Notice No: 13-10

Niagara Regional Housing

APPLICABLE TO: **DATE: May 13, 2013**

	Provincial Reform Non-Profit
	Provincial Reform Co-operative
	OCHAP Rent Supplement
x	**Federal**

	Mandatory
x	**For Information**

SUBJECT: New Mortgage Prepayment Rules for Social Housing Mortgages – Federal Housing Providers (*Section 95, and Section 26, 27)*

Background

In general, social housing mortgages funded by Canada Mortgage & Housing Corporation (CMHC) are fixed to maturity. This means that if a housing provider wants to pay off the mortgage early or refinance with another lender, the provider has to pay to CMHC all interest chargeable under the mortgage, in addition to the principal.

On January 29, 2013, CMHC announced that, for eligible social housing projects that need capital repairs and renovations, CMHC will accept prepayment of closed mortgages with a prepayment penalty.

This policy applies <u>only</u> to federal housing providers with Section 95, and Section 26 or 27 operating agreements in place, have CMHC as their lender, and only for housing providers that intend to pre-pay their mortgages and refinance for the purpose of undertaking capital repairs and renovations (including regeneration activities).

Eligibility Criteria

Eligibility criteria for prepayment are as follows:

1. The housing provider must be financially viable, and must continue to be viable after the expiration of their operating agreement.
2. Capital investment in the property is required to address the replacement or repair of major capital building components and the housing provider does not have sufficient funds in its replacement reserve, or will not be able to accumulate the required funds before the maturity of the loan, necessitating refinancing.
3. The project must have a capital replacement plan in place, spanning a minimum of ten years, which identifies and supports the proposed capital repairs and renovations.
4. The housing project must continue to be subject to the operating agreement with CMHC until its scheduled expiry.

Ineligible Housing Providers

Housing providers with operational, governance and financial difficulties that are deemed “projects in difficulty (PID)” cannot take advantage of the policy. Housing providers that want to refinance their closed CMHC mortgage with another lender for the sole purpose of lowering their interest rates cannot take advantage of the new policy.

Penalty Calculation

When eligible housing providers make mortgage pre-payment requests for the purposes of undertaking capital repairs/renovations, CMHC will no longer calculate the penalty based on the full lost interest costs, as per their previous policy. For Section 26 and 27, the lost interest costs were calculated until the full mortgage maturation date. For Section 95, the full lost interest costs were calculated until the mortgage renewal date.

Instead, CMHC will offer a yield maintenance penalty based on the difference between the original mortgage interest rate and the interest rate that CMHC can obtain when re-investing the balance for the remaining term of the mortgage. The re-investment rate will be based on CMHC’s cost of funds.

Providers who wish to obtain estimates of the penalties associated with their specific mortgages should contact their Housing Administrator.

Existing Operating Agreements

Generally, existing operating agreements for federally-administered projects are automatically terminated upon the maturity or prepayment of their CMHC mortgage loan. Under the new policy, CMHC will require the operating agreements to remain in force until the original maturity date.

The new policy will require an amendment to project operating agreements for Sections 26 and 27 housing projects. The agreements will be amended to expire as of the CMHC loan’s original maturity date. The earnings of forgivable capital contributions for Section 27 projects will continue notwithstanding the early prepayment of the mortgage.

The project operating agreement for Section 95 housing projects will remain in place until its scheduled expiry. The federal subsidy for Section 95 projects will continue under the existing operating agreement.

Housing providers are required to continue to operate the projects as social housing and continue to abide by the terms of their operating agreements.

Implications for Housing Providers

The financial impacts of the new CMHC policy will vary. While for some providers, the benefits of pre-paying their mortgage, refinancing and undertaking capital repairs and renovations will outweigh the costs, for others they may not.

Prepaying a closed mortgage and arranging a new mortgage will trigger a number of fees for housing providers that include legal fees, administration fees, appraisal fees, title insurance fees and mortgage broker fees among others.

Housing Provider's Role

Housing providers should review the provisions related to prepayment penalties contained in their project mortgage agreements, as there are many variations. Housing providers wishing to prepay their closed CMHC mortgages need to undertake an internal analysis and discuss the issue with Niagara Regional Housing (NRH). NRH's consent for mortgage prepayment is required.

Service Manager's Role

NRH will determine whether a housing provider meets CMHC's eligibility criteria and must be satisfied that:

- The housing provider is financially viable and will continue to be viable after the expiration of the operating agreement;
- The housing provider needs to obtain capital to do capital repairs and renovations and the housing provider does not have sufficient funds available in replacement reserves or not able to accumulate the required capital before the maturity of the loan;
- The provider has a capital replacement plan in place spanning a minimum of ten years to support the proposed capital repairs and renovations;
- The housing provider will continue to operate the project as social housing and abide by all terms of the existing operating agreement until its scheduled expiry.

If the housing provider meets the above-noted criteria, NRH will forward the request to the Ministry of Municipal Affairs & Housing (MMAH). The MMAH will work with housing providers and NRH on a case-by-case basis, and will forward the required documentation to CMHC for processing.

If you have any questions or concerns regarding this notice, please contact your Housing Administrator at (905) 682-9201.

Lora Beckwith, General Manager