lenders, Peer Diversified Mortgage Fund, Crystal Enhanced Mutual Fund, and a number of high net worth individuals. These programs have been highly successful and the mutual funds historical returns, investing solely in non-conventional mortgages, have exceeded the performance of almost all of their fixed-income peers.

Spectrum will continue to develop new funding programs to build upon its expertise in originating and underwriting non-conventional mortgages. It is in discussions with several financial institutions to establish greater warehousing capabilities, create participation programs, develop a securitization program and expand its footprint in the mutual fund and private funding markets. Spectrum's strong history of building new programs has given it the specific knowledge necessary to successfully navigate this marketplace but growth has been limited due to capital constraints. New funding initiatives will allow Spectrum to fully take advantage of its competitive strengths.

Lending Operations

- ✦ Underwrite and Fund mortgages
- ✦ Funding options and partners
 - Whole loan sales (Bank West, MCAP)
 - Mutual Funds
- ✦ Automated and managed through integrated software program (FALCON)
- ✦ Developed Best Practices for both underwriting criteria and processing
- ✦ Funded \$100 million



Servicing Operation

✦ Mortgage Administration services for mortgages funded through our Lending Division by:-

- High net worth individuals
- Institutions (Bank West)
- Mutual Funds (Peer Fund and CE fund)

✦ Services

- Collection of payment
- Management of arrears and default
- Renewals and discharges
- Customized reporting



Servicing Operation

Spectrum retains servicing for the majority of the accounts funded through its Lending Operation. Its dedicated staff funds, collects, renews and manages these loans through its mortgage servicing operations located in Vancouver, BC. It also maintains relationships with legal firms and collection firms across the country to efficiently manage its recovery process for defaults and delinquencies.

Its computer systems, known as *FALCON*, were developed in-house using industry standard relational database systems and computer languages. Information is available instantly on its networks to any of its servicing professionals and Spectrum employs a dedicated computer systems person to support information requests and new system development.