

SECURITY POLICY (Letter of Credit Policy)

1. Pursuant to section 2.6 of the Agreement with Builder, *The Builder shall pay all fees and charges to the Program at the Program's head office and provide to the Program any and all forms of security for the performance of its obligations herein as the program may require.*
2. Security collectively refers to any "Security Deposit" or "Guarantee".

Guarantees

1. Guarantees are indemnities, personal guarantees, corporate guarantees, shareholder guarantees, pledges, written agreements that assign or transfer warranty obligations or any other agreement that outlines performance obligations.
2. A Guarantee does not replace or supersede the Agreement with Builder.
3. From time to time the Program may require a Guarantee in addition to a Security Deposit to secure the obligations of a builder member.

Security Deposits

1. A Security Deposit includes but is not limited to such instruments as Letters of Credit, Bonds, Mutual Funds, Guaranteed Investment Certificates, and Savings Accounts under which New Home Warranty Program of Manitoba Inc. ("the Program") is the beneficiary.
 - a) Savings Accounts are cash deposits received from the Builder and deposited in an interest-bearing account with the Program's financial institution. These are considered informal trust accounts.
 - b) A one-time set up fee, as determined by the Program from time to time, may apply if the Security Deposit is of a type that is managed by the Program (e.g. Savings Account or GIC).
 - c) Where a Security Deposit bears interest (e.g. Savings Account or GIC),
 - i. the Builder may have the option, while their membership is in good standing, to request any accrued interest. Such a request must be made in writing and may done a maximum of once per year (or at the discretion of the Program and any limitations of such a transaction).
 - ii. In the event the Program demands payment per section 6, any interest accrued may be considered forming the whole of the Security Deposit and be used in such payments as per section 7.
2. All forms of Security Deposits must be irrevocable, unconditional, allow partial drawings, and must not expire.
3. The amount of the Security Deposit will be based on any and all factors that influence a Builder's risk to the Program. These factors include, but may not be limited to:
 - a) Number of annual builds or proposed builds for an upcoming year
 - b) Number and type of homes under warranty, including any Unoccupied Inventory (homes enrolled that are either unsold or have no Possession Certificate received by the Program)

- c) Financial strength
 - d) Number and type of warranty claims and conciliations and the level of responsiveness to required warranty repairs
 - e) Length of time as a Builder Member
 - f) The receipt of Enrollments and Possession Certificates in accordance with Program requirements
 - g) Type of Warranty being applied to homes (e.g. 1 and 5 Warranty or 1, 2, 7 Warranty)
4. The Program generally reviews the Security Deposit amount at the time of the Builder's annual membership renewal. However, a review of the membership resulting in a required change in the Security Deposit amount may occur at any time.
 5. When an increase in the Security Deposit is requested, the Program may set out special terms for the receipt of the increase.
 6. The Program may demand payment under the Security Deposit for any of the following circumstances:
 - a) If the Builder ceases to be a Member for any reason, providing there are still homes under warranty and/or unresolved warranty claims
 - b) if the financial institution gives notice that the Security Deposit will not be renewed or will be cancelled
 - c) If the Builder fails to do required warranty repairs pursuant to the terms of Warranty including any requirements of a Conciliation Report and/or the Program's Technical Committee or fails to refund to a homeowner a deposit which the Builder becomes legally obliged to repay
 - d) If there is a judgment in favour of the homeowner(s) or Program pursuant to a warranty claim that has been challenged in court that results in the requirement to perform warranty repairs or provide payment to the homeowner(s) in lieu of repairs
 - e) Any loss or expense incurred by the Program associated with the fulfillment of warranty or membership obligations in which the builder fails to reimburse to the Program, including but not limited to claim repair costs, membership fees, enrollment fees, engineering fees, inspection fees, conciliation fees, inspection fees and costs incurred to determine ownership of a home
 - f) If the Builder is in breach of any of the terms of the Agreement with Builder
 7. Funds drawn under the Security Deposit to pay for the cost of any warranty repairs performed by the Program are subject to a 25% surcharge (minimum of \$250.00).
 8. If a Builder ceases to be a member of the Program, the Security Deposit will be held by the Program until the warranty on all homes enrolled or any home required to be enrolled pursuant to the Agreement with Builder has expired (including any assigned warranty obligations from another member under a Guarantee), plus one month. In the event there are homes enrolled where the builder has failed to supply a possession certificate or information sufficient to assign a possession date, making the end date of warranty obligations unknown, the Program may continue to hold the Security Deposit until sufficient information is obtained or the Program is otherwise satisfied that no probable warranty coverage remains.
 9. After the above noted time period and upon full and satisfactory resolution of any warranty claims, including any judgment made pursuant to section 7(d), the Security Deposit and/or funds held by the Program plus any accrued interest, minus any costs incurred and/or outstanding invoices will be returned to the Builder or otherwise released to the financial institution.