Mortgage Financing for Social and Affordable Housing

FINANCING OPTIONS FOR PREPAYING CMHC MORTGAGES, FOR PROJECTS WITH EXPIRED AGREEMENTS AND FOR NEW CONSTRUCTION

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MORTGAGES FOR SOCIAL AND AFFORDABLE HOUSING

- Who is Devonshire?
- Why consider new mortgage financing?
- Three situations: 1. Mortgages for CMHC Prepayments
  2. Mortgages after Agreement expiries
  3. Mortgages for new construction
- What is possible. Some examples
- What can your group do ?

+ MORTGAGES FOR CMHC PREPAYMENT

- BACKGROUND:
- CMHC direct lender 1970's/1980's to private non-profits, co-operatives, and municipal housing corporations.
- Under Sections 15.1. 34.18 and later 56.1 of National Housing Act
- Now Section 61 and 95

+ MORTGAGES FOR CMHC PREPAYMENT -cont'd

- financing for new housing projects and operating subsidies that reduced borrowing costs and provided tenant subsidies.
- mortgage amortization and the Operating Agreements were generally for 30 to 50 years.
- All of these mortgages and accompanying Agreements will be expiring in the next 10 years.

+ *MORTGAGES FOR CMHC PREPAYMENT -cont'd*

- Currently projects having very short amortizations with large debt service payments.
- Large mortgage payments create a cash flow crunch for replacement reserves and needed capital expenditures.
- Hardship.
- January 2013, CMHC announces process to payout direct mortgages.

+ *CMHC's PREPAYMENT CRITERIA:*

- The project viable after the expiry of the Operating Agreement.
- Capital investment required for capital building components that cannot be financed from reserve funds.
- Viable capital replacement plan in place for a minimum of ten (10) years.
- Subject to the Operating Agreement until scheduled expiry. CMHC subsidy payments continue to expiry.

+ INFORMATION REQUIRED

- Last three years audited Financial Statements.
- Current rent roll and operating budget.
- A recent Building Condition Assessment (BCA) and a Reserve Fund Study.
- List of recent and proposed capital replacements.
- Original CMHC Operating Agreement
- Recent CMHC Mortgage Statement

+ ANALYSIS REQUIRED:

- Review BCA and Reserve Fund Study. Compare to reserves on hand and projected. Assess qualification for prepayment.
- Review current mortgage status including term, amortization, payments, maturity.
- Review current operations. Assess viability going forward.
- Determine amount of capital works possible given financial constraints.

+ *ANALYSIS REQUIRED:* cont'd

- current mortgage payout and calculate prepayment penalty.
- Estimate new first mortgage amount.
- Assess impact of required new first mortgage against new Lender requirements.
- Re-cast reserve fund to determine 10 year viability horizon and contribution requirements.
- Third party reports.
- Submission to new mortgage Lender to obtain Letter of Intent.

+ *APPROVAL PROCESS:*

- Housing provider undertakes analysis and discusses with Service Manager.
- If supported by Service Manager, housing provider passes a Resolution to proceed.
- Service Manager provides analysis, recommendation and Resolution to MMAH
- If in agreement, MMAH submits prepayment request to CMHC with written confirmation that CMHC project eligibility criteria has been satisfied.

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APPROVAL PROCESS: cont'd

- Once CMHC approval in place, housing provider works with Engineer to develop specifications and obtain Contractor(s) and firm pricing for capital works.
- Housing provider works with Lender to obtain final Mortgage Commitment.
- When funding date determined, CMHC mortgage is paid out and capital upgrades start.

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MORTGAGES FOR PROJECTS WITH EXPIRED AGREEMENTS

- Many options exist when Operating Agreements expire. Due to the age of the projects, many will have capital requirements to upgrade or replace key building components
- Many will need to properly fund their replacement reserves.
- Some projects will want to create separate funds to continue to offer individual tenant subsidies.
- A new mortgage can cover all of these costs plus engineering, appraisal, project manager and other fees and costs.
- Two types of mortgages possible…. Conventional or Insured

MORTGAGES FOR PROJECTS WITH EXPIRED AGREEMENTS - cont'd

1. CONVENTIONAL MORTGAGES

- For NP's, available where the loan to value is less than 60%
- Lenders include banks, credit unions, niche Lenders
- Loan terms from 3 to 10 years and amortizations max. 25 years although for older projects some Lenders cap at 20 years
- Generally market pricing, some premium for small loans
- Key evaluation criteria includes good management, low vacancy and bad debts, stable operating statements, minimum 1.30 x's debt coverage.

MORTGAGES FOR PROJECTS WITH EXPIRED AGREEMENTS - cont'd

2. NHA INSURED MORTGAGES

- Available for any loan, but particularly when loan is greater than 60% LTV or an extended amortization is needed to be viable
- Loans can go up to 85% of CMHC's " lending value ".
- Advantages include amortization out to 35 years and rates up to 1.0% less than conventional mortgages
- Some projects may qualify for "affordable housing considerations"…. Level 1 where majority of rents below 80% of CMHC average market rent (AMR) or Level 2 where majority of rents are below 65% of AMR

MORTGAGES FOR PROJECTS WITH EXPIRED AGREEMENTS - cont'd

NHA INSURED MORTGAGES (cont'd)

- If deemed Level 1 or 2 affordable, lower premiums apply, lower debt coverage requirements, LTV up to 95% of CMHC " lending value " possible, guarantor flexibilities and loan advancing considerations
- Board experience, property management, 5 yr. operating history, reserve status are important considerations
- Work can include major renos, conversions, addition of new units

MORTGAGES FOR PROJECTS WITH EXPIRED AGREEMENTS – cont'd

PROCESS:

- Determine capital requirements, assess current operations and viability. Determine the loan request and if a Conventional or NHA insured mortgage is appropriate.
- Obtain an A.A.C.I. Appraisal of the property, Phase 1 ESA, construction or reno estimates, reserve fund analysis
- Prepare package and approach Lenders. Obtain proposals.
- Select Lender, gather supporting information, obtain Commitment Letter
- Satisfy Conditions Precedent and arrange funding. Funds for major capital items held back and advanced on completion

MORTGAGES FOR NEW CONSTRUCTION

MORTGAGES FOR NEW CONSTRUCTION

- Construction and Long Term mortgage financing is available where a new project is being built, either with IAH funding or without.
- The construction financing and long term " take-out " mortgage are separate loans , but often arranged with same Lender.
- Conventional or NHA insured financing is possible. Where IAH funding is in place, or equity greater than 40%, the construction loan is usually uninsured and the long term mortgage is insured

+ # MORTGAGES FOR NEW CONSTRUCTION - cont'd

CONSTRUCTION LOAN:

- For NP borrower, max loan probably 60% of costs unless guarantors or other security possible. NHA insurance required for higher ratios.
- Rate is Bank Prime plus .05% to 2.0%, term is construction period plus lease up, interest only payments through construction
- Lender requirements include fixed price construction contract, experienced Contractor, strong financials, equity in first, advances on work in place, Architect's and Project Monitor (QS) certifications, holdbacks for liens and rental achievement

+ # MORTGAGES FOR NEW CONSTRUCTION - cont'd

LONG TERM MORTGAGE:

- Long term or take-out mortgage replaces the construction loan
- if Conventional, generally 3 to 10 year term, 25 year amortization, market interest rate set a time of funding
- if NHA insured, terms 5 to 20 years possible, amortizations up to 40 years, rates often up to 1.0% better than prime market.
- for non-profit borrowers, or where IAH funding is in place, the CMHC " affordable housing considerations " are possible with higher ratios, lower or no premiums, early holdback release and other underwriting considerations

MORTGAGES FOR NEW CONSTRUCTION - cont'd

KEY INFORMATION AND CONSIDERATIONS:

- to apply for construction financing need all zoning in place, full plans, soft costs confirmed, fixed price construction contract, construction and cash flow schedules, 3 yrs. borrower financials, credit references, equity confirmation. For IAH projects need approved Contribution Agreement
- if uninsured construction loan / insured take out, need CMHC approval upfront
- the low rent structures of affordable housing projects limit borrowings. Off sets are equity, grants, guarantees, low rates and long ams , strong proponents & consultants, good history

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