



# QUARTERLY REPORT

2020 - 2021  
Q2



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RESCO MORTGAGE  
INVESTMENT CORPORATION



QUARTERLY REPORT

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**R**ESPONSIBLE STEWARDSHIP  
of our investors' hard-earned money

**E**XCELLENCE AND ACCOUNTABILITY  
in everything we do

**S**Ocially RESPONSIBLE  
to our community and stakeholders

**C**ONSERVATIVE AND PRUDENT  
in our approach

**O**PEN AND TRANSPARENT  
in our dealings



# MESSAGE FROM THE COO

## HAVE YOU VACCINATED YOUR INVESTMENT PORTFOLIO?



We have seen the COVID-19 vaccination program ramp up in Canada in recent months. As more and more of the population get vaccinated, we will undoubtedly stop the spread of COVID-19 and save precious lives.

While governments implement vaccination programs to protect their citizens from harm, are you doing the same to immunize your investment portfolio?

As the global pandemic wielded significant impact on the global economy, the stock market has experienced a whirlwind. After plunging dramatically at the onset of the pandemic, the S&P/TSX Composite Index has increased nearly 30% over the past 12 months. However, this upward trend should not be expected to continue, and a market correction might be on the horizon.



While it is impossible to predict exactly how the market will perform in the future, historical data shows the tendency of stock markets to undergo regular corrections. There is no reason to believe this trend will change, especially amidst an unprecedented global disruption such as the COVID-19 pandemic.

## DIVERSIFICATION IS THE BEST VACCINATION PLAN FOR STOCK MARKET CORRECTIONS

The best vaccination against potential losses when – not if – the market experiences a downturn is to build a well-diversified investment portfolio with alternative investments that have low or negative correlations to bonds, stocks and mutual funds. Such alternative investments include real estate, precious metals and commodities, which do not fluctuate wildly the same way that the stock market does. They can inoculate your investment portfolio and soften the blow of volatile markets.

RESCO Mortgage Investment Corporation (RESCO MIC) is one such alternative investment. The unit price of RESCO MIC is not correlated to fluctuating stock markets, making it an ideal option for diversification when market volatility is on the rise. In fact, RESCO has been able to deliver consistent returns to our investors at 8% per annum with no loss of investment principal since inception in 2014.

So while you ensure your physical health by rolling up your sleeves for the vaccine, don't forget to ensure your financial health by inoculating your investment portfolio from market volatility. Investing in RESCO MIC will add resilience to your investment portfolio and bring you closer to your long-term financial goals.

If you are already investing in RESCO MIC and are already enjoying the consistent returns and peace of mind, you should consider increasing your investments with us as a further hedge against the impending stock market volatility. If you are not currently investing with RESCO and would like to find out more about how to integrate alternative investments to your existing portfolio, please contact us by email or by phone, we're here to help.

Please stay safe and healthy. We will get through this pandemic together.

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**CHRIS CHENG**  
**CHIEF OPERATING OFFICER**



# RESCO MIC Q2 FINANCIAL HIGHLIGHTS

**Michelle Hoang, CPA, Finance Manager**  
**Mia Wu, Senior Accountant**

RESCO Mortgage Investment Corporation is proud to report outstanding financial performance for Q2 of the 2020-2021 Financial Year (February 1 to April 30, 2021, inclusive). Compared to first quarter results:

- Gross revenue increased by 6.8%
- Investment portfolio at \$60.1M, up by 8%
- Mortgage portfolio at \$57.9M, up by 20.29%
- Dividends maintained at 8% and distributed

## DID YOU KNOW...?

We have found that many investors hold a mistaken belief that their RESCO investments must be redeemed when they mature.

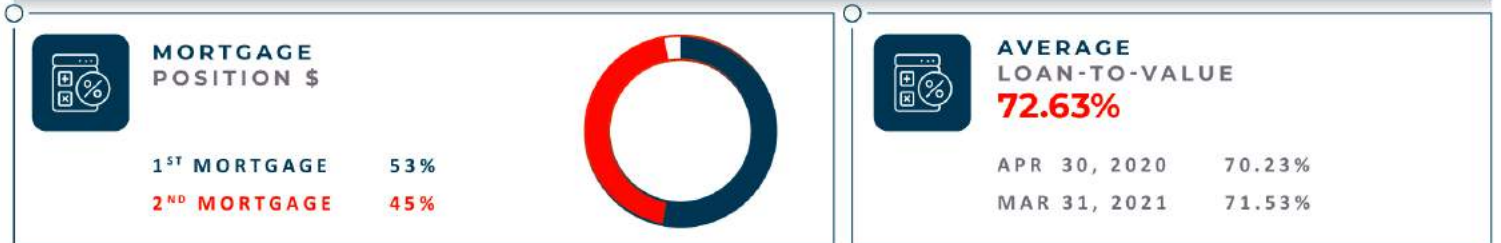
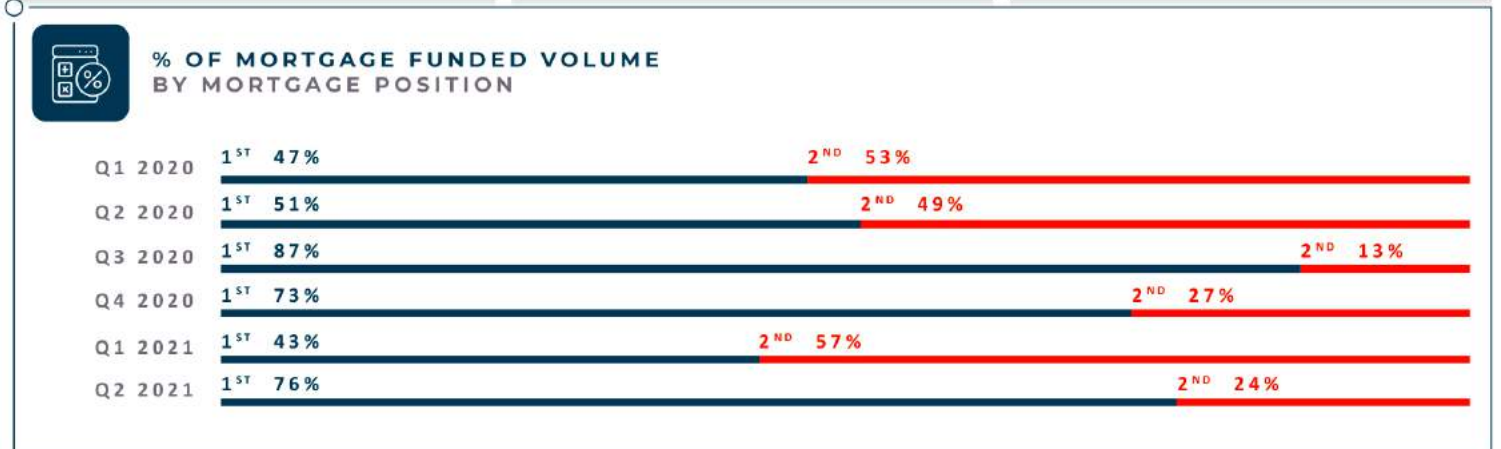
The confusion may have arisen from the hold period (four years for RESCO MIC Preferred Shares and one year for RESCO LP Units), whereby penalties would be levied if the investment were redeemed prior to the expiry of the hold period.

In fact, RESCO MIC Preferred Shares and RESCO LP Units have no maturity date. Beyond the hold period, an investor can request a redemption at any time and without penalty, but there is certainly no requirement to do so. For as long as you remain a RESCO investor, your investment will continue to receive dividends as and when declared.

| Term                 | Q2 2020     | Q3 2020      | Q4 2020      | Q1 2021      | Q2 2021      |
|----------------------|-------------|--------------|--------------|--------------|--------------|
| Funded volume        | \$8,289,530 | \$15,035,015 | \$13,028,743 | \$19,825,225 | \$25,204,817 |
| # of deals funded    | 44          | 38           | 41           | 71           | 63           |
| % of first mortgage  | 51%         | 87%          | 73%          | 43%          | 76%          |
| % of second mortgage | 49%         | 13%          | 27%          | 57%          | 24%          |



RESCO MIC 2021 Q2







## REVENUE

Despite a very competitive lending market between traditional lenders and non-traditional ones, demand for non-traditional mortgages remained strong during second quarter. RESCO successfully lent out approximately \$25M, leading to a significant increase of 6.8% in gross revenue as compared to Q1. This was the result of strategic marketing techniques as well as strong networks with brokers and various stakeholders.

## NET INCOME

RESCO continued to achieve solid net income in second quarter. The bottom line for Q2 2021 was slightly higher than that of Q1, boosting accumulated retained earnings.

## OPERATING EXPENSES

The company continued investing in maintaining a safe working and business environment for staff and the public. The total operating expense increased 6.9% above Q1, which was mainly attributable to higher dividend payments corresponding to the bigger investment portfolio.

## NEW CAPITAL RAISED AND REDEMPTION

Redemption requests during Q2 continued to be low at an average of \$350,000 per month while monthly new shares purchase averaged \$1.56M. This reflects our investors' complete confidence in our management capability and the strong financial results over the years.

## MORTGAGE PORTFOLIO

Our underwriting and marketing team again delivered outstanding lending results. Despite a significant drop of 13% in Greater Toronto Area real estate transactions in April 2021, RESCO successfully lent out a record of \$12M that month. Overall, the mortgage portfolio grew by 20.29% compared to Q1, and up by 33.58% year over year. Weighted average LTV was maintained low at 72.63%. Portfolio risk remained low with roughly 53% of portfolio as first mortgages.

## LINE OF CREDIT

We were able to take advantage of our line of credit during this quarter. Due to the high demand for mortgages, we drew approximately \$2M against the facility by the end of the quarter.





# RESCO MIC

## MORTGAGE DELINQUENCIES

**Jeffrey Shek, Barrister and Solicitor, Chief Legal Officer**  
**Clement Vaccaro, Client Relationship Manager**

- Delinquency rate remains negligible and virtually identical to pre-pandemic levels
- There are no mortgages in legal enforcement

During the second quarter of our 2020-2021 Financial Year, Canada experienced another spike in COVID-19 cases. Provinces across the country were forced into another shut down, causing financial hardship to more Canadians. Thankfully, case counts have been trending down recently, and vaccinations continue to be administered. We are optimistic about the future outlook, and believe the economy is on an upward trajectory.

We are pleased to report that as with previous quarters, we have not experienced any significant increases in mortgage default. The delinquency rate remains negligible and virtually identical to pre-pandemic levels.

As previously reported, we have been more effective in pursuing repayment and shortening the length of delinquencies. Within the handful of instances of payment default per month, we have been able to obtain replacement payments in most cases before the next payment was due.

In our mortgage portfolio of 269 mortgages as of the end of this quarter, we have only one outstanding deferred payment and no mortgages in power of sale. This shows that our borrowers continue to prioritize their monthly payments and are adapting to the changing environment.

We will continue to monitor our mortgage portfolio closely and diligently deal with any situations of default, as and when they arise.





# FROM THE UNDERWRITING DESK

**Phoebe Lam, Chief Risk Officer**



Looking back at February, March and April 2021 which comprise Q2 of the 2020-2021 Financial Year, we funded over \$25M in mortgages compared to over \$20M in Q1. Demand for alternative mortgage lending remains strong due to:

- The pandemic caused many people to realize they need more space to live or work. This has driven up transaction volume for both purchases and refinance for the purposes of renovation or addition.
- As banks are backlogged with the high volume of mortgage applications and are unable to close purchase transactions in a timely manner, borrowers opt for alternative financing.
- New Stress Test and other new mortgage rules to be implemented in June 2021 will make it more difficult for many to qualify mortgages at the banks. This will increase the demand for alternative lending.
- Amongst existing homeowners who are looking to buy and sell, many are closing their purchase transactions before selling their existing home for logistical reasons. This necessitates bridge or short-term financing for the interim period. Since most trust companies and credit unions do not offer bridge loans, many borrowers obtain financing from RESCO to bridge the gap.
- As baby boomers look to increase their cash flow, reverse mortgages are quickly gaining in popularity. In addition to not requiring proof of income, reverse mortgages are ideal because the borrowers are not required to make monthly mortgage payments. However, the available principal for reverse mortgages are usually lower than conventional mortgages. Where the reverse mortgage does not offer sufficient funds, RESCO can top up the loan amount with a small second mortgage.



The Ontario real estate market has continued to rise in recent months because of low inventory and increasing costs of building materials for new homes. The Canadian government will introduce a new stress test and other lending rules which may result in a short-term, minor decrease in Ontario home prices. However, we do not expect to see any major negative price adjustments.

Nevertheless, we will keep implementing our well-defined risk management and mitigation strategies to protect our investor's capital, including:

## MORTGAGE LENGTH

Keeping the length of our mortgages short is a key risk mitigation strategy. Of the total mortgages funding volume in Q2, 99.27% had a term length of one year or less, including 48.57% (\$12,160,150) with term length of six months and 18.56% (\$4,647,326) with term length of three months or less.

## LOAN SIZE

We diversified our portfolio by funding a large number of smaller mortgages as opposed to just a few larger ones. We currently have 269 mortgages in our portfolio with an average loan size of approximately \$215,400.

## RESIDENTIAL FOCUS

Every RESCO mortgage is secured by residential properties in Canada. As such, we are not vulnerable to the decline in commercial real estate prices caused by plunging demand for office and retail space.

## AVERAGE LTV

Loan to value ratio (LTV) of the mortgage portfolio remains low at 72.63%. The LTV of RESCO's mortgage portfolio is comparatively very low in the industry.

## MORTGAGE POSITION

We lend out lots of first mortgages to lower our risk exposure. Of the total mortgage volume funded in Q2, almost 76%. (\$19,155,661) of mortgages were in first position compared to 43% in Q1.

## STRINGENT UNDERWRITING

Only 63 of the 218 applications we received during Q2 were approved and funded. The funding ratio remains low at 28.90%, demonstrating the selectiveness of our underwriting team which carefully reviews and evaluates each application.

Looking ahead, we remain confident in the Fund's ability to continue to achieve our targets. We rely on our proven and successful underwriting process based on our own proprietary software; and we also continue to practice our disciplined approach which avoids unique high-end homes, acreages, construction mortgages, commercial mortgages, and development deals. Managing risk and protecting our investor's capital has been and always will be our top priority.



## ABOUT

# RESCO GROUP OF FUNDS



*It's Time to Consider the Alternatives.*

If you haven't already, now is a good time to meet with your financial advisor and review how your investments align with your long-term objectives.

Please feel free to contact our offices in Ontario or B.C. and one of our associates will be glad to assist you.



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At RESCO, our investment objective is to generate sustainable and stable income for our investors while preserving investment capital through making prudent investments in mortgages secured against Canadian real estate.

RESCO is led by a group of experienced professionals with expertise in banking, mortgage lending, real estate, law, land development, mutual funds, financial planning and risk management.

Stock market performance is likely to remain volatile due to lingering concerns with COVID-19 variants and excessively speculative behaviour. At the same time, deposit and GIC rates are at historical lows.

Instead of letting your investable funds sit on the sidelines, It's Time to Consider the Alternatives offered by the RESCO Group of Funds:

|                               | RESCO<br>First Mortgage Fund<br>Limited Partnership | RESCO Mortgage<br>Investment<br>Corporation |
|-------------------------------|---|---|
| Established                   | 2019  | 2013  |
| Hold Period                   | 1 year (12 months)                                  | 4 years (48 months)                         |
| Investment<br>Timeline        | Short to Medium Term                                | Medium to Long Term                         |
| Minimum<br>Investment         | \$150,000   | \$10,000                                    |
| Target Return                 | 5.25%-6.00% per annum                               | 8.00% per annum                             |
| Historical<br>Return          | 5.25% per annum                                     | 8.00% per annum                             |
| Registered<br>Funds Eligible  | No  | Yes (RRSP, TFSA, RRIF,<br>etc.)             |
| Distribution<br>Frequency     | Quarterly   | Monthly                                     |
| Distribution<br>Reinvestment  | Available   | Available                                   |
| Primary Lend-<br>ing Criteria | Residential First<br>Mortgages Only                 | Residential First and<br>Second Mortgages   |
| Loan-To-Value<br>Ceiling      | 75%   | 85%   |



## DISCLAIMERS

*This publication is for information purposes only and is not, and under no circumstances is to be construed as, an invitation to make an investment in RESCO Mortgage Investment Corporation or RESCO First Mortgage Fund LP. The rate of returns and other information disclosed herein have been prepared by Management and have not been independently verified or audited. Financial information and figures reported herein are as of July 31, 2020 unless stated otherwise. This publication contains forward-looking statements. Although RESCO Group of Funds believes the expectations expressed in such forward-looking statements are based upon reasonable assumptions, such statements are not guarantees of future performance. Actual results may differ materially from those in forward-looking statements due to various factors, including adverse results from mortgage investments, general economic, market or business conditions, and failure to successfully negotiate or subsequently close transactions. Forward-looking statements are based on the beliefs, estimates and opinions of RESCO Group of Funds' management on the date that statements are made. RESCO Group of Funds undertakes no obligation to update these forward-looking statements in the event that management's beliefs, estimates or opinions, or other factors, change. Investing in RESCO Mortgage Investment Corporation involves significant risks. There is currently no secondary market through which RESCO Mortgage Investment Corporation preferred shares can be sold and there can be no assurance that any such market will develop. A return on an investment in RESCO Mortgage Investment Corporation preferred shares is not comparable to the return on an investment in a fixed-income security. The recovery of an initial investment is at risk, and the anticipated return on such an investment is based on many performance assumptions. Investing in RESCO First Mortgage Fund LP involves significant risks. There is currently no secondary market through which RESCO First Mortgage Fund LP Units can be sold and there can be no assurance that any such market will develop. A return on an investment in RESCO First Mortgage Fund LP Units is not comparable to the return on an investment in a fixed-income security. The recovery of an initial investment is at risk, and the anticipated return on such an investment is based on many performance assumptions. The price of the security mentioned here and the income it produces may fluctuate and/or be adversely affected by market factors, and investors may realize losses on investments in such security, including the loss of investment principal. Investments in RESCO Group of Funds are not CDIC insured. Prospective investors should thoroughly review the offering memorandum and are advised to consult with their own legal and tax advisors before investing. The information contained herein: (1) may not be copied or distributed, and (2) is not warranted to be accurate, complete or timely. Neither RESCO Group of Funds nor its content providers are responsible for any damage or losses arising from any use of this information.*

