Program Highlight Sheet

Standard Rental

CMHC Apartment Construction Loan Program (ACLP) provides low-cost funding to eligible borrowers during the most risky phases of development (construction through to stabilized operations). The ACLP includes CMHC mortgage loan insurance as an integrated feature of the program and provides access to preferred interest rates lowering borrowing costs for the financing of multi-unit residential properties and facilitates renewals.

Projects that qualify for funding under the ACLP will benefit from attractive financing options and underwriting flexibilities.

Loan Purpose

Construction of standard rental housing, as well as the conversion of non-residential to standard rental housing.

Property Details

- Purpose built standard rental properties with a minimum of 5 units.
- Fully self-contained units only.
- Primary use is residential.
- Any non-residential component cannot exceed 30% of total gross floor space, nor 30% of total cost.
- Permanent housing (long-term stay).

Borrower Eligibility

Eligible applicants include but are not limited to:

- Private entrepreneur/builder/developer.
- Public or private non-profit housing organization.
- Rental co-operative (Note: equity co-ops are not eligible).
- Other levels of government (Indigenous Governing Body, Province, Territory, Municipality).

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Property Management Experience: at least 5 years' experience operating a housing property of similar type and size. Alternatively, the borrower must enter into a long-term contract (minimum five years) with a third-party property management firm that has demonstrated five years of successful experience in operating similar size and type of facilities.

Credit and Repayment History: at least break-even cash flow over past 5 years with excellent credit and repayment history.

Construction Management Experience: have successfully completed a similar project on time and within budget. Alternatively, borrowers must enter into a fixed price contract with a general contractor who has experience building projects of similar size, cost, building form and construction type in the same market area. Borrowers must have a demonstrated ability to withstand unexpected increases in construction cost.

For newly formed groups, alternate covenants, collateral, and mitigation may be considered.

Minimum Requirements

- **Housing Need:** The proposed project must respond to a need for rental supply.
- **Loan Size:** Minimum loan size of $1 million.
- **Financial Viability:** Borrowers will have to:
  - demonstrate the financial and operational ability to carry the project without ongoing subsidies and ability to meet debt coverage ratio requirements.
  - provide evidence of the financial viability of the proposed project itself, as well as capacity to deal with development risks such as cost over-runs and delays in construction.
- **Affordability:** The project must fulfil one (1) of the following affordability criteria and in all cases, affordability must be maintained for a minimum of 10 years.
  - **Criteria A** : A minimum of 20% of the units must be affordable with rents at or below 30% of the median total income of all families in the subject market (Statistics Canada[1]).
  - **Criteria B** : Alternatively, the requirement may be met if rents are established pursuant to an affordable housing program or other initiative (federal, provincial, territorial, municipal) that approves the proposal and provides support for the development of the standard rental housing project.

Social Outcomes

The ACLP aims to prioritize only the strongest projects that commit to deliver desired rental supply and social outcomes. Applicants are encouraged to:

- Include accessible units within the project
- Commit to deeper levels of affordability
- Commit to a higher proportion of units being considered affordable
- Commit to longer affordability periods
- Commit to greater levels of energy efficiency
- Support community-oriented solutions*
- Work with other partners
- Achieve a unit-mix that supports family sized units.

> ***Note: There is a recognition that community-oriented solutions may not be applicable to projects located in rural communities.**

Refer to the Project Assessment Workbook for additional details.

[1] https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1110000901

Lending Flexibilities

ACLP uses a point system that provides applicants with the opportunity to qualify for more favourable lending terms by making stronger commitments to certain social outcomes. Total points will determine available lending flexibilities.

Affordability Commitment

Affordability period of 10 years:

	30% median total income	25% median total income	20% median total income	15% median total income
20% of Units	0 pts	8 pts	18 pts	30 pts
25% of Units	2 pts	12 pts	25 pts	40 pts
30% of Units	4 pts	16 pts	31 pts	49 pts

Affordability period of 15 years:

	30% median total income	25% median total income	20% median total income	15% median total income
20% of Units	2 pts	11 pts	22 pts	36 pts
25% of Units	4 pts	16 pts	30 pts	47 pts
30% of Units	7 pts	20 pts	37 pts	57 pts

Affordability period of 20+ years:

	30% median total income	25% median total income	20% median total income	15% median total income
20% of Units	4 pts	14 pts	27 pts	42 pts
25% of Units	7 pts	19 pts	35 pts	54 pts
30% of Units	9 pts	24 pts	43 pts	65 pts

Notes on Affordability:

- If the affordability requirement is being satisfied under Criteria B, the score for the affordability commitment will reflect the greater of 19 points or the score in relation to Criteria A.
- Although the scorecard does not differentiate between unit type (e.g. 1-bed, 2-bed, etc.), CMHC does consider which unit types are being designated affordable during its review.

Market Adjustment

Based on the ACLP affordability criteria, projects located in markets with high market rents and relatively low median total incomes may have a greater challenge achieving affordability outcomes. To support projects in having an equal opportunity to qualify for lending flexibilities, a market adjustment score is provided. This is a result of continued acknowledgement that markets are unique.

Market Type	Score
Market Type 1	0 pts
Market Type 2	9 pts
Market Type 3	18 pts

Climate Commitment

Energy efficiency in new construction is covered under the 2020 model codes. All buildings under Part 3 of the National Building code will reference the 2020 National Energy Code of Canada for Buildings (NECB). Low-rise multi-unit buildings under Part 9 of the National Building Code of Canada (NBC) will reference the 2020 NBC.

All buildings under Part 3 of the National Building Code:

2020 NECB Performance Tiers	Score
Tier 1 – Baseline Code	0 pts
Tier 2 – 25% Improvement over Tier 1	10 pts
Tier 3 – 50% Improvement over Tier 1	20 pts
Tier 4 – 60% Improvement over Tier 1	35 pts

Low-rise multi-unit buildings under Part 9 of the National Building Code:

2020 NBC Performance Tiers	Score
Tier 1 – Minimum Code	0 pts
Tier 2 – 10% more efficient	0 pts
Tier 3 – 20% more efficient	10 pts
Tier 4 – 40% more efficient	20 pts
Tier 5 – 70% more efficient	35 pts

Lending Flexibility Scorecard

	Maximum LTC	Maximum Amortization	Loan Term	Other
Tier 3 – (Min. 0 pts)	Up to 90%	Up to 45-years	One 10-year term	N/A
Tier 2 – (Min. 47 pts)	Up to 95%	Up to 50-years	One 10-year term	N/A
Tier 1 – (Min. 65 pts)	Up to 100%	Up to 50-years	Option of: one 10-year term **or** one 20-year term	Financing land equity is permitted

Note: Despite the eligibility for certain loan amounts under the lending flexibility scorecard, CMHC may negotiate lower loan amounts to respect available funding and unit targets prescribed by the Government of Canada, or as otherwise required as part of the credit assessment of the loan.

Lending Details

Maximum Loan to Cost

- Residential Loan Component: up to 100% LTC. See Lending Flexibility Scorecard.
- Non-residential Loan Component: up to 75% LTC.

Advancing

- The loan may be advanced up to 100% of costs during construction. There is no mandatory rental achievement holdback.
- The first construction draw must be within 6 months of date of the executed loan agreement.

Minimum Debt Coverage Ratio

- DCR of 1.10 (for residential loan component).
- DCR of 1.40 (for non-residential loan component).
- Applications will be qualified with an interest that is the higher of 2.00% or the CMHC indicative rate plus a 100 bps (1.00%) spread. **Note:** The spread is determined by CMHC and is subject to change from time to time.

Interest Rate

- Term begins at first loan advance.
- Fixed rate locked in at beginning of term.
- Interest only payments financed by the loan during construction through to occupancy permit.
- Interest only payments paid by the borrower from occupancy permit until 12 consecutive months of stabilized effective gross income (stabilization).
- Principal and interest payment from stabilization to end of term.
- Closed to prepayment.

Amortization

- Up to 50 years. See Lending Flexibility Scorecard.
- The amortization period cannot exceed the economic life of the project.

Security Type

- First and *pari passu* mortgages are permitted. A second mortgage may be considered if there is a pre-existing, insured first mortgage related to the project.

Reserve Requirements

- There is no mandatory requirement for a replacement reserve.

Premiums

- The cost of the mortgage loan insurance is not passed along to the borrower. However, the PST on the mortgage loan insurance premium (as applicable) is payable by the borrower.

Application Fees

- Payable at time of underwriting.
- Residential portion: $200 per unit for first 100 units, then $100 per unit thereafter to a maximum of $55,000 per loan.
- Non-residential portion: 0.30% of the non-residential loan amount if it exceeds $100,000.

Borrower Net Worth

- The borrower must have minimum net worth equal to at least 25% of the loan amount being requested, with a minimum of $100,000. Flexibility in CMHC's standard net worth requirements may be available.

Guarantee Requirements

- The borrower and guarantor must provide their covenant/guarantee for 100% of the loan during construction and rent-up. After rent-up, when the project has achieved the rental income used in the underwriting of the loan, the loan may become non-recourse to the borrowers and guarantors for deficiency after enforcing the security in the case of default.
- In all cases, CMHC may require additional risk mitigation measures as it deems appropriate (e.g. equity retention, replacement reserves, collateral security, personal guarantees).

Documentation Requirements

- Refer to the Required Documentation Checklist[2].

[2] https://assets.cmhc-schl.gc.ca//sites/cmhc/professional/project-funding-and-mortgage-financing/funding-programs/all-funding-programs/apartment-construction-loan-program/apartment-construction-loan-program-required-documentation-checklist-enhanced-en.pdf

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