

CMHC Rental Properties

June 2009 Ontario REIN™ Presentation

Mortgage Loan Default Insurance

CMHC Rental Properties

5 units & plus

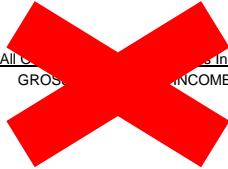


Everything you need to open new doors

Canada 

NO WALL

PITH (ALL PROPS) + ALL OTHER INCOME (ALL PROPS) / GROSS INCOME (ALL PROPS) ≤ 42%



CANADA MORTGAGE AND HOUSING CORPORATION  2

NO WALL

- EACH PROPERTY MUST CASH FLOW ON ITS OWN

CANADA MORTGAGE AND HOUSING CORPORATION  3

SANDBOX # 6 – HIGH RATIO MORTGAGES + 5 UNITS



CANADA MORTGAGE AND HOUSING CORPORATION 4

2 GOALS

- 1) SHOW YOU ANALYTICAL FRAMEWORK FOR: UNDERWRITING MULTI-FAMILY MORTGAGE LOANS (5 UNITS +)

CANADA MORTGAGE AND HOUSING CORPORATION  5

MY GOAL

HELP YOU TO GET CMHC TO SAY YES TO YOUR BANK, WHICH IN TURN WILL SAY YES TO YOU!

CANADA MORTGAGE AND HOUSING CORPORATION  6

CMHC Rental Properties

June 2009 Ontario REIN™ Presentation

MY GOAL

- 2) SUGGEST A RISK MANAGEMENT APPROACH IN YOUR REAL ESTATE INVESTMENTS



CANADA MORTGAGE AND HOUSING CORPORATION

7

MORTGAGE INSURANCE

- INSURANCE TO PROTECT BANKS AGAINST MORTGAGE DEFAULT
- RISK = BORROWER DEFAULTING ON LOAN
- PAY INSURANCE PREMIUM

CANADA MORTGAGE AND HOUSING CORPORATION

CMHC SCHL

8

MORTGAGE INSURANCE

MY JOB AS MULTI-FAMILY UNDERWRITER IS TO:

- ANALYZE & MITIGATE RISKS

CANADA MORTGAGE AND HOUSING CORPORATION



9

Mortgage Default Insurance

ADVANTAGE FOR BANKS:

- ELIMINATES MORTGAGE LENDING RISKS FOR BANKS
- AS LONG AS CONDITIONS ARE MET BY BANK

CANADA MORTGAGE AND HOUSING CORPORATION



10

CMHC ADVANTAGE FOR YOU!

- LOWER INTEREST RATE DUE TO NO RISK TO BANK
- INSURANCE PREMIUM COST RECOVERED WITHIN 5 YEARS WITHIN YOUR PROPERTY'S CASH FLOW



11

CMHC ADVANTAGE FOR YOU!

- LESS CAPITAL / DOWNPAYMENT REQUIRED BECAUSE CMHC WILL ENSURE LENDING VALUE UP TO:
 - 85% LOAN-TO-VALUE (LTV)
 - GREATER ROI

CANADA MORTGAGE AND HOUSING CORPORATION



12

CMHC Rental Properties

June 2009 Ontario REIN™ Presentation

| PURCHASE 8-UNIT WOOD FRAME STRUCTURE | | |
|---|------------------|-----------------|
| | CONVENTIONAL | CMHC-INSURED |
| Purchase Price | \$400,000 | \$400,000 |
| Rental Income | \$52,000 | \$52,000 |
| Vacancy & Operating Expenses | \$17,000 | \$17,000 |
| Net Operating Income (NOI) | \$35,000 | \$35,000 |
| Minimum Equity Requirement | \$100,000 | \$60,000 |
| Loan (Before CMHC Premium & Fee) | \$300,000 | \$340,000 |
| CMHC Premium @ 4.5% (85% LTV) | N/A | \$15,300 |
| CMHC Application Fee | N/A | \$1,200 |
| Total Loan | \$300,000 | \$356,500 |
| INTEREST RATE | 6.0% | 5.4% |
| Annual Principal & Interest (25 yr amort) | \$23,033 | \$25,864 |
| Cash Flow (NOI – P & I) | \$11,967 | \$9,136 |
| Return on Investment (ROI) | 12% | 15.2% |
| ROI (Incl. Capital Repayment) | 17.4% | 26.9% |

CMHC LENDING VALUE

IT IS THE LOWER OF:

1. Cost (purchase price) **OR**
2. CMHC's Lending Value as supported by:
 - Income & Expenses Analysis
 - Comparable sales

CANADA MORTGAGE AND HOUSING CORPORATION



14

CMHC'S LENDING VALUE

CMHC's LENDING VALUE as supported by:

- RISK ANALYSIS

CMHC'S LENDING VALUE IS MARKET-DERIVED, **IS NOT NECESSARILY MARKET VALUE**

CANADA MORTGAGE AND HOUSING CORPORATION



15

RISK ANALYSIS

FOCUS IS ON THESE RISKS:

- 1. PROPERTY / SECURITY**
- 2. MARKET**
- 3. SECURITY VALUATION**
- 4. BORROWER**

***EACH RISK IS RATED & COMMENTED IN DETAILS

CANADA MORTGAGE AND HOUSING CORPORATION



16

UNDERWRITING STEP #1

1. MAKE SURE LENDER'S PACKAGE IS COMPLETE.

- **TIP #1** - SOPHISTICATED INVESTOR BINDER IS **GOLD!**
- CMHC's **CHECK LIST** (HANDOUT)

CANADA MORTGAGE AND HOUSING CORPORATION



17

UNDERWRITING STEP #2

2. RUN THE NUMBERS (SUBJECT VALUATION)

- Determine if requested Loan can be supported
- Possible Mitigation: REDUCE Loan amount

CANADA MORTGAGE AND HOUSING CORPORATION



18

CMHC Rental Properties

June 2009 Ontario REIN™ Presentation

| | |
|--|--|
| UNDERWRITING STEP #3 <p>3. ANALYZE, RATE & COMMENT EVERY RISK & MITIGATE WHERE NECESSARY</p> <p>19</p> | WARNING <ul style="list-style-type: none">EVERY MORTGAGE INSURANCE APPLICATION IS ANALYZED ON ITS OWN MERIT, CASE BY CASEUNDERWRITING DOES NOT PRODUCE COOKIE-CUTTER RESULTS <p>20</p> |
|--|--|

| | |
|---|---|
| WARNING <ul style="list-style-type: none">NO TWO MORTGAGE APPLICATIONS ARE THE SAMEKEY TO UNDERWRITING IS CORRELATION BETWEEN INDIVIDUAL RISK FACTORS <p>21</p> | PROPERTY VALUATION <p>Income & Expense Analysis for the Property</p> <ul style="list-style-type: none">For valuation of the Property we use the <u>INCOME CAPITALIZATION APPROACH</u>ALL NUMBERS ANALYZED ON YEARLY BASIS <p>22</p> |
|---|---|

| | |
|---|--|
| PROPERTY VALUATION <ul style="list-style-type: none">INCOME VERIFICATION – CURRENT RENT ROLLANCILLARY INCOME (LAUNDRY, POP MACHINE) <p>23</p> | PROPERTY VALUATION <ul style="list-style-type: none">DETERMINE <u>EFFECTIVE GROSS INCOME (EGI)</u>EGI = INCOME MINUS VACANCIES / BAD DEBTS <p>24</p> |
|---|--|

CMHC Rental Properties

June 2009 Ontario REIN™ Presentation

PROPERTY VALUATION

- Operating Statements 2 to 3 yrs (expense verification)
- Establish Operating Expense Ratio (Exp / EGI)
- Operating Expenses **exclude** Mortgage payments & Interest (P & I)

CMHC • SCHL
HOME TO CANADIANS 25

SUBJECT VALUATION

- Determine **NOI > NET OPERATING INCOME** (EGI minus Exp)
- Establish Value using Cap Rate (incl. value per door)
- Max **INSURABLE** value is 85% LTV

CMHC • SCHL
HOME TO CANADIANS 26

Analysis of Lender's numbers

- Can the requested loan amount be supported using the parameters submitted by the Lender?
- Parameters =
 - Loan amount
 - Interest rate
 - Term

CMHC • SCHL
HOME TO CANADIANS 27

Analysis of Lender's numbers

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

CMHC • SCHL
HOME TO CANADIANS 28

Premium 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% |

▪ **PREMIUM RECOVERED WITHIN 5 YRS**

CMHC • SCHL
HOME TO CANADIANS 29

SUBJECT VALUATION RISK FACTOR

- Does subject property meet the **DCR** requirement based on submitted Loan parameters (int. Rate, term & amortization period)
- **DCR** calculation formula =
 - NOI (Net Operating Income)
 - Principal & Interest Payment

CMHC • SCHL
HOME TO CANADIANS 30

CMHC Rental Properties

June 2009 Ontario REIN™ Presentation

| SUBJECT | VALUATION | RISK FACTOR |
|--|-----------|-------------|
| <ul style="list-style-type: none">▪ MINIMUM DCR =<ul style="list-style-type: none">▪ 1.30 for term <u>less than</u> 10 years▪ 1.20 for term <u>more than</u> 10 years▪ MINIMUM DCR IS ALSO <u>RISK-BASED</u> | | |

CMHC SCHL
HOME TO CANADIANS

| MAXIMUM LOAN AMOUNT | |
|--|--|
| Maximum insurable loan is limited to the <u>lesser of</u> : | |
| <ol style="list-style-type: none">1. 85% of Lending value2. Loan amount that can be supported at DCR or <u>acceptable to CMHC for project</u> | |

CMHC SCHL
HOME TO CANADIANS

| 1) 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 **** | | |

CMHC SCHL
HOME TO CANADIANS

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

CMHC SCHL
HOME TO CANADIANS

| 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▪ GET Property Condition Report & ask for <u>REL (remaining econ. Life) & Effective Age</u> | | |

CMHC SCHL
HOME TO CANADIANS

| MITIGATE PROPERTY RISK FACTOR | |
|---|--|
| <p><u>Mitigation Action may include:</u></p> <ul style="list-style-type: none">▪ Holdback for repair & improvement<ul style="list-style-type: none">▪ E.g. Replace Roof, Boiler | |

CMHC SCHL
HOME TO CANADIANS

CMHC Rental Properties

June 2009 Ontario REIN™ Presentation

2) MARKET RISK FACTOR

Correlation analysis of the subject's (the property) performance in comparison with market Rental rates & Vacancies

CANADA MORTGAGE AND HOUSING CORPORATION



37

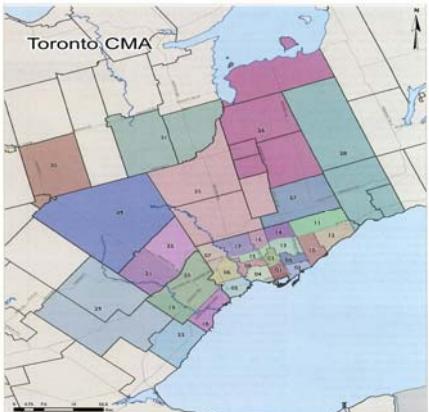
MARKET RISK FACTOR

- 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)

CANADA MORTGAGE AND HOUSING CORPORATION



38



39

MARKET RISK FACTOR

- Compare Market Data, rents & vacancy, of Zone to the property's rents & vacancy
- Detailed description of Market Zone

CANADA MORTGAGE AND HOUSING CORPORATION



40

MARKET RISK FACTOR

- Explain / justify discrepancies between property and the market
 - Where are property's rents in relationship to market average rents? (e.g. within 2 to 5% of market, less / more?)

CANADA MORTGAGE AND HOUSING CORPORATION



41

MARKET RISK FACTOR

- Are the property's rental rates supportable and/or achievable?
- If not, explain why?
 - Larger suite, better location, higher end finishes in suites, what's included in the rental rates (e.g. all utilities, etc.)

CANADA MORTGAGE AND HOUSING CORPORATION

42

CMHC Rental Properties

June 2009 Ontario REIN™ Presentation

| | |
|--|--|
| RISKING THE MARKET | MARKET RISK |
| <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 <u>(very common)</u> | <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 NOT zone-specific) |
|  CANADA MORTGAGE AND HOUSING CORPORATION 43 |  CANADA MORTGAGE AND HOUSING CORPORATION 44 |

| | |
|---|--|
| TIP #4 PROJECTED RENTS <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 to tenants (must provide copies of actual notices)INCOME IS IMPORTANT AS VALUE IS DERIVED FROM NOI | 3) SECURITY VALUATION TO VALUE THE PROPERTY WE USE THE INCOME APPROACH (INCOME CAPITALIZATION) VS COST APPROACH |
|  CANADA MORTGAGE AND HOUSING CORPORATION 45 |  CANADA MORTGAGE AND HOUSING CORPORATION |

| | |
|---|---|
| 3) SECURITY VALUATION VALUE IS ESTABLISHED BY DIVIDING THE NOI BY CAPITALIZATION RATE (Cap Rate) <ul style="list-style-type: none">Cap Rate is a % derived from comparable sales in the market place | SECURITY VALUATION CORRELATION ANALYSIS <ul style="list-style-type: none">Underwriter's Analysis of the property is contrasted with available market data, namely <u>comparable sales</u> |
|  CANADA MORTGAGE AND HOUSING CORPORATION 47 |  CANADA MORTGAGE AND HOUSING CORPORATION 48 |

CMHC Rental Properties

June 2009 Ontario REIN™ Presentation

SECURITY VALUATION

- Are the following items in line with market ranges:
 - Chosen Cap Rate
 - Value per door
 - Operating Expense Ratio
 - > 40% <

49

BORROWER RISK

ANALYSIS OF:

1. Ownership structure (is simple, complex?)
 - WHO HAS CONTROL OF THE ASSET?
 - WHO HAS VOTING SHARES? WHAT %?

50

RISKING THE BORROWER

2. BORROWER'S COMPETENCE

- Track record in the multi-family business
- Property management experience:
 - **IF LESS THAN 5 YEARS, MUST HIRE A PROFESSIONAL PROPERTY MANAGER**

51

RISKING THE BORROWER

3. Capacity (financial)

- Overall portfolio Assessment – CMHC's Exposure
- Net Worth (tiered) of 25% of Loan amount, minimum of \$100,000
- Access to liquidity (LOC, Cash, RRSP)

52

NET WORTH

- CMHC TIERING OF BORROWER'S NET WORTH
- BORROWER'S REAL ESTATE ASSETS ALLOCATED FULL VALUE

53

BORROWER RISK

4. Personal Guarantees

- When borrower is corporation, additional personal or corporate guarantees are required over & above the loan covenant

54

CMHC Rental Properties

June 2009 Ontario REIN™ Presentation

PERSONAL GUARANTEE

- 2% of Loan Amount (LA) for each percentage point in LTV above 60%.

CANADA MORTGAGE AND HOUSING CORPORATION

55

PERSONAL GUARANTEE

- Example: L.A. \$1,000,000 @ 85% LTV
 - 25% above 60%, therefore guarantee amount is \$500,000 or 50% of L.A.
- Guarantee is not cumulative between different loans

CANADA MORTGAGE AND HOUSING CORPORATION



56

NON-RE COURSE LOAN

If LTV is does not exceed 60% =
Loan is non-recourse.

This means only the property is taken as security, not personal assets.

Borrower must still qualify.

CANADA MORTGAGE AND HOUSING CORPORATION



57

SPECIAL CONDITIONS

- 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 on the Lender
- Special Conditions are another way to mitigate risks.

CANADA MORTGAGE AND HOUSING CORPORATION



58

SPECIAL CONDITIONS

- There are core Special Conditions which apply to every insurance coverage.
- Others are file-specific

CANADA MORTGAGE AND HOUSING CORPORATION



59

SPECIAL CONDITIONS

- Loan purpose (purchase, refinance)
- Advancing
- Proper Zoning
- Corporate Structure
- Professional Property Management
- ESA requirement

CANADA MORTGAGE AND HOUSING CORPORATION



60

CMHC Rental Properties

June 2009 Ontario REIN™ Presentation

SPECIAL CONDITIONS

- Holdback for repairs
- Secondary Financing
- Financial Statements (audited, review engagement, management-prepared, etc.)
- Rental Achievement Holdback
- ESA Requirement



CANADA MORTGAGE AND HOUSING CORPORATION

61

CONCLUSION

- Consider using an underwriting / risk management approach (with mitigation) with your real estate investments
- Might help you find potential JV Partners



CANADA MORTGAGE AND HOUSING CORPORATION

62

CONCLUSION

- CMHC's Underwriting Guidelines are very conservative
- If your deal is CMHC-approved, the numbers will work



CANADA MORTGAGE AND HOUSING CORPORATION

63

CMHC IS YOUR FRIEND

- CMHC's Mortgage Default Insurance is a sound way to mitigate risks in Real Estate Investing
- CMHC's Insurance used by Large successful Landlords
- USE CMHC **FREE** STUFF

CANADA MORTGAGE AND HOUSING CORPORATION

64

CMHC : Free Market Data www.cmhc.ca



CANADA MORTGAGE AND HOUSING CORPORATION

65

Visit our web site : cmhc.ca

- 1-877-Multi GO



CANADA MORTGAGE AND HOUSING CORPORATION

66

CMHC Rental Properties

June 2009 Ontario REIN™ Presentation



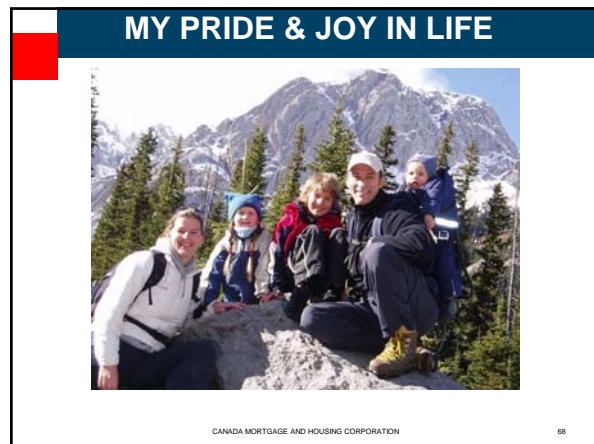
Canada Mortgage and Housing Corporation

CMHC

NHA MBS Auction Operation

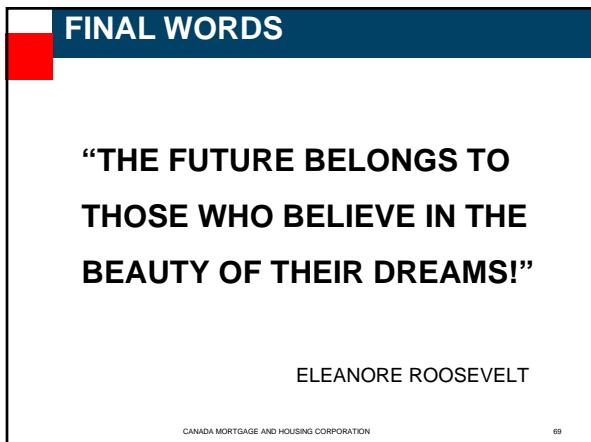
www.cmhc.ca

Page 1 of 1



MY PRIDE & JOY IN LIFE

CANADA MORTGAGE AND HOUSING CORPORATION



FINAL WORDS

“THE FUTURE BELONGS TO
THOSE WHO BELIEVE IN THE
BEAUTY OF THEIR DREAMS!”

ELEANORE ROOSEVELT

CANADA MORTGAGE AND HOUSING CORPORATION

69