



## CHF Canada's Refinancing Program

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## Purpose of the Program

- Aging housing co-operatives (Section 95)
- CMHC's direct lending program
- Re-financing is common in private sector real estate
- Re-financing is common in the lending sector
- Purpose



## Advantages for Co-op

- Repairs completed immediately
- Less disruption and lower maintenance costs compared to waiting for repairs/waiting for first mortgage to end before new borrowing
- Small or no impact on existing mortgage payment
- Avoids large housing charge increases to pay for needed repairs
- Dealing with a lender that you “own” (credit unions are financial co-operatives)



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## CMHC Requirements

- Co-op is financially viable, and will be viable when operating agreement expires (and RGI subsidies end)
- 5 year operating cash flow (showing viability)
- Capital investment is required
- Ten-year capital replacement plan
- Continue operating agreement until its scheduled expiry



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## CHF Canada Support

- Help finalize key capital needs/costs (AMP)
- Provide 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



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## CHF Canada Support (cont'd)

- Prepare application to credit union
- Review credit union's offer with co-op and negotiate any changes to:
  - ✓ Interest rate
  - ✓ Conditions
  - ✓ Handle the “paperwork” with co-op and credit union



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## CHF Canada Support (cont'd)

- Handle provincial government processes, CMHC approval process
- Organize three-way agreement between co-op, credit union and CHF Canada for loan monitoring (part of deal, gets better offer from credit union) Mortgage Support Agreement
- Fee for service (BCA procurement, project management etc,)
- Provide annual report to credit union, based on co-op's annual information return
- Intervene at lender's request if financial performance warrants



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## The Process

- Co-op contacts CHF Canada representative to confirm interest in the re-financing program.
- Co-op provides 3 years Financial Statements and a Building Condition Assessment ( BCA ) and an Asset Management Plan (AMP) to CHF Canada.
- Agency for Co-operative Housing provides most recent operating review and commentary ( “ thumbnail “ ).
- CHF Canada's consultants analyze information, determine re-financing potential and provide recommendations.



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## The Process (cont'd)

- CHF Canada and /or consultants meet with co-op board to review findings, answer questions and determine how to proceed.
- If re-financing recommended, board arranges general Membership meeting.
- CHF Canada and/or consultants present findings to membership, board provides recommendation, membership votes and a resolution to proceed, or not, is obtained.



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## The Process (cont'd)

- If proceeding, co-op obtains Appraisal Report, Phase 1 Environmental Report and contracts Engineering firm to finalize and oversee the capital works plan. CHF Canada and the consultants provide necessary information to the credit union.
- Agency for Co-operative Housing provides membership Resolution and recommendation to CMHC to obtain approval for pre-payment.
- CHF Canada and consultants provide required information to credit union and assists with their review and credit approval.



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## The Process (cont'd)

- Credit Union issues commitment Letter. After legal review, co-op accepts.
- Co-op and their engineering consultant tender capital works. Contractor(s) selected.
- CHF Canada, the credit union and the co-op execute the tri-partite agreement. (Mortgage Support Agreement)
- Mortgage funds received. CMHC is paid out and the Lender may choose to hold back for the capital works advancing the balance as work is in place.
- Capital works are completed with inspections and monitoring by engineering consultant.



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## New Bathrooms & Kitchens...





To assess preliminary eligibility

Call or email **Janet Shim** at  
CHF Canada's Office  
**1-800-268-2537 / 416-366-1711 ext 239**  
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## CHF Canada's Refinancing Program – Case File

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## ABC Co-op - Current Financial Situation

1. **\$2.0 million** - in overdue capital repairs (2013-2014) plus an additional \$2.0 million in near term repairs (2015 – 2017). Total **\$4.0 million** in accordance with BCA. (inflation adjusted)
2. **\$500,000** - Reserve fund balance (Jan 31-2014) – insufficient to fund repairs
3. **\$3.5 million** - Funding shortfall current & 2015-2017 repairs
4. **\$200,000/annum** present Reserve Fund contributions are insufficient to fund scheduled Capital repairs beyond 2017
5. **\$14.0 million** – scheduled capital repairs (inflation adjusted) between 2017 & 2042 (30-year BCA forecast) **VERSUS**
6. **\$7.5 million** – reserve fund contributions 2017-2042 (inflation adjusted)





## Summary of ABC Co-op Challenge

<u>Immediate Financial Requirement</u>	
\$ 2,000,000	overdue capital repairs
\$ 2,000,000	2015 - 2017 scheduled repairs
\$ 4,000,000	overdue and near term repairs
-\$ 500,000	Less reserve Fund balance
<b>\$ 3,500,000</b>	<b>Immediate requirement</b>
<u>Long Term Financial Requirement</u>	
\$ 14,000,000	2018-2042 scheduled repairs
-\$ 7,500,000	Reserve Fund contributions
<b>\$ 6,500,000</b>	<b>Long Term requirement</b>



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## Present Mortgage Situation

1. 150 unit low rise townhouse complex
2. **\$3.1 million** outstanding mortgage balance
3. Current 5-year term ends in 6 months
4. **\$665,000** annual mortgage payments (P&I)
5. Current Interest rate 2.75%
6. Mortgage will renew for final 5-yr term if not refinanced
7. **\$12.0 million** – Appraised value of Property
8. Current Loan to Value (LTV)  $\$3.1\text{m} / \$12.0\text{m} = 26\%$
9. Opportunity – refinance to fund **immediate** capital repair requirements of **\$3.5 million**



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## Refinancing Scenario

1. \$7.0 million – new conventional mortgage
2. 4.25% int. rate / 5-year term / 25-year amortization
3. \$453,000/annum mortgage payments, reduced from present \$665,000
4. The **\$212,000 savings** per annum are transferred to the Reserve account
5. New DSR exceeds the 1.2:1 Lender's requirement
6. New LTV ratio is  $\$7.0\text{m} / \$12.0\text{m} = 58\%$



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## Refinancing Scenario (Continued)

- Refinancing resolved both the Immediate and long term capital repair funding requirements
- \$3.5 million – from new mortgage proceeds finances backlogged through 2017 capital repairs
- \$212,000/annum in mortgage payments savings transferred to Reserve account funds **\$6.5 million** long term capital repair funding gap
- \$212,000 over 25 years = \$5.3 million however is subject to Co-op budgeted inflation factor of 1.5% = **\$6.5 million**



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## Source and Use of Mortgage Funds

- New Lender arranges for payout of existing CMHC mortgage after all approvals in place
- Lender releases construction funding as required to pay contractors.
- Soft costs, fees, legal costs, reports, and project management are estimates @ 11% and vary by situation. They are included in the new mortgage

Refinancing of CHMC debt	\$3,100,000	Estimated balance at payout date
CMHC Breakage Fee	\$15,000	Mortgage Breakage Fee
Loan for repairs	\$3,500,000	Overdue and 2015-17 repairs per BCA
Reports / Appraisal / Fees / Legal	\$150,000	Appraisal/Environmental/Prof fees
Contingency - Project Mgmt etc	\$235,000	
<b>Total New Loan</b>	<b>\$7,000,000</b>	



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## Lender's Minimum Requirements Met

1. **Repayment** – financial ability to service a larger mortgage (DSR) – annual payments decreased
2. **Maintenance of the Property** – adequate Reserves to finance BCA scheduled repairs – Reserve funding increased by \$212,000/annum
3. **Security Value** – new mortgage cannot exceed 75% of the appraised value (LTV) – New LTV = 58%
4. **Governance & Management** – historically strong



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