

A photograph of a sailboat's mast and sails on a choppy sea at sunset. The sun is low on the horizon, casting a warm, golden glow over the scene. The sky is filled with soft, pinkish clouds. The water is dark blue with white-capped waves. The sailboat's mast and rigging are visible in the foreground, and the sails are partially unfurled.

Navigating the Mortgage Loan Insurance Process

By John Tenpenny

Financing a multi-unit residential building comes with a choice to make: should the loan be CMHC-insured or not? Considering the current financial environment, many in the industry seem to be favoring the CMHC-insured route.

Some borrowers with healthy down payments might question paying the CMHC premium if they can simply get a conventional mortgage. Do the math and the answer becomes clear: paying now saves later. Using as an example a \$2 million loan at 75 per cent loan-to-value (LTV), CMHC's premium is 2.25 per cent for a 25-year amortization or \$45,000. Not exactly cheap, but considering that lenders view multi-unit financing to be safer when insured, it means that borrowers

get better rates on CMHC-insured loans. For example, at 100 basis points differential, that same \$2 million mortgage would save almost \$45,250 after five years even after the CMHC premium and application fee.

"With CMHC-Insured loans, borrowers can obtain financing of up to 85 per cent of the property's value from their lender" said Pierre Serré, Vice President, Insurance Product and Business Development with CMHC. "Borrowers can also get interest rate savings for the entire life of the loan and take advantage of lower renewal risk."

CMHC-insured financing can be used to purchase, construct or refinance multi-unit properties. Borrowers who have accessed CMHC-insured

loans within the past seven years may be eligible for premium credits on refinance applications. Flexible repayment terms, including extended amortization periods and fixed and floating interest rates may also be available. Borrowers have the option to add the insurance premium and application fee to the mortgage loan.

"The main reason we use CMHC is for their product offering," says James Ha, Director, Mortgage and Finance with Boardwalk REIT which owns and/or operates more than 260 properties with more than 36,000 units. "The mortgage insurance has many benefits, most notably it mitigates our renewal risk and it also aids in attracting lower interest rates from lenders."


The process is also something

Ha praises, which might surprise some borrowers who may have the conception that CMHC's process is slow and complicated. "Transactions with CMHC are easy and transparent from start to finish," says Ha. "From application to funding, CMHC's team is always happy to help."

The key, it seems, is having the minimum documentation and realistic turnaround time expectations. When looking at it, the documentation required is not a whole lot different than what a lender would require to put a mortgage together.

The more information you provide early in the process, the better. This gives the CMHC underwriters quick access to all of the information they need to make a decision and reduces any delays associated with insufficient documentation.

Because each transaction is unique, turnaround times will vary from file to file. Typically, CMHC provides the lender with a preliminary review of the file within a few days and a final decision within a few weeks.

"As a borrower, if you are organized and you go through the process as it is designed it's seamless," says Mark Kenney, Chief Operating Officer of CAP REIT. "CMHC insurance is an excellent investment because your total cost to capital over time is much lower as a result. I would urge anyone who is in the process of financing for an apartment investment to carefully examine both options and we've always found that the CMHC option is the one that worked best for us." 

More documentation may be required for Retirement and Long Term Care Facilities, Affordable Housing Projects and Green Properties.

For more information visit www.cmhc.ca and search the key words "reference guide" or call 1-877-MULTIGO.

Documentation Checklist

Your lender will be required to present supporting documentation to CMHC when submitting your file. Use the following list to prepare the information you'll need to provide to your Mortgage Professional.



For All Projects

- A description of the property including age, construction type, number and type of units, condition.
- Income/expense analysis
- Up-to-date personal net worth statements for all individual Borrowers/ Guarantors, including details for any real property held: address, description, income and expenses, mortgage balance, mortgage payment and value.
- For Corporate Borrowers indicate the type of structure (i.e., sole proprietorship, limited company, partnership, etc.), the ownership of the entity (including percentage ownership), key individuals, their responsibilities and reporting relationships. More complex Borrowers may need to provide an organization chart describing the relationship with associated entities.
- Financial Statements for the most recent year-end for Corporate Borrowers/ Guarantors.
- For properties of 5 to 6 units, a complete property appraisal report, including Schedule A which outlines revenue and expenses of the property.
- Application fee.



Existing Projects

- Current detailed operating statement for the subject property and/or copies of property taxes, insurance and utilities invoices for the most recent 12 month period.
- Current rent roll for the subject property with rent effective dates.
- Copy of executed purchase & sale agreement, if applicable.



Refinancing Requests

- Confirmation of the loan balance.
- Confirmation of the pari passu or second mortgage amount requested and lending value expectation.
- Details regarding all existing registered encumbrances including outstanding balances, term and amortization remaining, interest rate and monthly payments.



New Projects

- Borrower's project revenue and expense projections.
- One set of suite layouts and details/specifications regarding finishes and amenities.
- Copy of construction budget.