



2017 ONPHA Conference and Trade Show

Shaping
OUR
Future

Session #408

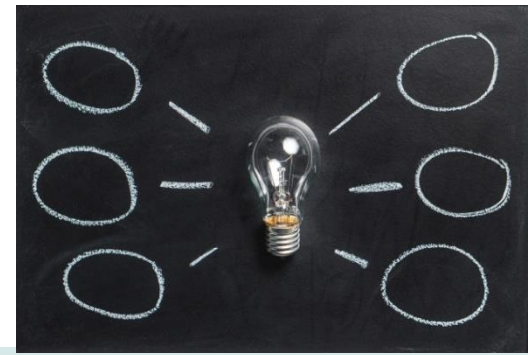
A brave new world: Non-profit refinancing

PRESENTED BY:

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Janet Sikiric, CMHC (Moderator)

Learning goals

1. To learn about refinancing opportunities in the non-profit housing sector
2. To learn about steps and factors housing providers should consider when exploring refinancing options
3. To explore St. Paul's L'Amoreaux Centre's experience with refinancing through CMHC's loan prepayment flexibility program
4. To hear perspectives from a mortgage lending expert specializing in affordable housing



About St. Paul's L'Amoreaux Centre

- 1978
- 297 apartment units
- House approximately 350 seniors
- 86% Rent-Geared-to-Income units
- Basket of support services now with new corporation:
Senior Persons Living Connected (SPLC)
 - geriatric and mental health & addictions services
 - care management and coordination
 - in-home supports and community services
 - exercise and active living classes, health & wellness education, and clinics



The challenge

- 38 year old building
- Not in a financial position to improve/maintain the building
 - Multiple unfunded capital projects
 - Tight cash flow, limited reserve
- Paying high interest by 2016 standards
- Pre-penalty on CMHC mortgage approximately half of outstanding principal



Existing mortgage and operating agreement

- Section 26/27
- Operating agreement ending 2029
- CMHC 50 year non-renewable mortgage



Section 26/27 – condition & requirements

- National Housing Act (NHA), section 26, 27
- Federal program administered through CMHC
- Agreement period = term of mortgage, maximum 50 years
- Program purpose:
 - CMHC mortgages at 8%
 - Tenants' incomes must be equal to or below Housing Income Limits (HILS)
- Rent supplement agreement now administered by Service Manager



The Opportunity

- Government of Canada offering grants to prepay long-term mortgages: \$150M over four years



CMHC Prepayment Program

- Issued June 2016
- Pre-payment penalties waived
- Outcomes-based criteria
- Funding available up to 2019-2020



Benefits of incentive

- No penalty to break the mortgage
- Access financing at current interest rates
- Opportunity for additional cash flow towards capital improvements



Eligibility

- Non-profit or co-operative housing provider
- Currently holding a long-term CHMC non-renewable mortgage



Conditions for Approval

- Meet outcome-based criteria:
 - **Completing repairs to promote housing sustainability**
 - Creating new affordable housing units
 - Maintaining/increasing the level of RGI units
- Prior written consent from Service Manager - Housing Services Act, Section 162(2)



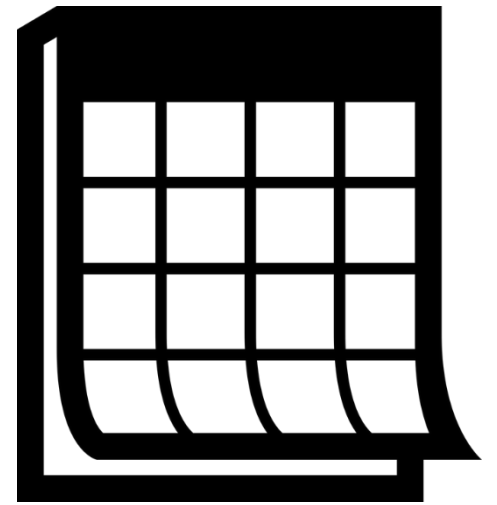
Enablers

- Good existing relationships with commercial banks
 - Able to negotiate better interest rate and additional facilities
- Timing: able to submit with first application round
- Building Condition Assessment already complete
- Existing relationship with legal representation experienced with property and refinancing



Timeline of Activities

- July 2016: Discussion papers from 3 financial institutions
- July 20: Board committee review of application and mortgage rate analysis
- July 26: Service Manager consent received
- Aug 2: Submitted application before deadline
- Sept 1: Application approved!
- Sept 13: Board approved final selection of financial institution and rate
- November 1: Effective date



To-Do's / Due Diligence

1. Complete analysis of existing financing and future requirements
2. Contact multiple financial institutions to develop discussion papers
3. Conduct options modelling and mortgage rate analysis
4. Engage legal counsel
5. Evaluate commitment letters from financial institutions



To-Do's / Due Diligence (continued)

6. Review conditions of existing financing, negotiate second position loans
7. Prepare 5-year cash flow analysis and business case
8. Complete building appraisal – to enable security; environmental study – risk assessment
9. Obtain Board approval
10. Satisfy Service Manager's terms and conditions for consent



11. Employ a Superhero!

Suba Satgunaraj, our Director of Finance, put in heroic effort and super-human skills to make this happen



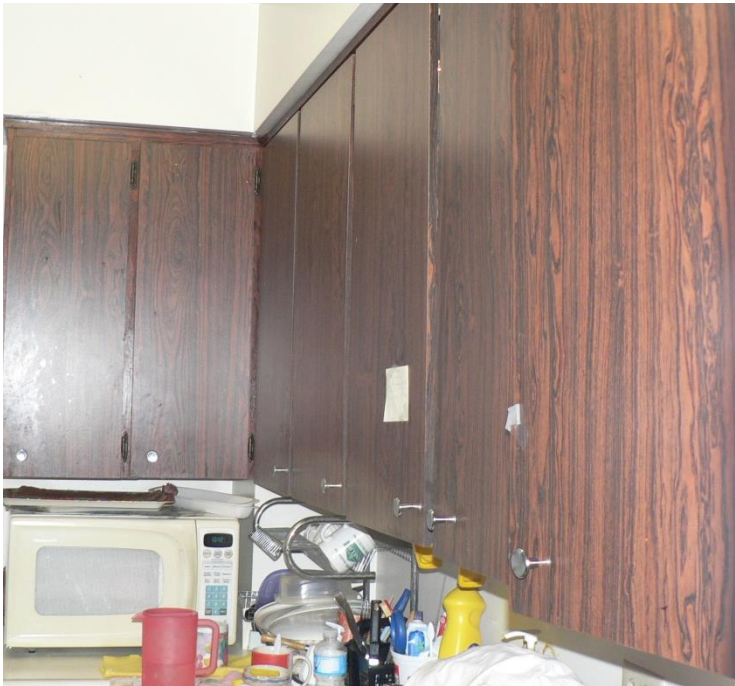
Outcomes

- Low-interest commercial mortgage
- RGI subsidy (operating agreement) extended by 10 years
- Annual interest savings
- Additional cash flow for capital improvements
- Improved annual reserve fund investments



Outcomes

- Repaired / improved 40 units in 2016-17
- Kitchens, bathrooms, flooring



BEFORE



IN PROGRESS



AFTER



Outcomes

- Approximately 40 units planned for repairs in 2017-18
- Energy efficiency projects eg. lighting retrofit, VFD
= more future savings!



Surprises

- We needed an appraisal – ours was out of date!
- Environmental study had expired – we needed a new one!
- Some lenders may not be able to commit – good thing we had more than one commitment letter!
- Legal counsel for 3 parties require plenty of time to work things out!
- The new mortgager and existing lenders may need to negotiate the payout ranking!



Recommendations

- Utilize professionals and subject matter experts to assist you
- Know the conditions of existing covenants with lenders or financial institutions
- Be up front with all potential lenders about funding conditions, existing financial obligations
- Plan for extra time to complete all stages – count on delays!
- Budget for legal and financing fees
- Use one of your financial institution's approved appraisers – it speeds up the process!
- Use the opportunity to finance prepayment of other small loans



Celebrate the success!



FIRST NATIONAL

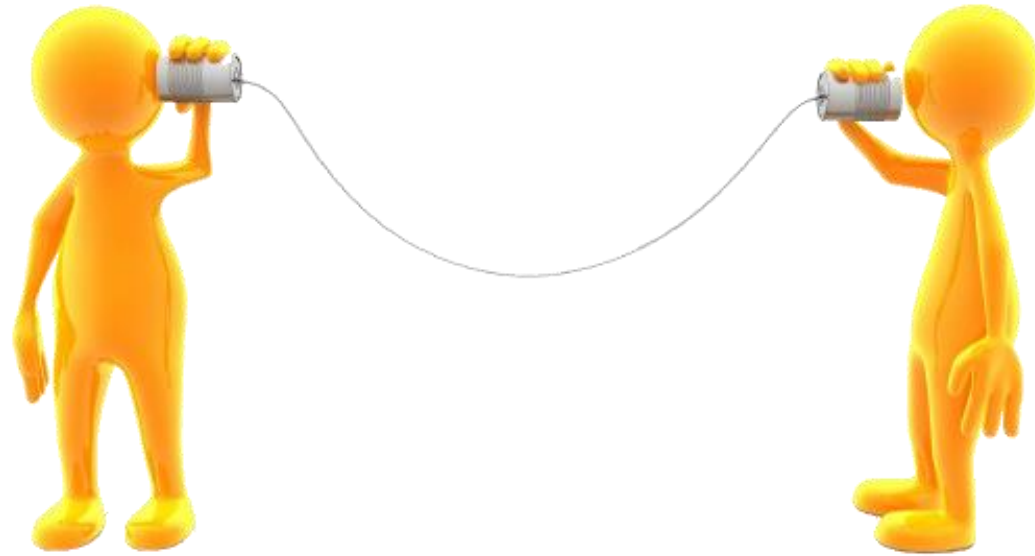
FINANCIAL LP



- **25 plus years** experience delivering complete mortgage lending solutions
- More than **\$100 billion** in assets under administration
- Original founders still active in day-to-day operations and holding 80% stake in the company
- Canada's leading CMHC lender



Talk with your Service Manager



CMHC Prepayment incentive (Toronto)

Terms and Conditions for Service Manager Consent CMHC Loan Prepayment Flexibility Program

REFINANCING

3. The Service Manager must provide its prior written consent to any refinancing pursuant to both the Operating Agreement and s. 162(2) of the Housing Services Act. The Service Manager will not provide consent to a refinancing with CMHC or any CMHC insured mortgage. Upon registration of the new mortgage you must provide the Service Manager with a copy of the loan agreement, registered mortgage and the PIN for the Housing Project showing that the title to the Housing Project is subject to the encumbrance of the new mortgage.



Why Considering Pre-paying

- Lower monthly payments
- Access to additional equity
- Allow for long term planning
- Exit restrictive agreements
- Reduce interest rate risk



Explore Prepayment Penalty (Sec 95)

Current Interest Rate	0.99%
Remaining Term	3 years
Remaining loan	\$3,000,000
Remaining Amortization	3 Years
Projected Penalty	\$47,000



By the Numbers

Current Interest Rate	0.99%
Remaining Term	3 years
Remaining loan	\$3,000,000
Remaining Amortization	3 Years
Monthly Payment	\$84,609

New Interest Rate	2.95% (5 Year Term)
Remaining Term	5 years
Remaining loan	\$7,000,000
Remaining Amortization	25 Years
Monthly Payment	\$32,947

Savings with Refinance from Oct '16 to Today	\$307,000
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Financing Options

1. CMHC Take-out

- Preferred form of long-term financing
- Involves Application to CMHC (handled by lender)
- Processing time is 8-12 weeks from start to finish
- Up to 85% LTV
- Secondary & Tertiary markets

2. Conventional Take-out

- No mortgage insurance premium
- Process time is typically shorter
- Rates are higher
- Longer term length not always accessible



Financing Options

3. Conventional Bridge

- Intent is for intermediate financing
- Help facilitate the transition of a project until normalized operations are reached
- Short terms and higher rates
- Flexible pay-out terms



CMHC Mortgage Insurance Program

- Standard program used by private sector
- 65% LTV
- No Guarantees
- No restriction on funds
- 1.3x Debt Coverage for 5 year term and 1.2x for 10 year term



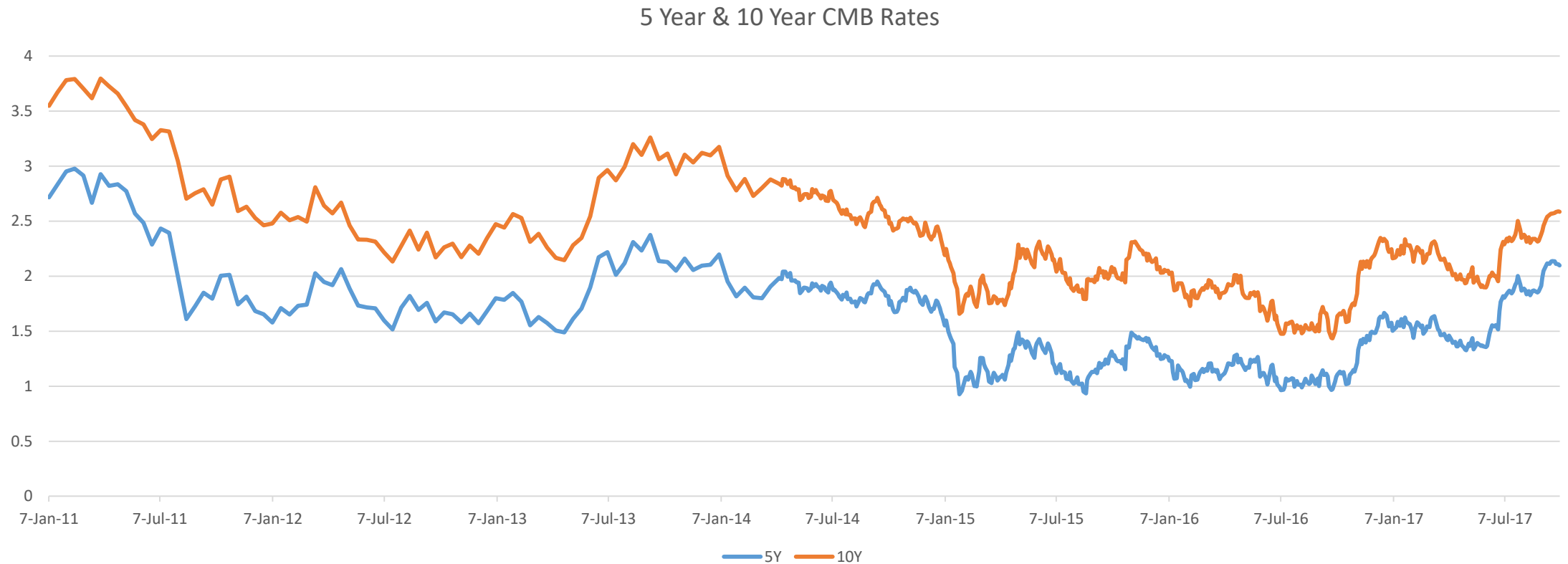
CMHC Affordable Adjustments

How to Qualify and Restrictions

1. 80% of rents are at or below 30th percentile rents
 - a) Funds used for capital improvements at the subject property
2. If the project has been approved under another government housing program
3. Social Housing project with up to 5 years remaining on the operating agreement
 - a) Funds used for capital improvements at subject
 - b) Purchase and/or capital repairs to another existing affordable property
 - c) Construction of a new affordable housing property



Interest Rates



Start the Discussion

Initial Due Diligence

- Rent roll
- Operating Statement
- Financial Statement
- Any deferred maintenance
- Purpose for funds



Thank You

To receive a **free assessment** to help you determine the lending options available for your property please send an email to **affordable.housing@firstnational.ca**

Assessment includes:

- A detailed loan analysis for your property
- Initial consultation to determine the best mortgage strategy

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Thank you!

ONPHA values your opinion. Please complete a session evaluation.