New Haven Mortgage Income Fund (1) Inc.

Demand for Alternative Lending Set to Rise – FINAL REPORT - DRAFT

Target Yield (2022):
7.75% - 8.00%
Rating*: 2-
Risk*: 3

Sector / Industry: Mortgage Investment Corporations

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Offering Summary	
Issuer	New Haven Mortgage Income Fund (1) Inc.
Securities Offered	Preferred Shares
Unit Price	$1
Minimum Subscription	$10,000
Distribution to Investors	Monthly
Redemption (penalties)	n/a
Management Fee	1.5% p.a. of AUM + 100% of Origination/Lending Fee from Borrowers + 50% of Annual Yield over 10%
Sales Commissions	up to 4%
Auditor	KPMG

Highlights

- **Mortgages outstanding surged 32% YoY to $102M at the end of 2021, up 250% in the past five years**. First mortgages accounted for 73% of the portfolio (66% at the end of 2020). 100% of the mortgages are in Ontario (unchanged). **The weighted average loan-to-value was 66.41% at the end of 2021** vs 66.57% at the end of 2020.
- **2021 dividend yield was 7.6% vs the 2015-2020 average of 8.2%.** In our previous report in April 2021, we had stated that we were expecting 2021 dividend yield to be in the 7.5% – 8.0% range.
- The Bank of Canada recently raised its policy rate by 50 bps to 1.5%, and is expected to deploy additional rate hikes this year to combat inflation. **Higher lending rates imply higher interest revenue for NHMIF.**
- However, rising rates are expected to **slowdown mortgage originations,** and potentially increase default rates. Canadian mortgage originations are expected to decline 30%-50%, and home starts are expected to decline 20% this year, per consensus estimates. That said, we believe alternative lenders, such as MICs, are **likely to experience relatively strong growth** as they should attract borrowers unable to qualify with traditional lenders.
- Although cap rates are expected to increase, and price corrections are likely, we are **not experiencing a major decline (>10%) in residential real estate prices** due to easing travel restrictions, and declining unemployment levels. The Canadian government is expecting an 8% increase in immigration this year. In addition, Canada has a stronger 2022 GDP growth forecast vs other developed economies (3.9% vs 3.7% U.S/2.8% Euro area) – Source: IMF

Key Financials (C$)	2017	2018	2019	2020	2021	2022E
Mortgage Receivables	$33,129,207	$49,629,731	$67,306,975	$77,309,976	$102,343,144	$128,000,000
Debt to Capital	2.6%	7.6%	3.8%	4.0%	7.9%	7.0%
Revenues	$3,552,573	$4,347,161	$5,836,825	$6,749,712	$7,882,289	$10,864,290
Income before dividends	$2,617,048	$3,383,702	$4,497,866	$5,424,530	$5,871,609	$8,395,649
Dividend per share	$0.087	$0.088	$0.082	$0.077	$0.070	$0.078
Dividend Yield	8.78%	8.59%	8.45%	7.63%	7.64%	7.84%

*See last page of this report for important disclosures, rating and risk definitions. All figures in C$ unless otherwise specified.

NHMIF is 100% concentrated in Ontario. It has low debt levels, smaller average loan size, and higher yields

In a study conducted for the Canada Mortgage Housing Corporation/CMHC, we estimated that assets held by MICs across the country grew 3% YoY to $13.2B by the end of 2020, vs 7% for residential mortgages nationwide. At the end of 2020, MICs accounted for 0.80% of residential mortgages in Canada ($1.6T).

The following table shows how NHMIF's portfolio compares to its direct comparables (lenders focused on mortgages on single-family residential units). All these entities have over $100M in assets, with mortgages focused almost exclusively on individual borrowers.

	NHMIF	Average
First Mortgage	73%	81%
B.C.	0%	36%
ON	100%	49%
AB	0%	8%
Others	0%	7%
LTV	66%	58%
Yield	8.1%	6.9%
Debt to Capital	8%	17%
Average Loan Size	$212,772	$512,666
Delinquent/Foreclosures	4.2%	2.6%
Actual Loss	0.1%	0.2%
Provision	0.3%	0.6%

Source: FRC / Various

The Manager receives management fees from the MIC amounting to 1.5% p.a. of the AUM, 100% of the origination/lending fees charged to borrowers (which is typically 2% of the mortgage, paid upfront), and a performance fee of 50% of the annual yield over 10%. We note that MICs with a high percentage of first mortgages rarely achieve yields of over 10%, and therefore, the MIC has never paid a performance fee. **We estimate that the management fee and operating expenses of the MIC are approximately 2% of mortgage receivables – which is in line with comparables of similar size.**

Strategy

NHMIF's focus is on single-family units

- Primary focus is on first and second residential mortgages, with minimal exposure to commercial mortgages.
- Maximum LTV of 80%.
- Terms of two years or less
- Interest only and amortized mortgages; currently 57.63% are interest-only mortgages.
- 100% focus on Ontario.

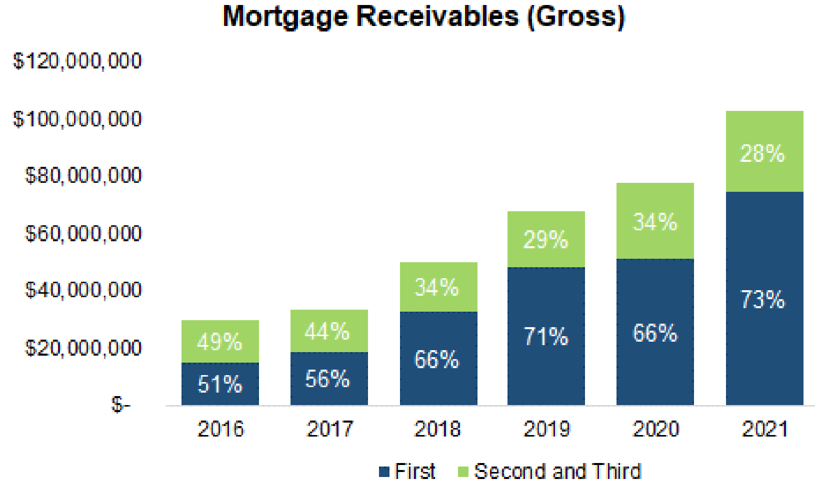
$102M across 481 mortgages at the end of 2021, up 32% YoY (despite the pandemic), and 249% in the past five years

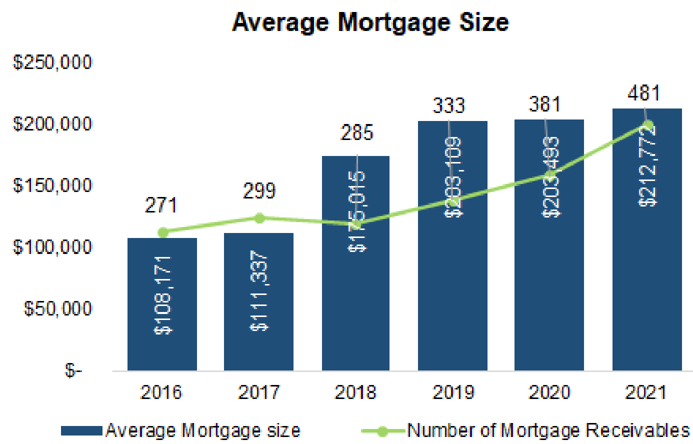
Significantly increased exposure to first mortgages, implying a lower risk-profile; management expects to maintain a similar exposure in 2022

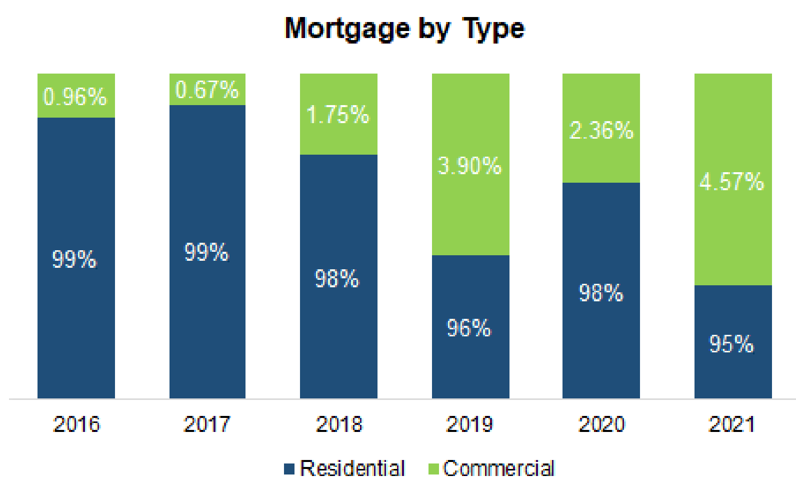
Average mortgage size increased 5% YoY to $213k

Focus on already built single family residential units

Portfolio Details







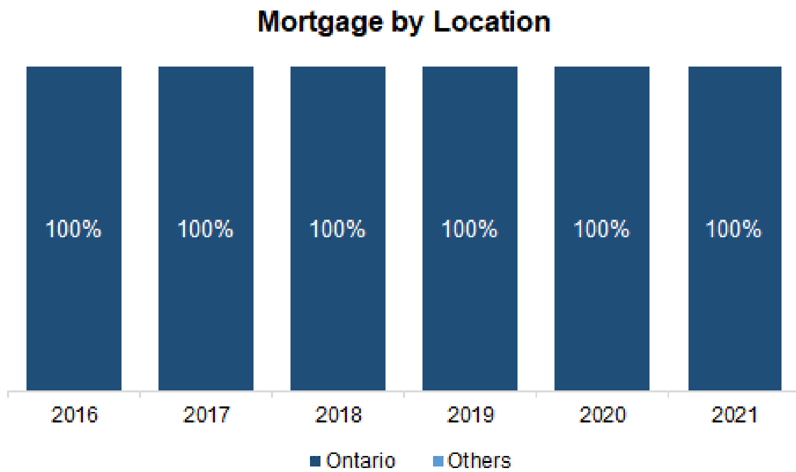
Source: Company / FRC

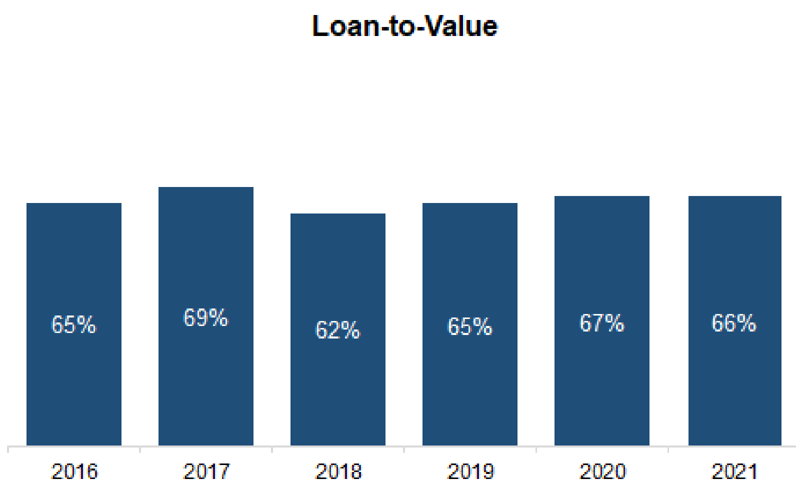
Exclusively focused on ON; management expects to remain focused on ON

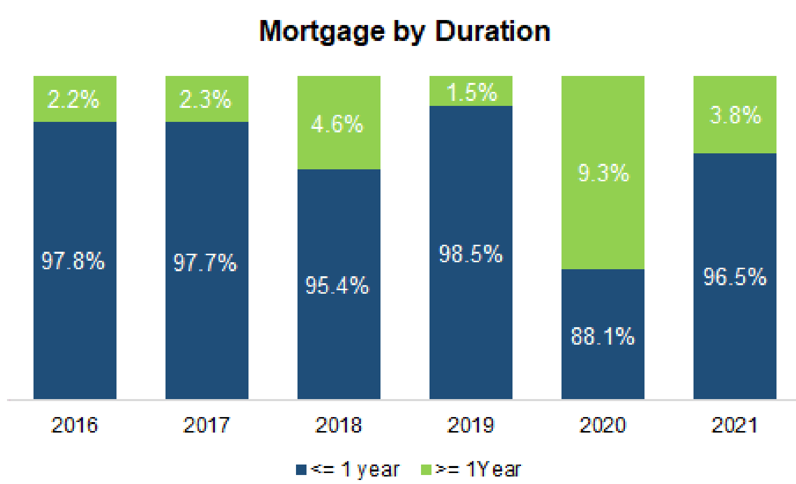
At the end of 2021, the GTA accounted for 40% (previously 42%), while the remaining 60% (58%) was spread across Ottawa and second-tier cities such as Hamilton, London, Kitchener Waterloo, etc.

66% LTV at the end of 2021 (67% at the end of 2020) vs the historic average of 67%

Duration declined in 2021; we note that lower duration implies increased flexibility to adjust to rising rates

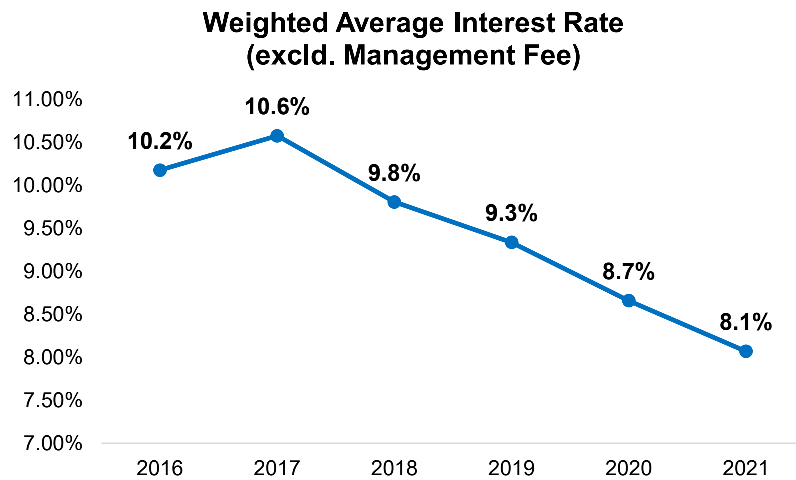






Source: Company / FRC

Lending rates have been on a declining trend since 2017 due to increasing focus on first mortgages, declining market rates, and rising competition



Loan loss provision of 0.29% (unchanged), which we note is on the lower end of comparables

No realized loss in 2021

4.2% of total mortgages were in default (30+ past due) vs the five-year average of 6.5%

	2016	2017	2018	2019	2020	2021
Loan loss reported	$203,320	$87,007	$88,999	$115,744	-$106,943	$77,133
Loan loss provision (end of period)	$71,134	$160,591	$249,590	$328,261	$221,003	$298,136
Provisions as a % of Total	0.24%	0.48%	0.50%	0.49%	0.29%	0.29%
Actual Losses	$709,006	-$2,450	$0	$37,073	$315	$0
Actual Losses (% of mortgage receivable)	2.6%	-0.01%	-	0.1%	0.0%	0.0%

	2016	2017	2018	2019	2020	2021
Mortgages in Default	$528,000	$2,588,126	$4,466,401	$5,294,274	$6,676,573	$4,271,022
Adj. (excluding a $1.7M under dispute in 2019/2020)	$ 528,000	$ 2,588,126	$ 4,466,401	$ 3,594,274	$ 4,976,573	$ 4,271,022
% of Total (Ad.)	1.8%	7.8%	9.0%	5.3%	6.4%	4.2%
Mortgages in Default (30+ days)	$378,000	$1,004,391	$3,672,019	$3,963,938	$4,201,678	$1,457,938
Adj. (excluding a $1.7M under dispute in 2019/2020)	$ 378,000	$ 1,004,391	$ 3,672,019	$ 2,263,938	$ 2,501,678	$ 1,457,938
% of Total (Ad.)	1.3%	3.0%	7.4%	3.4%	3.2%	1.4%
Stage 3			$3,655,424	$4,234,950	$2,244,076	$297,802
Adj. (excluding a $1.7M under dispute in 2019/2020)			$3,655,424	$2,534,950	$544,076	$297,802
% of Total (Ad.)			7.4%	3.8%	0.7%	0.3%

Source: Company / FRC

Resolved Lawsuit

In 2019 and 2020, a $1.7M mortgage was under a dispute with its borrower. The borrower took out the mortgage in 2018, stopped making payments in 2019, and filed a claim against the Manager and other parties involved in the transaction. In August 2019, a statement of claim was filed in the Ontario Superior Court of Justice against a number of parties. NHMIF was one of the named parties. NHMIF holds a mortgage in trust for the fund in the amount of $2.5M. The statement of claim seeks to have the Fund's mortgage disclosed null and void as well as damages in the amount of $5M. In October 2021, the plaintiffs released NHMIF from the lawsuit. NHMIF also received funds to discharge the mortgage and recovered its full principal and any monies advanced. NHMIF determined that the existence of cross

In summary, we believe the MIC's portfolio risk is lower YoY

claims continue to have no potential impact on its fund, as the probability of loss resulting from the cross claims is considered remote.

Parameter	Risk Profile
Undeployed Capital	↓
Average Mortgage	↓
Diversification	-
Duration	↓
Priority	↓
LTV	↓
Property Type	↑
Default	↓
Debt to Capital	↓

- red (green) indicates an increase (decrease) in risk level

Source: FRC

Financials

Management owns 100% of the voting shares, and these shares do not have any rights to distributed cash flows. Investors and management hold preferred shares. Currently, Class C and O shares are being offered. Class O is a recently formed share class, offered to investors seeking exposure to lower LTV (<55%) mortagages.

(YE - November 30)	2019	2020	2021
Shares outstanding (# of shares)	**66,220,765**	**74,767,464**	**94,543,067**
Class A	4,681,001	3,984,417	3,885,248
Class O		200,000	668,213
Class C	61,539,764	70,583,047	89,989,606

Source: Company / FRC

Shareholders can request for redemptons any time on a 120 days notice, with no penalties. This is an attractive feature as most MICs apply penalties for early redemption.

Revenue up 17% YoY (4% lower than our forecast) on higher mortgage receivables, but net income was up only 8% YoY (6% below our forecast) because the MIC had reported a loan loss recovery in 2020

Income Statement (YE - November 30)	2016	2017	2018	2019	2020	2021
Investment	$2,972,785	$3,552,573	$4,347,161	$5,836,825	$6,749,712	$7,882,289
Revenue	**$2,972,785**	**$3,552,573**	**$4,347,161**	**$5,836,825**	**$6,749,712**	**$7,882,289**
G&A and Others	$103,000	$133,243	$189,192	$108,319	$162,001	$201,249
Interest	$56,438	$182,098	$41,350	$178,629	$66,539	$272,935
Manager's fees	$480,982	$533,177	$643,918	$936,267	$1,203,585	$1,392,634
Loan loss provision	$203,320	$87,007	$88,999	$115,744	-$106,943	$77,133
Expenses	**$843,740**	**$935,525**	**$963,459**	**$1,338,959**	**$1,325,182**	**$2,010,680**
Income before dividends	$2,129,045	$2,617,048	$3,383,702	$4,497,866	$5,424,530	$5,871,609
Dividends	-$2,268,969	-$2,720,288	-$3,477,922	-$4,615,231	-$5,424,530	-$5,937,045
Net Income (Loss)	**-$139,924**	**-$103,240**	**-$94,220**	**-$117,365**	**$0**	**-$65,436**
Dividends	**$2,268,969**	**$2,720,288**	**$3,477,922**	**$4,615,231**	**$5,424,530**	**$5,937,045**
Class A	$441,109	$498,718	$532,042	$463,103	$347,405	$161,991
Class B	$794,553	-				
Class C	$1,033,307	$2,221,570	$2,945,880	$4,152,128	$5,077,125	$5,741,774
Class O						$33,280
Payout Ratio	107%	104%	103%	103%	100%	101%
NAV per Share	**$1.00**	**$1.00**	**$1.00**	**$1.00**	**$1.00**	**$1.00**

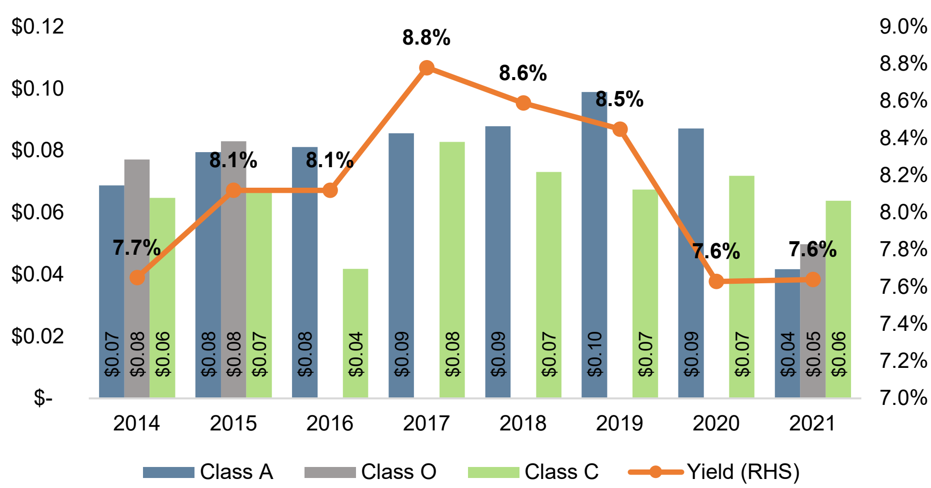
% of Mortgage Receivables (net)	2016	2017	2018	2019	2020	2021
Revenues	10.8%	11.4%	10.5%	10.0%	9.3%	8.8%
Less:						
G&A and Others	0.4%	0.4%	0.5%	0.2%	0.2%	0.3%
Interest	0.2%	0.6%	0.1%	0.3%	0.1%	0.3%
Mortgage manager's fees	1.8%	1.7%	1.6%	1.6%	1.7%	1.6%
Loan loss provision	0.7%	0.3%	0.2%	0.2%	-0.1%	0.1%
Net Income	**7.8%**	**8.4%**	**8.2%**	**7.7%**	**7.5%**	**6.5%**
Investors' Returns (% of Invested Capital)	**8.0%**	**8.7%**	**8.8%**	**8.2%**	**7.7%**	**7.0%**

Note that the above figures may be slightly different from the figures reported by NHMIF (1) Inc. due to the difference in the method of calculation. We used the average of the opening balance, and year-end balance of the mortgages outstanding, and invested capital, to arrive at the above figures.

7.6% yield in 2021 (unchanged) vs 2016–2021 average of 8.2%; yields have declined due to lower lending rates

Dividends paid out monthly

Dividends



Source: FRC / Company

Debt to capital remains well below comparables (10%-20%)

Balance Sheet (YE - November 30)	2016	2017	2018	2019	2020	2021
Cash and Cash equivalents	$588,863	$0	$18,811	$4,403	$355,321	$29,787
Prepaid Expense	$25,000	$0				
Interest and other receivables	$336,985	$397,551	$567,476	$1,756,548	$542,943	$669,412
Mortgage loans (net)	$29,243,258	$33,129,207	$49,629,731	$67,306,975	$77,309,976	$102,343,144
Line of credit mortgage loans	$3,000,000	$0				
Other Assets	$6,922	$3,461				
Total Assets	**$33,201,028**	**$33,530,219**	**$50,216,018**	**$69,067,926**	**$78,208,240**	**$103,042,343**
Bank overdraft	$0	$585,985	$0	$0		
Bank operating line	$0	$275,000	$3,775,000	$2,575,000	$3,075,000	$8,100,000
Accounts Payable and Accrued liabilities	$30,650	$35,000	$68,250	$50,280	$68,669	$78,546
Dividend Payable	$244,819	$329,900	$439,658	$743,676	$801,973	$768,711
Loan payable	$3,000,000	$0	$0	$0		
Interest payable	$56,437	$0				
Due to associated companies	$42,537	$45,366	$68,202	$89,442	$106,371	$228,692
Preference shares	$30,122,997	$32,658,620	$46,358,780	$66,220,765	$74,767,464	$94,543,067
Total Liabilities	**$33,497,440**	**$33,929,871**	**$50,709,890**	**$69,679,163**	**$78,819,477**	**$103,719,016**
Common shares	$100	$100	$100	$100	$100	$100
Retained Earnings (Deficit)	-$296,512	-$399,752	-$493,972	-$611,337	-$611,337	-$676,773
Total SE	-$296,412	-$399,652	-$493,872	-$611,237	-$611,237	-$676,673
Total Liabilities and SE	**$33,201,028**	**$33,530,219**	**$50,216,018**	**$69,067,926**	**$78,208,240**	**$103,042,343**
Debt to Capital	9.1%	2.6%	7.6%	3.8%	4.0%	7.9%

The MIC has a $20M line of credit (prime + 0.8% p.a.) with the TD Bank (TSX: TD).

We are projecting a 7.84% yield in 2022

Rating

Financial Summary	2018	2019	2020	2021	2022E
Mortgage Investments (net)	$49,629,731	$67,306,975	$77,309,976	$102,343,144	$128,000,000
Debt as a % of Mortgage Outstanding	8%	4%	4%	8%	7%
Revenues	$4,347,161	$5,836,825	$6,749,712	$7,882,289	$10,864,290
Net Income	-$94,220	-$117,365	$0	-$65,436	$0
Net Asset Value	$1	$1	$1	$1	$1
Investors' Returns (% of Invested Capital)	8.80%	8.20%	7.70%	7.01%	7.84%

Source: Company/FRC

We are assigning rating XXX

Risks

We believe the MIC is exposed to the following key risks:

- Diversification risks – 100% of the MIC's mortgages are located in Ontario.
- A drop in housing prices will result in higher LTVs, as the value of collateral decreases.
- Interest rate risks are minimal as most of the mortgages are short-term — within 12 to 24 months.
- A downturn in the real estate sector may impact the company's deal flow.
- Timely deployment of capital is critical.
- Investments in mortgages are typically affected by macroeconomic conditions, and local real estate markets.

APPENDIX

Income Statement (YE - November 30)	2018	2019	2020	2021	2022E
Investment	$4,347,161	$5,836,825	$6,749,712	$7,882,289	$10,864,290
Revenue	**$4,347,161**	**$5,836,825**	**$6,749,712**	**$7,882,289**	**$10,864,290**
G&A and Others	$189,192	$108,319	$162,001	$267,978	$343,589
Interest	$41,350	$178,629	$66,539	$272,935	$426,500
Manager's fees	$643,918	$936,267	$1,203,585	$1,392,634	$1,785,573
Loan loss provision	$88,999	$115,744	-$106,943	$77,133	$256,569
Expenses	**$963,459**	**$1,338,959**	**$1,325,182**	**$2,010,680**	**$2,468,641**
Income before dividends	$3,383,702	$4,497,866	$5,424,530	$5,871,609	$8,395,649
Dividends	-$3,477,922	-$4,615,231	-$5,424,530	-$5,937,045	-$8,395,649
Net Income (Loss)	**-$94,220**	**-$117,365**	**$0**	**-$65,436**	**$0**
NAV per Share	**$1.00**	**$1.00**	**$1.00**	**$1.00**	**$1.00**
Shares outstanding (# of shares)	**46,358,780**	**66,220,765**	**74,767,464**	**94,543,067**	**119,543,067**

Balance Sheet (YE - November 30)	2018	2019	2020	2021	2022E
Cash and Cash equivalents	$18,811	$4,403	$355,321	$29,787	$250,716
Prepaid Expense					
Interest and other receivables	$567,476	$1,756,548	$542,943	$669,412	$736,353
Mortgage loans (net)	$49,629,731	$67,306,975	$77,309,976	$102,343,144	$128,000,000
Line of credit mortgage loans					
Other Assets					
Total Assets	**$50,216,018**	**$69,067,926**	**$78,208,240**	**$103,042,343**	**$128,987,069**
Bank overdraft	$0	$0			
Bank operating line	$3,775,000	$2,575,000	$3,075,000	$8,100,000	$8,960,000
Accounts Payable and Accrued liabilities	$68,250	$50,280	$68,669	$78,546	$86,401
Dividend Payable	$439,658	$743,676	$801,973	$768,711	$845,582
Loan payable	$0	$0			
Interest payable					
Due to associated companies	$68,202	$89,442	$106,371	$228,692	$228,692
Preference shares	$46,358,780	$66,220,765	$74,767,464	$94,543,067	$119,543,067
Total Liabilities	**$50,709,890**	**$69,679,163**	**$78,819,477**	**$103,719,016**	**$129,663,742**
Common shares	$100	$100	$100	$100	$100
Retained Earnings (Deficit)	-$493,972	-$611,337	-$611,337	-$676,773	-$676,773
Total SE	-$493,872	-$611,237	-$611,237	-$676,673	-$676,673
Total Liabilities and SE	**$50,216,018**	**$69,067,926**	**$78,208,240**	**$103,042,343**	**$128,987,069**

Cash Flow (YE - November 30)	2018	2019	2020	2021	2022E
Net income (Loss)	$ (94,220)	$ (117,365)	$ -	$ (65,436)	$ -
Amortization/Others	$ 3,460			$ 77,133	
Change in non-cash operating working capital					
Decrease (inecrease) in prepaid expense					
Increase in interest and other receivables	$ (169,925)	$ (1,189,072)	$ 1,213,605	$ (126,470)	$ (66,941)
Increase (decrease) in other assets					
Increase (decrease) in accounts payable and a	$ 33,250	$ (17,970)	$ 18,389	$ 9,877	$ 7,855
Increase in dividend payable	$ 109,758	$ 304,018	$ 58,297	$ (33,262)	$ 76,871
Increase (decrease) in interest payable					
Increase in due to associated companies	$ 22,836	$ 21,240	$ 16,929	$ 122,321	$ -
Cash from operating activities	**$ (94,841)**	**$ (999,149)**	**$ 1,307,220**	**$ (15,837)**	**$ 17,785**
Preference shares issued	$ 15,413,947	$ 17,119,423	$ 14,817,393	$ 23,547,866	$ 25,000,000
Preference shares redeemed	$ (1,713,786)	$ (3,994,439)	$ (6,270,694)	$ (3,772,262)	
Increase (decrease) in bank operating loan	$ 3,500,000	$ (1,200,000)	$ 500,000	$ 5,025,000	$ 860,000
Cash from Financing activities	**$ 17,200,161**	**$ 11,924,984**	**$ 9,046,699**	**$ 24,800,604**	**$ 25,860,000**
Increase in mortgage loans (net)	$ (16,500,524)	$ (10,940,243)	$ (10,003,001)	$ (25,110,301)	$ (25,656,856)
Cash from Financing activities	**$ (16,500,524)**	**$ (10,940,243)**	**$ (10,003,001)**	**$ (25,110,301)**	**$ (25,656,856)**
Increase (decrease) in cash and cash equivale	$ 604,796	$ (14,408)	$ 350,918	$ (325,534)	$ 220,929
Cash at the beginning of the year	$ -	$ 18,811	$ 4,403	$ 355,321	$ 29,787
Cash at the end of the year	**$ 604,796**	**$ 4,403**	**$ 355,321**	**$ 29,787**	**$ 250,716**

Fundamental Research Corp. Rating Scale:

Rating – 1: Excellent Return to Risk Ratio
Rating – 2: Very Good Return to Risk Ratio
Rating – 3: Good Return to Risk Ratio
Rating – 4: Average Return to Risk Ratio
Rating – 5: Weak Return to Risk Ratio
Rating – 6: Very Weak Return to Risk Ratio
Rating – 7: Poor Return to Risk Ratio
A "+" indicates the rating is in the top third of the category, A "-" indicates the lower third and no "+" or "-" indicates the middle third of the category.

Fundamental Research Corp. Risk Rating Scale:
1 (Low Risk)
2 (Below Average Risk)
3 (Average Risk)
4 (Speculative)
5 (Highly Speculative)

FRC Distribution of Ratings			
Rating - 1	0%	Risk - 1	0%
Rating - 2	30%	Risk - 2	8%
Rating - 3	47%	Risk - 3	40%
Rating - 4	9%	Risk - 4	33%
Rating - 5	4%	Risk - 5	8%
Rating - 6	1%	Suspended	10%
Rating - 7	0%		
Suspended	10%		

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