



CMHC Rental Properties

June 2009 Ontario REIN™ Presentation

Mortgage Loan Default Insurance
CMHC Rental Properties
5 units & plus

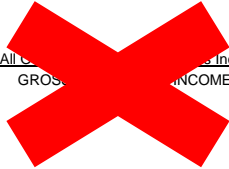



Everything you need to open new doors

Canada 

NO WALL


$$\frac{\text{PITH (ALL PROPS)} + \text{All other income (all props)}}{\text{GROSS RENTAL INCOME}} \leq 42\%$$



CANADA MORTGAGE AND HOUSING CORPORATION 

NO WALL

- EACH PROPERTY MUST CASH FLOW ON ITS OWN

CANADA MORTGAGE AND HOUSING CORPORATION 


SANDBOX # 6 – HIGH RATIO MORTGAGES + 5 UNITS



CANADA MORTGAGE AND HOUSING CORPORATION 

2 GOALS

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

CANADA MORTGAGE AND HOUSING CORPORATION 

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 

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




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

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

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

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

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

CMHC Rental Properties

June 2009 Ontario REIN™ Presentation

UNDERWRITING STEP #3

3. ANALYZE, RATE & COMMENT EVERY RISK & MITIGATE WHERE NECESSARY


CANADA MORTGAGE AND HOUSING CORPORATION
19

WARNING

- **EVERY MORTGAGE INSURANCE APPLICATION IS ANALYZED ON ITS OWN MERIT, CASE BY CASE**
- **UNDERWRITING DOES NOT PRODUCE COOKIE-CUTTER RESULTS**


CANADA MORTGAGE AND HOUSING CORPORATION
20

WARNING


- **NO TWO MORTGAGE APPLICATIONS ARE THE SAME**
- **KEY TO UNDERWRITING IS CORRELATION BETWEEN INDIVIDUAL RISK FACTORS**


CANADA MORTGAGE AND HOUSING CORPORATION
21

PROPERTY VALUATION


Income & Expense Analysis for the Property

- For valuation of the Property we use the **INCOME CAPITALIZATION APPROACH**
- ALL NUMBERS ANALYZED ON YEARLY BASIS


CANADA MORTGAGE AND HOUSING CORPORATION
22


PROPERTY VALUATION

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


CANADA MORTGAGE AND HOUSING CORPORATION
23

PROPERTY VALUATION

- **DETERMINE EFFECTIVE GROSS INCOME (EGI)**
- **EGI = INCOME MINUS VACANCIES / BAD DEBTS**


CANADA MORTGAGE AND HOUSING CORPORATION
24

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)

CANADA MORTGAGE AND HOUSING CORPORATION

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

CANADA MORTGAGE AND HOUSING CORPORATION

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

CANADA MORTGAGE AND HOUSING CORPORATION

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

CANADA MORTGAGE AND HOUSING CORPORATION

CMHC SCHL HOME TO CANADIANS 28

Premium is RISK-BASED:

Loan-to-Value Ratio amount	% 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**

CANADA MORTGAGE AND HOUSING CORPORATION

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 = $\frac{\text{NOI (Net Operating Income)}}{\text{Principal \& Interest Payment}}$

CANADA MORTGAGE AND HOUSING CORPORATION

CMHC SCHL HOME TO CANADIANS 30


CMHC Rental Properties

June 2009 Ontario REIN™ Presentation

SUBJECT VALUATION RISK FACTOR

- **MINIMUM DCR =**
 - 1.30 for term less than 10 years
 - 1.20 for term more than 10 years
- **MINIMUM DCR IS ALSO RISK-BASED**

CANADA MORTGAGE AND HOUSING CORPORATION



MAXIMUM LOAN AMOUNT


Maximum insurable loan is limited to the **lesser of**:

1. 85% of Lending value

OR

2. Loan amount that can be supported at DCR or **acceptable to CMHC for project**

CANADA MORTGAGE AND HOUSING CORPORATION




1) PROPERTY RISK FACTOR

Detailed property description including:

- # of suites by bedroom types, **suite size & layout**
- Exterior, interior, curb appeal
- Structure type: wood frame or concrete ****

CANADA MORTGAGE AND HOUSING CORPORATION



PROPERTY RISK FACTOR

- Parking (int. or ext, energized, etc)
- Heating system
- Roof
- Code compliance
- Common facilities / amenities


**RATE CONDITION OF EACH FACTOR
POOR - GOOD**

CANADA MORTGAGE AND HOUSING CORPORATION

PROPERTY RISK

- **TIP # 2:** Ask vendor if has an appraisal and/or property condition report – useful even if dated
- GET Property Condition Report & ask for **REL (remaining econ. Life) & Effective Age**

CANADA MORTGAGE AND HOUSING CORPORATION



MITIGATE PROPERTY RISK FACTOR

Mitigation Action may include:

- Holdback for repair & improvement
 - E.g. Replace Roof, Boiler

CANADA MORTGAGE AND HOUSING CORPORATION

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

CMHC SCHL
HOME TO CANADIANS

37

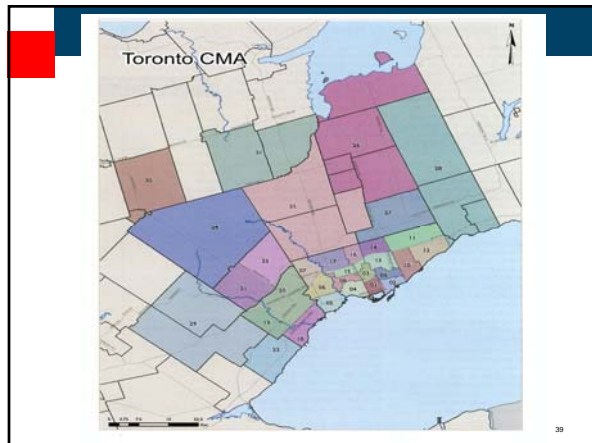
MARKET RISK FACTOR

- 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

CMHC SCHL
HOME TO CANADIANS

38



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

CMHC SCHL
HOME TO CANADIANS

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

CMHC SCHL
HOME TO CANADIANS

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

CMHC SCHL
HOME TO CANADIANS

42


CMHC Rental Properties

June 2009 Ontario REIN™ Presentation

RISKING THE MARKET

- When discrepancies are significant Lenders may be asked to justify their # (e.g. Provide comparables)
- **POSSIBLE MITIGATION:**
 - Roll back rental income (rare)
 - Normalize the vacancy rate (**very common**)

CANADA MORTGAGE AND HOUSING CORPORATION



43

MARKET RISK

- **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)**

CMHC IS YOUR FRIEND!

CANADA MORTGAGE AND HOUSING CORPORATION




44

TIP #4

PROJECTED RENTS

- CMHC will accept projected rental income if rental increases are effective within 3 months and rental increases notices have been sent to tenants (must provide copies of actual notices)
- **INCOME IS IMPORTANT** AS VALUE IS DERIVED FROM **NOI**

CANADA MORTGAGE AND HOUSING CORPORATION




45

3) SECURITY VALUATION

TO VALUE THE PROPERTY WE USE THE

INCOME APPROACH
(INCOME CAPITALIZATION)
VS
COST APPROACH

CANADA MORTGAGE AND HOUSING CORPORATION




46

3) SECURITY VALUATION

VALUE IS ESTABLISHED BY DIVIDING THE **NOI** BY **CAPITALIZATION RATE (Cap Rate)**

- Cap Rate is a % derived from comparable sales in the market place

CANADA MORTGAGE AND HOUSING CORPORATION




47

SECURITY VALUATION

CORRELATION ANALYSIS

- Underwriter's Analysis of the property is contrasted with available market data, namely **comparable sales**

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% <

CANADA MORTGAGE AND HOUSING CORPORATION

CMHC SCHL
HOME TO CANADIANS


49

BORROWER RISK

ANALYSIS OF:

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

CANADA MORTGAGE AND HOUSING CORPORATION

CMHC SCHL
HOME TO CANADIANS

50

RISKING THE BORROWER

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

CANADA MORTGAGE AND HOUSING CORPORATION


CMHC SCHL
HOME TO CANADIANS

51

RISKING THE BORROWER

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

CANADA MORTGAGE AND HOUSING CORPORATION


CMHC SCHL
HOME TO CANADIANS

52

NET WORTH

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

CANADA MORTGAGE AND HOUSING CORPORATION

CMHC SCHL
HOME TO CANADIANS

53

BORROWER RISK

- 4. Personal Guarantees**
 - When borrower is corporation, additional personal or corporate guarantees are required **over & above the loan covenant**

CANADA MORTGAGE AND HOUSING CORPORATION

CMHC SCHL
HOME TO CANADIANS

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-RECOURSE 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

CMHC SCHIL
HOME TO CANADIANS

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

CMHC SCHIL
HOME TO CANADIANS

62

CONCLUSION

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

CANADA MORTGAGE AND HOUSING CORPORATION

CMHC SCHIL
HOME TO CANADIANS

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

