

# Refinancing Co-ops

## CHF Canada's Refinancing Program

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CO-OPERATIVE HOUSING INTERNATIONAL  
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# CHF Canada's Refinancing Program

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- ❑ Purpose of the Refinancing Program
- ❑ How the program works
- ❑ How CHF Canada supports the co-op
- ❑ What the government needs

# Purpose of the Refinancing Program

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- ❑ Aging housing co-ops need new capital for repairs, renovations, modernization
- ❑ Program provides a service that helps member co-ops borrow through new mortgage financing, to invest in repairs and renovations immediately

# How it Works

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- ❑ The co-op takes out a new mortgage, which
  - pays out the existing mortgage if there is one
  - pays for the needed investments in the property
  - has an appropriate amortization period (the period of time over which the co-op repays the mortgage loan)

## Example (actual co-op)

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- ❑ **\$28,000/month** existing mortgage payment
- ❑ **\$1.8 million** existing first mortgage
- ❑ **\$4.5 million** borrowed at 5% interest rate
  - **\$1.8 million** pays out existing mortgage including prepayment fee
  - **\$2.7 million** for repairs and renovations
  - **20 year** amortization
- ❑ **\$29,600/ month** new mortgage payment

# Financial Advantages

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- ❑ Refinancing has several advantages for a co-op
  - reinvestment in the property need not be delayed
  - future maintenance costs lower with modernized buildings
  - economies of scale when renovations all done at once
  - investing in green technologies offers downstream payback and a contribution to the environment
  - amortization period can be set according to the co-op's financial capacity

# Co-operation among Co-operatives

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- ❑ Program puts housing co-ops in partnership with financial co-operatives through the Canadian credit union movement
- ❑ Most housing co-ops are comfortable with credit unions because they have done all their banking with CUs since the beginning
- ❑ Co-ops can usually refinance with the credit union where they already do business

# How the Program Works

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- ❑ Co-op identifies the need for capital reinvestment, comes to CHF Canada to talk about the refinancing program
- ❑ CHF Canada guides the co-op through the program requirements



# How the Program Works

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## Program requirements for the co-op

- 3-year financial history
- Assessment of the physical condition of the properties
- Asset management plan for capital repairs, renovations and property maintenance (10 years)
- Long-term comprehensive financial projections for operations, reserves and debt service capacity
- Loan application satisfactory to the lender
- Government program requirements must be met

# How the program works

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Co-op must budget for

- any prepayment penalty on existing mortgage (government is normally the current lender)
- loan application fee, typically 0.5% of the loan amount
- fees for CHF Canada's support services
- property value appraisal
- legal costs of closing and registering the mortgage
- environmental assessment

# How the Program Works

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## Lender Requirements/1

- ❑ Loan application must include:
  - co-op's borrowing requirements
  - asset management plan and comprehensive financial projections
  - 3-year financial history showing acceptable financial track record
  - appraisal of the property's value
  - data on rents, vacancies

# How the program works

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## Lender requirements/2

- ❑ The co-op must:
  - have an site environmental assessment
  - satisfy a loan-to-value ratio of 75%
  - meet a debt service ratio of 1.2
  - pass stress test #1: ability to absorb a 2% interest rate increase after first 5-year term of the new loan
  - pass stress test #2: have sufficient cash flow when any government subsidy expires

# How CHF Canada supports the co-op

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- ❑ Helps establish capital needs and costs by connecting the co-op with technical professionals
- ❑ Provides financial expertise that advises on
  - borrowing for capital repairs/renovations
  - total borrowing including mortgage payout, other costs
  - a manageable monthly mortgage payment
  - future repair/replacement needs and reserve contributions

# How CHF Canada supports the co-op/2

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- ❑ Provides commercial lending expertise to
  - prepare application to credit union in proper form
  - review credit union's offer with co-op and negotiates any changes to the interest rate and loan conditions
  - handles all the paperwork with co-op and credit union

# How CHF Canada supports the co-op/3

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- ❑ handles government approval processes
- ❑ organizes mortgage support agreement between co-op, credit union and CHF Canada for loan monitoring
- ❑ provides annual report to credit union, based on co-op's annual information return
- ❑ intervenes at lender's request if financial performance warrants it

# What the government needs

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- ❑ Co-ops in a government program must show that they
    - are financially viable, and will be viable when the government agreement and subsidies expire
    - have adequate 5-year operating cash flow (to show viability)
    - are committed to a program of capital investment
    - have a 10-year capital replacement plan
    - will continue to meet all program requirements
- ... in order to secure approval for new borrowing



Any Questions?

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