

CMHC Multi-Family Underwriting

Presented to The Members of the Real Estate Investment Network™

Mortgage Loan Default Insurance

CMHC Rental Properties



Everything you need to open new doors



www.cmhc.ca

THE ACT OF TAKING THE FIRST
STEP IS WHAT SEPARATES THE
LOOSERS FROM THE WINNERS.

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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
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	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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