RENOVATE, RENEW, REFINANCE

Enterprising new partnerships with Canada's credit unions mean Section 95 housing co-ops can secure their futures with renovations and replacements

by Leslie Cole

CHF Canada's pilot project to test new financing for aging Section 95 co-ops is a success!

There is a feasible way that hundreds of housing co-ops can deal with refinancing needs and keep thousands of co-op homes affordable. And to cap it off, co-ops can do business with credit unions, working with supportive partners and strengthening the co-op movement.

The year-long pilot project shows that co-ops can solve this issue without government assistance. New blended mortgage loans can be offered to Section 95 housing co-ops in partnership with Canada's credit unions, allowing these co-ops to reinvest in their properties without straining operating budgets or housing charges.

This lending partnership would apply to Section 95 co-ops in all parts of Canada except B.C. and Quebec, where regional federations have established other arrangements with local credit unions (see sidebar). Once this program is underway, CHF Canada will investigate whether it can be applied to co-ops that are part of other federal programs.

Since summer 2011, CHF Canada, Alterna Savings, Homestarts Inc., the Agency for Co-operative Housing and two Ontario housing co-ops have been testing a new lending product that was announced at CHF Canada's 2011 Annual Meeting.

For the test co-ops, part of the new mortgage loan could provide funding for replacement and repair of co-op roofs, furnaces and walkways, as well as modernizing the inside of members' homes. Another part of the loan will pay off the co-ops' existing CMHC mortgage. Co-ops that take out this blended mortgage loan would extend the new loan over 15 to 25 years, so that their monthly payments can stay roughly the same as they are today.

HOW DOES IT WORK?

Mondragon Housing Co-op in Brampton (78 units) and **Morley Mills Housing Co-op** in Georgetown (44 units) volunteered to participate in the pilot project. These co-ops have assessed their real capital repair needs and are considering actual loan offers from their credit unions. Both co-ops, with help from property management company Homestarts, are now working through the loan details with CHF Canada, Alterna Savings and Prosperity One Credit Union to see if this new program meets their needs.

Homestarts executive director **Paul Hastie** says that these co-ops are ideal candidates for the new borrowing concept. "In both cases, the housing co-ops live easily within their budget. They are well-maintained. They own title to their land and have significant worth in their homes." The co-ops are also coming to the end of their operating agreements with CMHC and are ready to refinance their mortgages.

Of course, co-ops will have to make a business case for these loans. Credit unions (or any lenders) expect professional building assessments done by an engineering company to identify exactly what capital repairs are needed and how much they will cost. Mondragon Co-op was already in the process of getting an assessment when it agreed to be part of the pilot project in July 2011. The report came back with a list of repairs in October—including new roofs and foundation repairs—that added up to more than $2.5 million in new capital costs.

"Because we are an older co-op—even in relatively good condition—there is lots of work we need to do," says Mondragon's treasurer, **Nadine Wisdom**. "If we looked at short-term financing for the work, our ability to offer affordable housing charges would quickly evaporate."

Hastie says that the price tag for capital repairs can be quite large, but the work can be sorted into urgent and less urgent needs. Most can be done immediately

Mondragon Housing Co-op.

Thinking alike: regional partnerships in BC and Quebec

CHF Canada's new refinancing partnership will apply to all Section 95 housing co-ops except for those in BC and Quebec. Regional federations in these provinces have forged similar partnerships with two of Canada's largest credit unions: **Vancity Credit Union** in BC and **Desjardins Group** in Quebec.

"Our new partnership with Vancity comes at just the right time for the co-op housing sector in BC," says **CHF BC** Executive Director **Thom Armstrong**. "Our members need reliable access to capital on reasonable terms to renew their homes for another generation, while Vancity has a mandate to make a real difference in the community through impact lending and investment. Together, we are perfectly positioned to make a huge difference in our members' future."

using the loan—the rest spread out over the timetable of five to 10 years.

In early February, Mondragon's board met with CHF Canada and Alterna to see what the new blended mortgage would look like and how the co-op could get this financing. Like any commercial borrower, co-ops need to show a solid three-year financial track record and a firm capital plan for its next five years. The lender will conduct an annual review of the borrower's performance (with assistance from CHF Canada) to make sure the co-op continues to be in healthy financial and physical shape.

Mondragon's board is now considering when the possibility of new borrowing might be presented to members for consideration.

"The benefit [of the Alterna financing] is that we would be able to get the work done sooner, and it looks like any increase in our monthly mortgage payment would be minor," says Wisdom.

Morley Mills began a building condition assessment after agreeing to be a test case for the new financing. They received their report in February. Co-op president Clarke Hase says "it has been a bit of an eye opener. While we knew some areas of the co-op were in need of attention, some others were a revelation. The amount of money needed to maintain and refurbish our units, especially in the short term, is staggering. They fortify the importance and necessity of this pilot project, not only for us but for all co-ops."

Hase says his co-op will have to look carefully at their capital repair needs and will wait to get some details about what a loan would look like and how the co-op would manage the payments. He knows co-ops must receive financing with a stable interest rate for their capital needs in the future, because they won't be able to get money from CMHC.

Mondragon is already a member of Alterna Savings credit union and Morley Mills banks with Prosperity One Credit Union, so both are dealing with financial co-operatives ready to serve members' borrowing needs. Credit unions have experience with large-scale lending to multi-unit apartments, but are less familiar with the financing of non-profit co-op housing which has been handled through CMHC since the mid-1990s. As part of the pilot projects, Homestarts and CHF Canada have helped the credit unions understand that one advantage of housing co-ops is that the residents are also owners, so they have an incentive to take care of their units. As well, there is less

Some of the people involved in the refinancing pilots: (seated from left) Nadine Wisdom, Mondragon director; Jens Lohmueller, consultant; Linda Stephenson, CHF Canada; Sherry Russell, Mondragon president (standing from left) Billy Lai, CMS Engineering; Paul Hastie, Homestarts; Michael Leui, CMS Engineering.

In March, Mondragon members held an info session to discuss refinancing.

turnover of residents and often lower vacancy rates than in other commercial properties. These features make the co-ops attractive as a commercial borrower.

CHF Canada is an important partner, connecting co-ops to the credit unions. "We will help member co-ops go through the steps to qualify for the new loan and, once they have it, meet the requirements for the lender's annual review of finances and progress on repairs," says CHF Canada's Director of Corporate Affairs, **Nick Sidor**.

Alterna Savings project manager **Randy Harris** says CHF Canada played a critical role finding the best candidates to act as test cases for the new mortgage loan and in helping Alterna set basic rules for co-ops to qualify for these loans.

"Whatever these two co-ops decide, the financial analysis shows clearly that the new 'blend and extend' mortgage will work well for many Section 95 co-ops that need new capital," says Sidor. "Thanks to Mondragon and Morley Mills, we have been able to successfully test this fantastic new opportunity for hundreds of co-ops and a great example of co-operation among co-operatives."

Coming to the Annual Meeting in Niagara Falls? Find out more about refinancing at workshop #108. "New mortgages for Section 95 co-ops—good news from the Ontario pilot project," on Thursday, June 7 at 9:00 a.m.

How to get started

CHF Canada can provide advice and assistance to Section 95 co-ops interested in refinancing. Lenders typically require the following standard indicators of creditworthiness:

- at least three years of positive financial records showing few or no vacancies losses or bad debts
- professional management
- a recent building condition assessment showing estimated repair costs
- a detailed five-year capital replacement plan
- a property appraisal
- no mortgage or tax arrears

CHF Canada can help you quickly assess whether your co-op could qualify. For more information, contact CHF Canada's Director of Corporate Affairs, Nick Sidor, at nsidor@chfcanada.coop or call 1.800.465.2752 extension 231.