Snapshot: LONG TERM BONDS

Bond issues are a very efficient means of raising capital:

1. Bonds can raise more money than mortgages. Credit worthiness is based on security of all income flows of a corporation; in contrast, mortgages are limited by asset value of the subject property
2. Interest rates for bonds are comparable to equivalent term mortgages; and,
3. Interest-only bonds are considered normal. This not just reduces repayment levels; it creates flexibility to deal with the debt over time, including refinancing of remaining debt.
4. Funds can be freely used for a variety of purposes –redevelopment, new construction and energy retrofits.

Toronto Community Housing Corporation (TCHC), broke new ground when it raised $450 million from two 30-year bond issues to deal with its capital repair backlog. Both issues, in 2007 and 2010, (before and after the debt crisis) were over-subscribed, i.e. more potential buyers than bonds. The investor community now has greater comfort with this form of quasi-public enterprise.

Here's a brief overview on how bonds work.

The most critical role is a trusted financial advisor who navigates the bond issue throughout the entire process. They help obtain debt ratings for the corporation and the bond issue, negotiate with the underwriter on terms and conditions of the offer. Other specialized expertise is needed, including legal, a debt rating agency, and underwriters - all of whom expect fees.

While such services are expensive, the overhead in arranging a bond issue can be paid for by the bond issue itself. Bond issue costs for social housing will be lower for subsequent issues given the trail-blazing by TCHC.

Within the provider community, local housing corporations (LHC) occupy a preferred position: LHCs are seen as an arm of local government and receive equivalent debt ratings. However, there is no reason why a municipality could not issue a bond for community-based housing providers, based on a commitment to long-term financial arrangements.

The major limitation? - a bond issue requires a minimum $150 million to interest the pension funds, insurance companies and the banks who look for big long-term deals.

Housing providers would need to work with their Service Manager to ensure that terms and conditions were acceptable. TCHC, for example, had to meet City of Toronto requirements that there be no increase in debt service costs. However, neither provincial nor federal approvals were required, as legal title was not affected.

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