The CO-OPERATIVE HOUSING FEDERATION of Canada

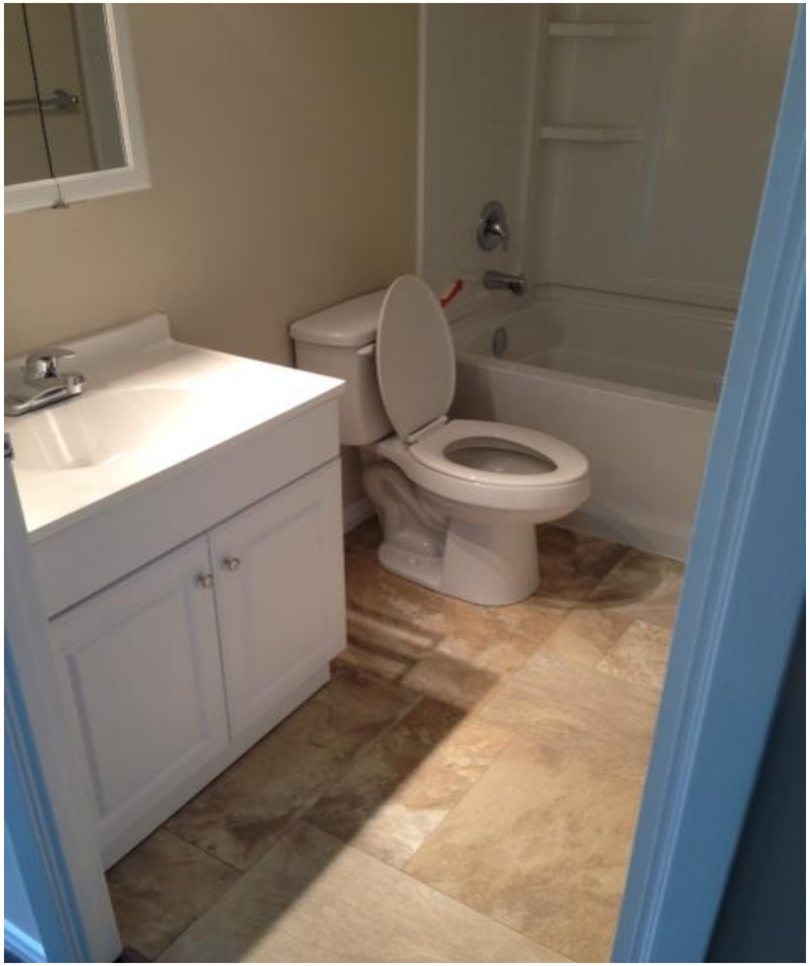
Refinancing Section 95 & 61 co-ops – CHF Canada's Refinancing Program

TOOLS Conference 2015

CHF Canada's Refinancing Program

- Introductions
- Section 95 & Section 61
- Purpose of the Refinancing Program
- How the new mortgage works
- How to qualify
- How CHF Canada helps
- Manager's role
- Section 61 program
- How to get started
- Questions

Introductions & Welcome



Section 95 & Section 61

- **Section 95**:
  - The program has worked for Section 95 co-ops since 2011
  - 16 co-ops funded successfully to date (over $60 million in new loans)
  - 15+ co-ops are in the process to fund in the near future
- **Section 61**:
  - Refinancing these co-ops is **new,** to start April 1, 2016
- **Presentation** geared to Section 95; most requirements are similar for Section 61 with some noted differences

Purpose of the Refinancing Program

- Aging housing co-ops need new capital for repairs, renovations, modernization
- Re-financing is common practice in private sector real estate

Purpose – to provide a member service that helps co-ops borrow, by way of a new mortgage, to do repairs and renovations immediately.

In plain language

- The co-op takes out a new mortgage, which
  - pays out the existing mortgage
  - pays for the needed repairs
  - is extended for a longer period of time.

Example (Actual Co-op)

- **$28,000/month** existing mortgage payment
- **$1.8 million** existing CMHC mortgage
- **$4.5 million** borrowed at 4.5% interest rate
    - **$1.8 million** pays out CMHC mortgage
    - **$2.7 million** for repairs (covers 10 years of BCA-identified repairs)
    - **25 year** amortization
- **$27,192/ month** new mortgage payment

Financial advantages

- A new mortgage loan has financial advantages for a co-op
  - existing reserves and future contributions not enough for cost of repairs
  - new repairs and renovations reduce future maintenance costs
  - economies of scale on renovations

Other refinancing advantages

- Repairs completed immediately
- Less disruption and lower maintenance costs compared to waiting to finish existing mortgage
- Likely a small or no impact on existing mortgage payment
- Avoids large housing charge increases to pay for repairs
- Dealing with a lender that you "own" (credit unions are financial co-operatives)

How the new mortgage works

- Credit union offers co-op a new mortgage to pay off CMHC mortgage and pay for repairs
- Operating Agreement continues (Section 95 only)
- Subsidies continue
- Co-op's auditor continues to report to the Agency or equivalent until the new mortgage is paid
- Co-op commits to memberships in CHF Canada, local member federation and credit union during the new mortgage

How the new mortgage works/2

- Mortgage Agreement with credit union has four parts:
  1. **Money** for CMHC payout and repairs
  2. **Capital plan** with annual reserve contribution identified, to be updated every five years
  3. **Annual report** from CHF Canada to credit union on co-op's financial performance and capital plan
  4. **Mortgage support agreement -** co-op agrees to facilitation by CHF Canada ***if*** lender becomes concerned about governance or management, or financial performance slips

What your co-op has to budget in terms of costs

- CMHC prepayment fees – (Section 95 co-ops only)
- About 0.5% lenders fees
- CHF Canada fee (sliding scale)
- Property appraisal
- Legal costs of deal closing and registering mortgage

What your co-op will need to qualify

1. Solid financial record
   - Three years of audited financials
   - Operating forecasts
2. Asset Management Plan (to be mandatory mid-2016)
3. Ten-year capital plan
4. Agreement with CHF Canada – facilitation and risk monitoring
   - CHF Canada helps credit union administer loan (reduce risk)
   - CHF Canada helps co-op report to credit union
5. The “Paperwork”

What your co-op will need to qualify/2

6. Fit the maximum 75% Loan-to-Value Ratio
7. Cash flow to support 1.2x Debt Service Ratio
8. Pass stress test #1: 2% interest rate increase after first five-year term
9. Pass stress test #2: cash flow when RGI funding ends

How CHF Canada supports the co-op

1. Helps finalize key capital needs/costs
2. Provides expert financial advice that calibrates:
   - Borrowing for capital repairs/renovations
   - Total borrowing (mortgage payout plus capital renewal from borrowing)
   - Amount of monthly payment
   - Ongoing repair/replacement needs and reserve contribution

How CHF Canada supports the co-op/2

3. Prepares application to credit union
4. Reviews credit union's offer with co-op and negotiates any changes to:
   - Interest rate
   - Conditions
5. Handles the "paperwork" with co-op and credit union

How CHF Canada supports the co-op/3

6. Handles provincial government, Agency and CMHC approval processes
7. Organizes mortgage support agreement between co-op, credit union and CHF Canada for loan monitoring
8. Provides annual report to credit union, based on co-op's annual information return
9. Intervenes at lender's request if financial performance warrants it

Co-op housing manager's role

1. Significant commitment of time and energy
   - Process is 4-6 months, depending on co-op's decision-making processes
2. Clearly explains to the Board the risk/benefit analysis
3. Identifies the major milestones involved
4. Ensures the co-op has the necessary technical assessment to properly evaluate its capital funding needs

Co-op housing manager's role/2

5. Helps with the necessary technical, financial, appraisal, income, vacancy, and capital planning information needed to obtain refinancing
6. Assists the Board in explaining refinancing to the membership
7. Assists the Board in understanding the various refinancing agreements and facilitate the review of these by the co-op's lawyer. (Board must understand the steps involved are not always sequential.)

Refinancing Section 61 co-ops

- Many Section 61 co-ops also need refinancing due to age
- These co-ops have long mortgage periods with no renewal dates and a high interest rate (8 - 11%)
- To break the mortgage would mean a high prepayment penalty (interest for the life of the mortgage) which means most co-ops could not afford to refinance
- Our ask of the government:
  - Pay out the interest penalty for these co-ops to allow them to refinance
  - End the operating agreements at mortgage payout

Refinancing Section 61 co-ops – Going forward

- We are confident the two requirements will apply
  - Capital repairs needed
  - Ongoing support for low-income households
- Operating agreements, subsidy must still be worked out
  - Our ask suggests the end of the operating agreement
  - Our hope is that provincial subsidies will continue (we haven't heard otherwise)
- **Key date:** April 1, 2016 is likely when funding starts

Refinancing Section 61 co-ops – Other things to note

- Big advantage – Lower interest rates from 8%-11% to current market rates (around 4%)
- Operating Agreement ends when mortgage is paid out
- Co-op must pass stress test
- Co-op must be financially viable now and in the future
- CHF Canada handles provincial government, Agency and CMHC approval processes if necessary
- No CMHC prepayment fees

Next Steps – How to Get Started

- Is your co-op a Section 95 or 61 funded co-op with a CMHC mortgage or no mortgage?
- Does your co-op have
  - no mortgage or tax arrears?
  - Board and management capacity to arrange loan and undertake major repair projects?
  - a recent Building Condition Assessment that identifies cost of repairs?
  - a solid financial track record (vacancy loss, bad debt)?
  - consensus on what the key repairs and renovations are?

To assess preliminary eligibility

Call or email **Janet Shim** at

CHF Canada's Office

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Any questions?