

Directive

Directive: New Mortgage Prepayment Rules for Social Housing Mortgages

Issue Date:	August, 29 2013	Directive No.:	2013-05
Revision Date:	N/A	Revision No.:	N/A

Applicable Policy: N/A

Type: Legislative/Operational

The policies and procedures in this Directive are to be implemented by Housing Providers/Cooperatives funded by the Municipality under the following programs.

Provincial Non-Profit Housing Providers

<input type="checkbox"/> Gananoque Family Housing	<input type="checkbox"/> Gananoque Housing Inc.
<input type="checkbox"/> Legion Village 96 Seniors Residence	<input type="checkbox"/> Twp. of Bastard & South Burgess Housing Corp.
<input type="checkbox"/> Brockville Municipal Non-Profit Housing Corp.	<input type="checkbox"/> South Crosby Non-Profit Housing Corp. – Pineview

Federal Non-Profit Housing Providers

<input checked="" type="checkbox"/> Athens & District Non-Profit Housing Providers	<input checked="" type="checkbox"/> Marguerita Residence Corp.
<input checked="" type="checkbox"/> Gananoque Housing Inc.	<input checked="" type="checkbox"/> South Crosby Non-Profit Housing Corp. – Rideau Lakes

Federal/Provincial Cooperative Housing

<input type="checkbox"/> Shepherds Green Cooperative Homes Inc.

Housing Providers

<input type="checkbox"/> UCLG Public Housing	<input type="checkbox"/> Rent Supplement Program
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BACKGROUND

In general, social housing mortgages funded under Canada Mortgage and Housing Corporation (CMHC) are fixed to maturity. If a housing provider wants to pay off the mortgage early or refinance with another lender, the provider has to pay all interest chargeable under the mortgage, and the principal to CMHC.

On January 29, 2013, CMHC announced that CMHC will be accepting prepayment of closed mortgages with a yield maintenance prepayment penalty for eligible social housing projects that need capital repairs and renovations. Eligibility criteria defined by CMHC is included below.

PURPOSE

The purpose of this directive is to provide an overview of CMHC's new mortgage prepayment rules for social housing mortgages. More detailed information can be found in the SH Notification Release 13-02 attached.

SUMMARY OF ELIGIBILITY

Projects requiring capital repairs and renovations must meet the following criteria as identified by CMHC to qualify for prepayment of a closed mortgage.

Eligibility Criteria

1. The housing project must be financially viable and must continue to be viable after the expiration of the 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 loan matures, necessitating refinancing.
3. A capital replacement plan, spanning a minimum of ten years, which identifies and supports the proposed capital repairs, must be in place.
4. The housing project must continue to be subject to their operating agreement with CMHC until its scheduled expiry.

The new policy applies only to housing projects with Section 95 operating agreements and to Section 26 and 27 housing projects that have operating agreements and CMHC as their lender.

Only housing projects that intend to pre-pay their mortgages and refinance for the purpose of undertaking capital repairs and renovations may take advantage of the new policy. Capital repairs and renovation could include regeneration activities.

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SUMMARY OF ELIGIBILITY

Prepayment of mortgages for the purpose of refinancing with another lender for the sole purpose of lowering their interest rates is not permitted.

Any projects with operational, governance and financial difficulties deemed as Projects in Difficulty cannot take advantage of the new policy.

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

Penalty Calculation under the New Policy

Under this new policy, CMHC will no longer calculate the penalty based on the full interest lost costs as per their previous policy. Instead, CMHC will calculate a yield maintenance penalty based on the difference between the original interest rate and the interest rate CMHC can obtain when re-investing the balance for the remaining term of the mortgage.

SH notification Release 13-02 includes comparative sample calculations of prepayment penalties under the previous CMHC policy and the new CMHC policy. Since reinvestment rates cannot be known in advance, the penalty estimates are for illustration only. Actual penalties charged could vary significantly from the samples shown.

ACTION TO BE TAKEN

- Housing providers should review the eligibility rules for prepayment of their CMHC mortgage and provisions about prepayment penalties contained in their mortgage agreements as there are many variations.
- Housing providers considering prepayment of their closed CMHC mortgages need to discuss the matter with the Service Manager. Consent for mortgage prepayment is required from the Service Manager.
- Financial impacts of this new CMHC policy will vary and housing providers will need to undertake careful internal analysis/calculations and have full discussion with the Service Manager about whether to take advantage of the new CMHC policy.

Prior to requesting the Ministry of Municipal Affairs and Housing to facilitate a mortgage prepayment for a housing provider, the Service Manager must provide written confirmation that the project meets all the eligibility criteria for mortgage prepayment.

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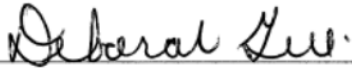
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REFERENCES

SH Notification 13-02

If you have any questions, please contact the following:

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Deborah Gill, Manager
Housing Department



Date