

MULTI-UNIT

# REPLACEMENT OF COVENANT



## AT-A-GLANCE

As a general rule, CMHC does not permit the outright release of parties from their borrower covenants and guarantees unless they are replaced with satisfactory replacement borrowers or guarantors. A change in borrower structure involving a replacement of a borrower and/or a guarantor for a loan on a multi-unit property requires CMHC approval. Where covenants are replaced, the guarantee amounts remain the same as per the original loan commitment. The Approved Lender is responsible for ensuring the validity and enforceability of the covenants for the full amortization of the loan. In certain circumstances, the conditions of the mortgage loan insurance may be revised, for example, reduction of the loan amount, requirement for replacement reserves, requirement for additional security, etc.

A recommendation to replace the borrower and/or guarantor covenant must be submitted by the Approved Lender to CMHC along with supporting documentation.

### Loan-Related Documentation and Application Fee

As a minimum, the following support documentation is required for replacement of covenant of borrower and guarantor requests:

- Signed Request—Certificate of Insurance (CMHC 60335).
- A fee of \$100 per unit or bed up to a maximum of \$35,000 per loan. No fee for commercial space.

#### Confirmation of the following:

- CMHC account number, current borrower name and address of the property and the reasons for the request.
- Details regarding all existing registered encumbrances on the property including outstanding balances, term and amortization remaining, interest rate and monthly payments.

### Property-Related Documentation

- Current market value of the property (income/expense analysis on lender's form or CMHC 60335) including analysis of income/expenses and stand-alone valuation of the non-residential space and details of ancillary income (antenna/communication installations, etc.).
- Current rent roll for the subject property with the following:
  1. Effective date.
  2. Number and type of units.
  3. Any vacant units identified.
  4. Any unauthorized or non-compliant units identified.
  5. Utilities, cable, phone, services, parking, amenities, appliances, etc. included in the rent and any rental incentives.
  6. Details of any furnished units (unit number, furniture included, base rent and additional charges for furniture).
  7. For bulk leases: number of units covered, copies of the lease and any other pertinent details.
  8. A certificate of compliance to affordability at time of request for a replacement of covenant, supported by a copy of the rent roll
- In the case of assumption of mortgage proposals, a copy of the executed purchase and sale agreement and confirmation that the mortgage covenants have been legally assumed by the present owner through an assumption agreement.

## Borrower/Guarantor-Related Documentation

- New borrower structure, including name(s) of applicant(s) to be considered for replacement of covenant.
- An opinion as to the ability of the new borrower to continue to carry the mortgage obligation as well as bank references, including the Approved Lender's confirmation that debts are current.
- A summary of the new borrower's real estate and property management experience and capacity to manage a multi-unit property effectively.
- Personal net worth statements for all individual borrowers/guarantors.
- Approved Lender's validation of substantive asset and values (bank statements, property tax assessments, etc.).
- A listing of all other rental properties owned by the borrower(s) and guarantor(s) or under construction, including type, number of units, address, completion date for new construction, mortgage balance, current demonstrated value, debt service costs including mortgage payments, as well as actual income and expenses for each of the properties.
- For individual borrowers/guarantors, a copy of the previous year's income tax return, including the Statement of Real Estate Rentals form for the subject property (if applicable) and any other rental properties, and Notice of Assessment, if available.
- For corporate borrowers, the type of organizational structure (sole proprietorship, limited company, partnership, trust, etc.), the ownership of the entity (including percentage ownership), key individuals, their responsibilities and reporting relationships; borrowers are to provide a current organization chart describing the relationships with associated entities/subsidiaries, and identify any beneficial owners of the subject property.

- For corporate borrowers/guarantors, financial statements for the most recent three years.
- Current credit reports for all borrowers and guarantors (individuals and corporations).
- For trusts, provide names of the beneficiaries and trustees of the trust, with net worth information. If the beneficiaries/trustees are unable to provide a guarantee for the loan, provide rationale as to why.
- Substantiation of the amount and source of the down payment and, if applicable, details of any balance of sale from the vendor or second mortgage (amount, interest rate, amortization, repayment terms).

CMHC may at its discretion request any additional information it deems necessary to properly assess an application.

CMHC mortgage loan insurance provides access to preferred interest rates lowering borrowing costs for the construction, purchase and refinance of multi-unit residential properties and facilitates renewals throughout the life of the mortgage.

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**For additional information on fees and premiums, and multi-unit products, please refer to the applicable information sheet.**

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