Lesser known CMHC options

By Leo St. Germain

While most apartment owners are generally familiar with the benefits of CMHC loan insurance and CMHC loan terms, there are several lesser known CMHC financing options which apartment owners may find useful.

CMHC and commercial property

While CMHC will not directly insure loans for commercial property such as office buildings and retail centres, CMHC will permit up to 20 per cent of the floor space in a multi-residential property to be occupied by commercial uses. So, for example, if an apartment building has income derived from a convenience store or rented office space, this income can be included in the total revenue of the property as long as the store or office space does not exceed 20 per cent of the total floor space. However, to the extent commercial space exceeds 20 per cent, CMHC will insure the loan but not allow this income to be added into the total revenue which may not be an issue depending on the loan amount.

CMHC top-up

CMHC permits existing CMHC insured loans to be refinanced up to a 65 per cent loan to property value ratio with a premium of 1.75 per cent paid only on the new money. While the existing amortization must be retained, this program would be beneficial if a loan has matured and the owner wishes to modestly increase the loan amount at a minimal cost.

CMHC and second mortgages

CMHC will insure second mortgages until the term renewal of the existing first mortgage, which may or may not be a CMHC insured loan. At term renewal, the first and second mortgages are combined into one new CMHC insured first up to 85 per cent of the loan to property value ratio and a new 25 year amortization or longer is permissible.

A CMHC insured second mortgage is a way to increase the loan amount during an existing loan term rather than waiting for the maturity of the first mortgage which may be beneficial in a rising interest rate environment. But, note CMHC's premium is levied on the combined first and second loan amount.

CMHC and first mortgage refinancing

An existing first mortgage loan whether it is CMHC insured or not may be refinanced and all new and existing funds are secured with a new first mortgage up to 85 per cent of the value of the property and the CMHC premium is applicable to the entire loan based on the loan to property value ratio. However, if the existing loan is CMHC insured, CMHC provides a premium rebate of as much as 75 per cent of the original premium in year one reducing to 20 per cent in year seven to offset the new premium charged.

Repairs and capital improvements using a CMHC insured loan

CMHC will insure loans for capital improvements to a maximum of 85 per cent of "as is" property value, assuming existing rental income is not disturbed or 75 per cent of "as improved" value using projected rent income if the building is fully or substantially vacated and the improvements will lead to permanent increases in rent. In the latter case, the loan can be increased to 85 per cent of "as improved" value following the stabilization of rents for at least one year; alternatively the stabilization period can be waived for a surcharge of 0.25 per cent.

Floating rate CMHC insured loan

CMHC permits floating rate term loans for terms of at least five years and on renewal for all subsequent terms. The floating rate cannot exceed a set ceiling loan rate which must be within a range of current market term interest rates. This may be useful when rates are falling or if early repayment is anticipated.

Leo St. Germain is Vice President, Real Estate Finance Group with MCAP Financial Corporation in Toronto. He is responsible for originating, structuring, and closing CMHC insured financing for a variety of multi-residential investors, operators and managers. He is also responsible for conventional, non-CMHC lending.

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