

# What CMHC needs to Process an Application. Demystifying the Documentation Requirement.

By Vito Campisi



*How many times have you said or heard “can’t go to CMHC, I have a quick closing and just cannot wait for them, or something similar”. As the former CMHC Regional Manager of Underwriting at the Ontario Business Centre, I can tell you that CMHC staff can turnaround an application within a reasonable time. They just need the appropriate information.*

CMHC publishes an excellent Reference Guide (CMHC Mortgage Loan Insurance for Multi-Unit Projects) which provides details on its products and policies related to multi-unit projects. At the end of the booklet you will find a handy checklist of the minimum documentation needed. Of course, ticking off the box and attaching paper to it will not do the trick. The information must be up to date, accurate and complete. Often this is not the case and here is where time starts to get wasted as numerous emails go back and forth requesting additional information and clarification. My advice is: take a bit of extra time to assemble the information and you will reduce the processing time by a lot.

As you know, the underwriting process focuses on three areas whether the loan is financed with CMHC mortgage loan insurance or not:

- Analysis of the housing market
- Analysis of the borrower and guarantor
- Analysis of the security

What follows are some examples of the information needed for each area of analysis for existing projects.

## **Housing Market**

The main considerations will be the vacancy history of the market and sub-market area and of the project under consideration. As a minimum you should provide a three year vacancy history of the project and show how it compares to the market and sub-market area. This is where you need to support the vacancy rate you want CMHC to accept. Make sure that the rationale of your recommended vacancy rate is supported by facts.

To aid you in this assessment, you should refer to the Rental Market Survey (RMS) published by CMHC in the spring and fall each year.

## **Borrower / Guarantor Capacity**

Two main aspects are examined in analyzing the borrower - competence and capacity. This is the area that, in my view, insufficient information is provided and therefore results in time delays. For competence, the underwriter will assess track record, management ability and relevance to past experience. For the assessment of capacity, the underwriter will review financial statements and net worth statements.

For competence simply provide a one pager to describe your track record and property management process and ability. A clear, concise and factual description will make the work of the underwriter much easier.

For the capacity portion, provide the most recent fiscal year financial statement, preferably prepared by a public accountant on a Review Engagement basis. Make sure that you provide sufficient information for the underwriter to assess profitability, liquidity and equity. Simply providing a copy of the financial statement is not sufficient. Provide details behind the numbers. Show how you arrived at the market values of the income producing assets. Provide details on assets and liabilities that are material. Remember, the underwriter has to be satisfied that the equity in the company is solid and durable. As for the income statement, explain components that appear out of the ordinary. Lastly, provide an up to date credit report of the borrower and guarantors. Provide explanations for any derogatories.

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## Security

This is probably the most important component for you. CMHC's valuation of the property will determine the maximum loan amount. CMHC will generally use the income approach to arrive at a value and then it will reconcile it with comparable recent sales in the market area to determine an acceptable lending value. It is therefore very important to provide relevant up to date information about the property. Your support documentation should include:

- A current rent roll with details of unit type, unit rents, parking charges and other charges and rent effective dates. Clearly identify vacant units and explain anomalies.
- A current Income and Expense Statement for a 12 month period with at least one previous year for comparison. Show the Gross Income Potential, Vacancy and Bad Debt and Effective Gross Income separately. For Expenses make sure to explain unusual amounts and rationalize any adjustments or normalizations made. For example, if you installed new boilers or replaced windows recently and you expect substantial savings in utility costs, show your calculations to support the reduction. If the expenses include expenses not related to the property, identify them and provide an explanation.
- Provide a list of recent improvements and planned improvements to the property.
- Provide copies of bills of the most recent property tax, property insurance and utility costs listed by type and month and totaled. Provide details of superintendent costs and other wages and benefits costs.
- Indicate if the property is self-managed or managed by third party. If it is managed by a third party, provide a copy of the agreement. If it is self-managed, describe your internal charge.

I hope the above information helps you to better understand and appreciate some of the CMHC information requirements. And that it will also help you to work with the lender of your choice in preparing an application for mortgage loan insurance.

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