

CMHC Multi-Family Underwriting

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	Mortgage Loan Default Insurance CMHC Rental Properties
	
	Everything you need to open new doors
Canada	

	www.cmhc.ca
	DECIDE UPON YOUR GOAL AND TAKE ACTION.
	THE ACT OF TAKING THE FIRST STEP IS WHAT SEPARATES THE LOOSERS FROM THE WINNERS.
	<small>CANADA MORTGAGE AND HOUSING CORPORATION</small>
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	MY GOAL
	<ul style="list-style-type: none">▪ SHOW YOU ANALYTICAL FRAMEWORK FOR UNDERWRITING <u>MULTI-FAMILY MORTGAGE LOANS (5 UNITS +)</u>
	<small>CANADA MORTGAGE AND HOUSING CORPORATION</small>
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	MY GOAL
	<ul style="list-style-type: none">▪ SUGGEST A RISK MANAGEMENT APPROACH IN YOUR REAL ESTATE INVESTMENTS

	MY GOAL
	<ul style="list-style-type: none">▪ IN REIN TERMS: <p>SHOW YOU HOW TO BE A BETTER PLAYER IN SAND BOX # 6 – <u>HIGH RATIO MULTI-FAMILY PROPERTY</u></p>
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	MY GOAL
	<ul style="list-style-type: none">▪ HELP YOU TO GET BANKS TO SAY YES TO YOU


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	MORTGAGE INSURANCE
	MORTGAGE <u>DEFAULT</u> INSURANCE
	<ul style="list-style-type: none">▪ RISK = BORROWER DEFAULTING ON LOAN
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	MORTGAGE INSURANCE
	MY JOB AS MULTI-FAMILY UNDERWRITER IS TO:
	<ul style="list-style-type: none">▪ ANALYZE & MITIGATE RISKS
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	Mortgage Default Insurance
	ADVANTAGE FOR BANKS:
	<ul style="list-style-type: none">▪ ELIMINATES MORTGAGE LENDING RISKS FOR BANKS▪ AS LONG AS <u>CONDITIONS</u> ARE MET BY BANK
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	CMHC ADVANTAGE FOR YOU!
	<ul style="list-style-type: none">▪ LOWER INTEREST RATE DUE TO NO RISK TO BANK▪ INSURANCE PREMIUM COST RECOVERED WITHIN 5 YEARS
	<small>10</small>

	CMHC ADVANTAGE FOR YOU!
	<ul style="list-style-type: none">▪ LESS CAPITAL / DOWNPAYMENT REQUIRED BECAUSE CMHC WILL ENSURE <u>LENDING VALUE</u> UP TO:▪ 85% LOAN-TO-VALUE
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	CMHC LENDING VALUE
	IT IS THE LOWER OF:
	1. Cost (purchase price) OR
	2. CMHC's Lending Value as supported by:
	<ul style="list-style-type: none">▪ Income & Expenses Analysis▪ Comparable sales
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	RISK ANALYSIS
	FOCUS IS ON THESE RISKS:
	1.PROPERTY / SECURITY
	2.MARKET
	3.SECURITY VALUATION
	4.BORROWER
	***EACH PROPERTY MUST CASH FLOW ON ITS OWN!
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	RISK ANALYSIS
	EACH PROPERTY MUST CASH FLOW ON ITS OWN.
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	UNDERWRITING STEP #1
	1. MAKE SURE LENDER'S PACKAGE IS COMPLETE.
	<ul style="list-style-type: none">▪ TIP #1 - SOPHISTICATED INVESTOR BINDER IS GOLD! GOLD!▪ CMHC's CHECK LIST
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	UNDERWRITING STEP #2
	2. RUN THE NUMBERS (SUBJECT VALUATION)
	<ul style="list-style-type: none">▪ Determine if requested Loan can be supported▪ Possible Mitigation: REDUCE L.A. (dialogue with lender)
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	UNDERWRITING STEP #3
	3. ANALYZE, RATE & COMMENT EVERY RISK & MITIGATE WHERE NECESSARY
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	WARNING
	<ul style="list-style-type: none">▪ NO TWO MORTGAGE APPLICATIONS ARE THE SAME▪ KEY TO UNDERWRITING IS CORRELATION BETWEEN INDIVIDUAL RISK FACTORS
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SUBJECT VALUATION

Income & Expense Analysis for the Property

- RENT ROLL (INCOME VERIFICATION)
- ANCILLARY INCOME (LAUNDRY, POP MACHINE)

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SUBJECT VALUATION

Operating Statements 2 to 3 yrs
(expenses verification)

- Establish Expense Ratio (Exp / EGI)

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SUBJECT VALUATION

- Determine NOI (EGI minus Exp)
- Establish Value using Cap Rate (incl per door)
- Max value is 85% LTV

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Analysis of Lender's numbers

- Can the requested loan amount be supported using the parameters submitted by the Lender?

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Analysis of Lender's numbers


- Can the value submitted be supported & at what LTV
- Different LTV translates into different premium bracket

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PREMIUM STRUCTURE

Premium structure is Risk-based:

Loan-to-Value Ratio	% of Loan amount
▪ Up to & incl. 65%	- 1.75%
▪ Up to & incl. 70%	- 2.00%
▪ Up to & incl. 75%	- 2.25%
▪ Up to & incl. 80%	- 3.50%
▪ Up to & incl. 85%	- 4.50%


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SUBJECT VALUATION RISK FACTOR	
	<ul style="list-style-type: none"> Does subject property meet the DCR requirement based on submitted Loan parameters (int. Rate, term & amortization period) DCR calculation formula = $\frac{\text{NOI (Net Operating Income)}}{\text{Principal \& Interest Payment}}$

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SUBJECT VALUATION RISK FACTOR	
	<ul style="list-style-type: none"> Maximum DCR = <ul style="list-style-type: none"> 1.30 for term less than 10 years 1.20 for term more than 10 years

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MAXIMUM LOAN AMOUNT	
	<p>The maximum insurable loan is limited to the lesser of :</p> <p>1.85% of Lending value</p> <p>OR</p>

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MAXIMUM LOAN AMOUNT	
	<p>2. Amount of Loan that can be carried by borrower at DCR deemed acceptable by CMHC for the project</p>

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PROPERTY RISK FACTOR	
	<p>Detailed property description including:</p> <ul style="list-style-type: none"> # of suites by bedroom types, suite size & layout Exterior, interior, curb appeal Structure type: wood frame or concrete ****

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PROPERTY RISK FACTOR	
	<ul style="list-style-type: none"> Parking (int. or ext, energized, etc) Heating system Roof Code compliance Common facilities / amenities <p>RATE CONDITION OF EACH POOR - GOOD</p>

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PROPERTY RISK	
	<ul style="list-style-type: none">▪ TIP # 2: Ask vendor if has an appraisal and/or property condition report – useful even if dated▪ RATE THE RISK
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MITIGATE PROPERTY RISK FACTOR	
	<p>Mitigation Action may include:</p> <ul style="list-style-type: none">▪ Holdback for repair & improvement<ul style="list-style-type: none">▪ E.g. Replace Roof, Boiler▪ Request Property Condition Report to confirm REL & Effective Age
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MARKET RISK FACTOR	
	<p>Correlation analysis of the subject's performance in comparison with market Rental rates & Vacancy</p>
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MARKET RISK FACTOR	
	<ul style="list-style-type: none">▪ How does the subject property compare with similar properties in the market place▪ Review of historical rents and vacancy rates profile of at least 5 years of ZONE (5-yr average VS Current)
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MARKET RISK FACTOR	
	<ul style="list-style-type: none">▪ Compare Market Data, rents & vacancy, of Zone to the Subject's rents & vacancy▪ Detailed description of Market Zone
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MARKET RISK FACTOR	
	<ul style="list-style-type: none">▪ Explain / justify discrepancies between subject and the market<ul style="list-style-type: none">▪ Where are subject's rents in relationship to market rents? (e.g. within 2 to 5% of market, less / more)?
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MARKET RISK FACTOR	
	<ul style="list-style-type: none"> Are the subject's rental rates supportable and/or achievable? If not, explain why? <ul style="list-style-type: none"> Larger suite, better location, furnished suites, what's included in the rental rates (e.g. all utilities, etc.

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RISKING THE MARKET	
	<ul style="list-style-type: none"> When discrepancies are significant Lenders may be asked to justify their # (e.g. Provide comparables) POSSIBLE MITIGATION: <ul style="list-style-type: none"> Roll back rental income (rare) Normalize the vacancy rate (common)

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MARKET RISK	
	<ul style="list-style-type: none"> TIP #3 Make sure your rents are at market level using CMHC's Rental Market Reports FREE (Spring Survey / CMA average only) <p>CMHC IS YOUR FRIEND!</p>

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TIP # 1 - CMHC Spring Rental Survey																					
	<p>Spring Survey is CMA Average ONLY & is not ZONE-SPECIFIC</p> <p>ZONE # 2 Edmonton</p> <table border="1"> <thead> <tr> <th></th> <th colspan="2">1-bdrm</th> <th colspan="2">2-bdrm</th> </tr> <tr> <th></th> <th>Fall 07</th> <th>Spring 08</th> <th>Fall 07</th> <th>Spring 08</th> </tr> </thead> <tbody> <tr> <td>Vacancy</td> <td>1.3%</td> <td>3%</td> <td>1.3%</td> <td>3.1%</td> </tr> <tr> <td>Rent</td> <td>\$673</td> <td>\$837</td> <td>\$820</td> <td>\$1,000</td> </tr> </tbody> </table>		1-bdrm		2-bdrm			Fall 07	Spring 08	Fall 07	Spring 08	Vacancy	1.3%	3%	1.3%	3.1%	Rent	\$673	\$837	\$820	\$1,000
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TIP #4	
	<p>PROJECTED RENTS</p> <ul style="list-style-type: none"> CMHC will accept <u>projected rental</u> income if rental increases are effective <u>within 3 months</u> and rental increases notices have been sent (must provide copies of actual notices)

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SECURITY VALUATION	
	<p>CORRELATION ANALYSIS</p> <ul style="list-style-type: none"> Underwriter's Analysis is contrasted with available market data, namely <u>comparable sales</u>

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SECURITY VALUATION	
	<ul style="list-style-type: none">▪ Are the following items in line with market ranges:<ul style="list-style-type: none">▪ Chosen Cap Rate▪ Value per door▪ Operating Expense Ratio<ul style="list-style-type: none">▪ > 40% <
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BORROWER RISK	
	<p>ANALYSIS OF:</p> <ol style="list-style-type: none">1. Ownership structure (is simple, complex?)2. Competence<ul style="list-style-type: none">▪ Borrower's Track Record in the business▪ Property Management Experience
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BORROWER RISK	
	<ul style="list-style-type: none">▪ Overall portfolio Assessment – CMHC's Exposure <p>3. Capacity (financial)</p> <ul style="list-style-type: none">▪ Net Worth (tiered) of 25% of Loan amount, minimum of \$100,000▪ Access to liquidity (LOC, Cash, RRSP)
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BORROWER RISK	
	<p>4. Personal Guarantees</p> <ul style="list-style-type: none">▪ 2% of Loan Amount (LA) for each percentage point in LTV above 60%,▪ e.g. LTV = 75%, guarantee = 30% of L.A.
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NON-RECOURSE LOAN	
	<p>If LTV is does not exceed 60% LTV, Loan is non-recourse.</p> <p>This means only the property is taken as security taken is subject, not personal assets.</p> <p>Borrower must still qualify.</p>
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SPECIAL CONDITIONS	
	<ul style="list-style-type: none">▪ CMHC's Certificate of Insurance comes with a set of Special Conditions which are an integral part of the insurance coverage and are legally binding for the Lender▪ Special Conditions are another way to mitigate risks.
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	SPECIAL CONDITIONS
	<ul style="list-style-type: none"> ▪ There are core Special Conditions which apply to every insurance coverage. ▪ Others are file-specific

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	CORE SPECIAL CONDITIONS
	<ul style="list-style-type: none"> ▪ Loan purpose (purchase, refinance) ▪ Advancing ▪ Proper Zoning ▪ Corporate Structure ▪ Professional Property Management ▪ ESA requirement

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	CORE SPECIAL CONDITIONS
	<ul style="list-style-type: none"> ▪ Holdback for repairs ▪ Secondary Financing ▪ Financial Statements (audited, review engagement, management-prepared, etc.) ▪ Rental Achievement Holdback ▪ ESA Requirement

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	CONCLUSION
	<ol style="list-style-type: none"> 1) Consider using an underwriting / risk management approach (with mitigation) with your real estate investments <ul style="list-style-type: none"> ▪ might be worthwhile for your success 2) CMHC IS YOUR FRIEND <ul style="list-style-type: none"> ▪ Many of the most successful and largest landlords in Canada gladly and openly admit that their success is largely owed to CMHC ▪ Use what's available from CMHC free ▪ Underwriting guidelines are conservative – if it passes CMHC guidelines, the deal should work

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	CMHC NEWS, NEWS, NEWS
	<ul style="list-style-type: none"> ▪ On July 09, Ministry of Finance announced (as Oct 15 2008) the end of: <ul style="list-style-type: none"> ▪ LTV of 100% - now maximum = 95% LTV ▪ Amortization period of 40 years – max now 35 years ▪ DOES NOT APPLY TO LARGE RENTAL PRODUCT! ▪ DO NOT KNOW IF APPLIES TO SMALL RENTAL???

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