

COMMUNITY PARTNERSHIP INITIATIVE

PROGRAM FRAMEWORK

Affordable Non-Profit Rental
and Home Ownership

June 2014



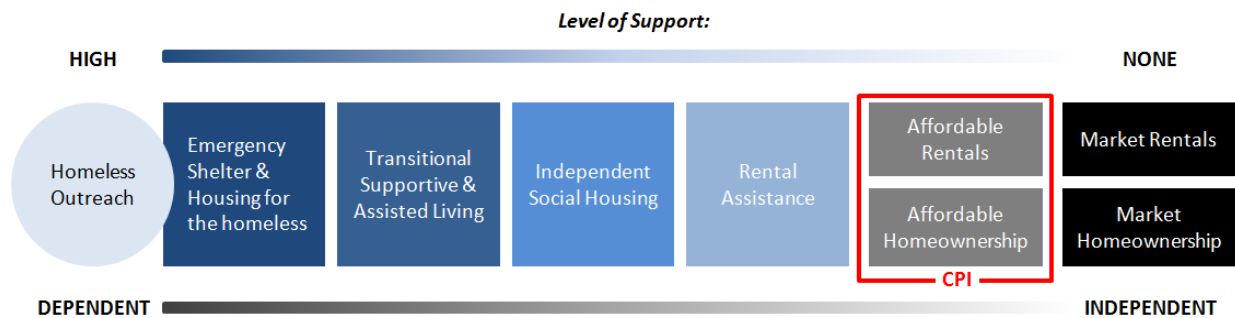
INTRODUCTION

Since 2001, BC Housing has partnered with non-profit societies, government agencies and community organizations through the Community Partnership Initiative (CPI) to facilitate the creation of affordable housing for low and moderate income households in communities across British Columbia. Through CPI, BC Housing provides interim construction financing and/or arranges long-term financing through private lenders for eligible project partners to create self-sustaining affordable housing developments.¹ To be considered self-sustaining, affordable housing models must not require any grants or ongoing operating subsidies from BC Housing.

While projects will be considered anywhere within BC Housing's Housing Continuum, units financed through CPI will typically be situated toward the more independent range of housing options. Increasing the supply and range of affordable housing options can promote self-sufficiency and help households move along the Housing Continuum.

Where projects involve supports or services to residents, additional funding from other programs and/or commitments from other funders will be necessary to ensure projects are viable.

Figure 1: CPI within the Housing Continuum



PRINCIPLES

- 1. Affordable housing is established in communities where there is demonstrated need**
- 2. Sustainability**
 - a) Developments will be financially sustainable without BC Housing grants, operating subsidies, or funding for support services or deficits.
 - b) BC Housing considers environmentally sustainable practices a priority and encourages commitments to this end.
- 3. Consistency with regional and community priorities and plans**
 - a) Community support for the project should be evident.
 - b) Projects should be consistent with any official community plans and strategies.

¹ BC Housing's capability to provide financing to facilitate the development of affordable rental or home ownership housing for eligible households is enacted through provincial regulation. See: *Ministry of Lands, Parks and Housing Act*, R.S.B.C. 1979, http://www.bclaws.ca/EPLibraries/bclaws_new/document/ID/freeside/11_490_79: BC Housing Management Commission Regulation.

4. Program partners are expected to maximize their equity contribution to projects

5. Transparent and accountable operations

- a) BC Housing will employ fair and consistent processes when evaluating and selecting projects.
- b) Project partners will maintain reliable and consistent records and fulfil reporting obligations to BC Housing.

GOALS, OUTPUTS, OUTCOMES, INDICATORS

Goal: Increase the supply and range of affordable and appropriate housing options for low and moderate income households across British Columbia.

Objective: Create or preserve affordable rental and home ownership housing in communities with housing need across British Columbia.

Outputs

- 1. Interim construction and take-out financing approved for new projects.
- 2. Agreements established with partners managing approved housing projects.
- 3. New affordable rental and ownership units created in communities with housing need.

Outcomes

- 1. More low and moderate income households living in affordable, appropriate housing.
- 2. Affordable housing is operated successfully over the expected life of the developments without subsidies or supplemental funding from BC Housing.
- 3. Households move along the housing continuum.

Indicators

- 1. New units created, leveraged or preserved for rent or sale to eligible households.
- 2. Incomes among eligible households at initial occupancy.
- 3. Amount of subsidy or supplemental funding provided by BC Housing to CPI projects.
- 4. Ownership: Number of first time buyers.

FINANCING

Interim Construction Financing

BC Housing can provide interim construction financing for the development of affordable housing which includes new construction and the purchase of existing buildings to preserve affordability. Interim financing may be approved up to 100% of the construction cost to complete the affordable housing project.

Take-out Financing

BC Housing may also help eligible non-profit housing partners obtain take-out financing. BC Housing will make arrangements with a large number of NHA approved lenders to obtain low interest rates and favourable terms through a competitive tender and selection process conducted and approved by BC Housing. All approved BC Housing take-out loans will have low cost Canada Mortgage and Housing Corporation (CMHC) loan insurance.

Security

Depending on the type of project, BC Housing will typically require the following security registered on title:

- Execution and registration of BC Housing's standard mortgage security package.
- A Section 219 restrictive covenant.
- An operating agreement or affordable housing agreement with BC Housing.

Particular security will vary from project to project. BC Housing's security requirements require the project partner to have a mortgageable interest in the property free and clear of any encumbrances or title defects which would prevent the registration of a mortgage and security documentation.

PROJECT ELIGIBILITY

BC Housing will consider proposals for CPI funding through an open proposal calls for submissions advertised via www.bchousing.org. The evaluation of submissions will be based on proponent and project eligibility, need and demand, lending criteria and available financing.

To be considered for financing, the following minimum eligibility requirements must be met²:

1. The site must be suitable for affordable housing.
2. The project partner must own and control a mortgageable interest in the property.
3. The project partner must have completed a Needs and Demand Assessment or Market Study that clearly establishes present and future need and demand for affordable rental or ownership housing in the target community (see Need and Demand Study Document <http://www.bchousing.org/Partners/Opportunities/Framework>).
4. The project partner must present a clear business case for the project including demonstrated ability to maintain affordable rents over time where applicable, and demonstration that developments will be sustainable without operating subsidies, funding for support services or grants for capital repairs/replacements from BC Housing.

² BC Housing may require additional guarantees or security in certain cases as it deems appropriate.

5. The project partner is required to bring equity to the development in the form of cash, grants, municipal reductions, subordinated debt, or unencumbered land.
6. Non-profit project partners:
 - a) Must be incorporated under the laws of British Columbia or Canada.³
 - b) Constitution and bylaws must meet BC Housing requirements (for example, the provision of affordable housing will normally be required as an express and unalterable purpose in the society's constitution).
 - c) Must demonstrate the capacity to manage project construction and operate the affordable housing development as intended.
7. *Rental*: A minimum Debt-Coverage Ratio of 1.2 based on market rents, or 1.1 for below market rents, agreed amortization period and BC Housing's assumed take-out interest rate.
8. *Ownership*: The project partner must demonstrate the project is feasible, including satisfying any pre-determined pre-sales requirements.

While all project partners must meet these basic requirements, it is at BC Housing's discretion to prioritize projects based on available financing and other determining factors.

Project Eligibility – Further Considerations

Greater need and demand

Greater affordability

Larger equity contribution

Greater debt coverage ratio

Affordable Ownership Projects

In addition to the minimum eligibility criteria, project partners are expected to have experience and knowledge of the home ownership market in the target community. Greater consideration should be given to projects where:

1. Simple ownership eligibility requirements and minimal ownership restrictions apply.
2. Ownership costs are favourable against local market ownership costs and rents.
3. Location is favourable, including proximity to amenities. Unit size, layout, design and finishing are modest, yet well aligned with the expectations of the target market.
4. The character of the target market suggests that proposed units will sell in a timely fashion.
5. Assistance is available to help buyers with the down payment or closing costs.
6. There is a clear strategy for delivering home ownership education to eligible buyers.

³ *Ministry of Lands, Parks and Housing Act*, R.S.B.C. 1979: http://www.bclaws.ca/EPLibraries/bclaws_new/document/ID/freeside/11_490_79: BC Housing Management Commission Regulation.

Affordable Ownership Project Guidelines

These guidelines are for consideration when creating affordable home ownership projects. As development projects vary considerably, these guidelines should be applied as appropriate.

1. Keep eligibility as broad as possible within program objectives to create a sufficient pool of eligible buyers for the initial purchase, as well as for subsequent re-sale.
2. Design projects so that buyers can build equity consistent with equity gains in the housing market.
3. Keep restrictions simple and easy to understand for buyers, real estate agents, lenders, and lawyers.
4. Maintain a balanced design approach, such that modest units are affordable to households within the income eligibility requirements, while unit appeal is sufficient to ensure sale.
5. Collaborate with municipal and community partners to ensure local needs for affordable home ownership are met and there is sufficient demand for the types of units being built.
6. Involve potential buyers in workshops on financial literacy and home ownership to help them understand any restrictions and plan for the costs associated with home ownership.
7. Create a marketing strategy during the planning phase, and incorporate advertising to target eligible households that may not be actively looking to purchase a home.
8. Provide public education about the benefits of affordable home ownership as a step toward home ownership in the private market.

KEY PROGRAM ELEMENTS

1. Affordable Rental Housing

Tenant Eligibility

Low and moderate income households are eligible for housing. The income threshold used to define low and moderate income households depends on the number of bedrooms in the unit.⁴

Units with two or more bedrooms: Low and moderate income households are those whose gross household income does not exceed the median income for families with children, as determined by BC Housing from time to time.⁵

Units with less than two bedrooms: Low and moderate income households are those whose gross household income does not exceed the median income for families without children, as determined by BC Housing from time to time.⁶

For projects involving a mix of unit sizes, the corresponding income threshold will be applied to each unit.

⁴ Projects approved prior to June 1, 2014 utilize the following definition of low and moderate income for units of all sizes: a gross household income that does not exceed the top of the second quintile of household incomes (two persons or more) for British Columbian households, based on Statistics Canada: *Survey of Labour and Income Dynamics*.

⁵ BC Housing determines this figure using data released by Statistics Canada - Income Statistics Division: *T1 Family File - Median Income for British Columbian Couple Families (With Children)*.

⁶ BC Housing determines this figure using data released by Statistics Canada - Income Statistics Division: *T1 Family File - Median Income for British Columbian Couple Families (Without Children)*. Due to a small disparity between this figure and the previous figure referenced in Footnote 4, BC Housing will continue to utilize the previous figure until the disparity is reduced.

Rents

Rent on all CPI units must be affordable for eligible tenants throughout the term of any operating agreements between BC Housing and the project partner.

The rent structure will vary depending on the characteristics of the particular project, the tenant population served, and whether or not funding from other sources is layered into the project. As a result, rents may be structured as rent geared to income, fixed rent and/or up to affordable market rent. Where affordable market rent applies, rents will be set as determined either by a local market rent appraisal, CMHC's Rental Market Report, or other data acceptable to BC Housing.

Agreements

Successful providers must enter into an operating agreement with BC Housing for the CPI units. The term of the operating agreement will normally be five years longer than the mortgage amortization period.

The operating agreement will require that:

1. All units must remain affordable for targeted households.
2. Household income for all tenants is verified by the provider on commencement of tenancy; rents monitored and adjusted by providers as required.
3. Rent revenues must be sufficient to support all operating costs including debt servicing.
4. The project partner is responsible for funding and replacing all capital items including major capital items, and for insuring the property and improvements.
5. Initial replacement reserve and capital plan to be approved by BC Housing.
6. There will be periodic monitoring by BC Housing.

Roles and responsibilities

BC Housing

- Evaluating project proposals.
- Providing or facilitating financing.
- Providing technical assistance and advice.
- Monitoring and evaluating the success of the program.

Project Partners

- Coordinating the design and construction of developments.
- Day to day operations and management of the housing, including the provision of property management services.
- Identification and selection of tenants, including verification of their income.
- Periodic reporting to BC Housing as specified in the operating agreement.
- Ensuring the financial viability and long term operating success of the housing.

Monitoring and Reporting

The purpose of monitoring the Community Partnership Initiative is to ensure program compliance and minimize risk to all stakeholders: residents, project partners and BC Housing. The extent of monitoring will be commensurate with the level of exposure. For

example: larger, more complex projects, or projects with greater loan amounts or longer loan periods, will normally warrant a greater degree of monitoring.

BC Housing's main interests are:

- The targeted households are being housed.
- Affordable rents are maintained.
- Construction standards and value for money are met.
- Developments are financially viable with no operating subsidies or grants from BC Housing.
- Buildings are maintained to an appropriate standard for their expected lifespan.
- Project partners meet contractual obligations.

From time to time, the project partner is required to submit a report, using a template provided by BC Housing, addressing these key requirements:

- Current financial statements.
- Current rent levels.
- Household incomes at move-in.

An on-site visit by BC Housing staff may occur every 3 to 6 years, dependent on any issues arising and/or where financial and operating risks are considered to be greater.

2. Affordable Home Ownership

Purchaser Eligibility

The following eligibility requirements apply:

1. At the time of purchase, gross household income does not exceed the median household income for British Columbia couples with children, based on Statistics Canada Income Tax data, and as determined by BC Housing from time to time. Household income is to be verified by the project partner on commencement of tenancy.
2. The purchaser must:
 - a) Be age 19 years or older; be a Canadian citizen or landed immigrant and permanently residing in British Columbia; intend to use the unit as their primary residence⁷; and must not currently own or have an ownership interest in a home.
 - b) Provide a minimum cash down payment of 1% of the purchase price⁸.
 - c) Be pre-approved for a mortgage from a private lending institution.
 - d) Complete home ownership education acceptable to BC Housing and the lending institution.
 - e) Demonstrate that they have obtained independent legal advice prior to entering into the Purchase and Sale Agreement.

The National Occupancy Standards do not apply.

⁷ Where a 2nd mortgage is deployed, the 2nd mortgage holder may elect to require that the principal plus a penalty will be payable if sale or transfer occurs within a specified period following the initial sale.

⁸ Where the purchaser's down payment is less than 5%, some "top-up" assistance may be required from a project partner or lender.

Project Design

Affordable home ownership units can be created using BC Housing's low interest interim construction financing and an equity contribution by an interested party, and then sold to eligible purchasers. Sale proceeds are used to pay down the interim construction loan.

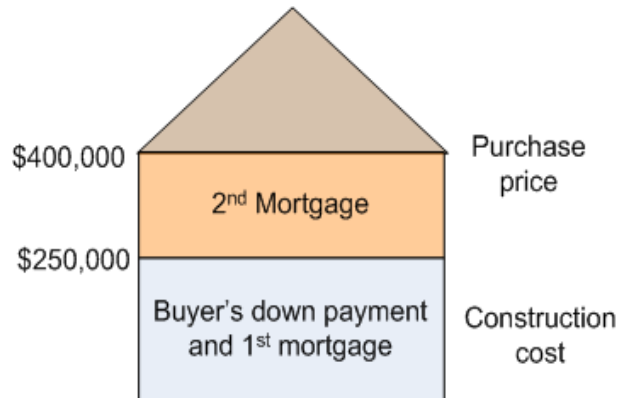
The buyer will own the property outright and have the full benefits, rights and responsibilities of ownership. The buyer may be permitted to sell the property for fair market value on the open market at any point.

Homes may be sold under a variety of arrangements in order to ensure affordability for eligible purchasers:

1. **Simple Affordability:** Under the simplest scenario, homes can be sold below market value with no further assistance. The eligible purchaser buys the property by contributing a down payment and mortgage that together cover 90% or more of the property's fair market value⁹.
2. **2nd Mortgage:** Where 90% of the fair market value would require a mortgage beyond the means of eligible buyers, an optional 2nd mortgage can be extended by one of the project partners to bridge the gap between the buyer's contribution and the property's fair market value. Where a 2nd mortgage is applied, the purchase price should equal the fair market value.

This 2nd mortgage may involve the transfer of funds or it may be based on existing equity in the property¹⁰. The 2nd mortgage will be interest free and does not need to be paid monthly like a regular mortgage. When the home is sold or title is transferred, the 2nd mortgage is recaptured in full¹¹. Where BC Housing's equity contribution represents more than \$100,000 or 30% of the property's fair market value¹², consideration may be given to adopt a shared equity approach with respect to the recapture of the 2nd mortgage¹³.

Where the 2nd mortgage holder allows it, home owners may also have the option to pay out the 2nd mortgage earlier.



Where the buyer's down payment and 1st mortgage are insufficient, a 2nd mortgage can help achieve affordability.

⁹ The purchase price is the construction cost plus or minus a set margin. In some projects, it may be expedient to set a different margin for units of different size or amenity to achieve greater overall cost-effectiveness or affordability.

¹⁰ Where the 2nd mortgage is based on the 2nd mortgage holder's existing equity in the land, it can be registered on title.

¹¹ Where the 2nd mortgage holder is PRHC, a municipality or a non-profit project partner, the recaptured funds may be reinvested within the development or applied to another affordable housing project.

¹² Equity could include land, a 2nd mortgage or cash contribution.

¹³ Upon resale or transfer, the home owner can be required to repay the 2nd mortgage plus the proportionate share of any increase (or decrease) in the market value of the home, as determined by an independent appraiser. For example, where the 2nd mortgage was equal to 30% of the original purchase price, the amount due is the 2nd mortgage plus 30% of any increase in the appraised value over the original purchase price.

Agreements

Successful project partners must enter into an Affordable Housing Agreement with BC Housing. Where loans have been advanced, the recipient must also execute loan security documents.

The Affordable Housing Agreement will require that:

1. Projects are consistent with community priorities and plans.
2. All units in the development are sold to qualified buyers at pre-determined prices.
3. The project partner is responsible for the verification of all household income for all buyers prior to entering into a Purchase and Sale Agreement.
4. Applicable pre-sales requirements must be satisfied. Anticipated sales revenues must be sufficient to fully repay the interim construction loan.
5. The project partner develops a business case that clearly identifies a sufficient target “market” of eligible buyers for unit sales to proceed quickly, and a marketing strategy that appeals to the broadest possible segment of this market.
6. The project partner identifies sources to deliver home ownership education to buyers and provide assistance with down payment or closing costs where necessary.
7. Where a 2nd mortgage is deployed and the 2nd mortgage holder chooses to maintain the affordability of units upon re-sale, it has developed a plan to manage: (i) the re-sale of units to eligible purchasers and; (ii) the recapture and transfer of 2nd mortgages to subsequent purchasers as appropriate.

The seller will establish a Purchase and Sale Agreement with eligible buyers, including:

1. Program requirements, including any owner occupancy and re-sale requirements.
2. Provisions relating to any purchase options or default on any mortgage.
3. Provisions relating to any 2nd mortgage and its repayment requirements.
4. Condition precedents such as a Statutory Declaration of Intent with respect to eligibility, the completion of any required home ownership education, and the buyer’s ability to obtain first mortgage financing.

Roles and Responsibilities

The partner will be responsible for contributing some equity to the project and either directly managing or delegating responsibility for:

1. Vetting/assessing purchaser eligibility.
2. Preparing the legal notation.
3. Where 2nd mortgages are deployed:
 - Extending 2nd mortgages to purchasers and assuming the associated risk.
 - Processing 2nd mortgage repayments where applicable.¹⁴
4. Managing any default scenarios.

¹⁴ Where PRHC owns the land, for administrative simplicity, BC Housing will not allow partial repayment of the 2nd mortgage. Any repayment must be made in full.

Where lender partnerships are required, they will be established through an Expression of Interest. The goal will be for lender(s) to provide qualified buyers with the first mortgage and to consider cooperating in the delivery of home owner education and post-purchase support.

Monitoring and Reporting

Close monitoring by BC Housing of each project or ownership unit over time is not contemplated. From time to time, a project partner may choose to require proof from the home owner that the property is being maintained as their primary residence. The 2nd mortgage holder will be responsible for monitoring applicable provisions.

SIGN-OFF

The Program Framework requires final sign-off by the BC Housing Vice-Presidents of Development and Asset Strategies, Operations, and Corporate Services.



Vice President, Development and Asset Strategies



Vice President, Corporate Services



Vice President, Operations

1. APPENDIX A – ROLES AND RESPONSIBILITIES

R Responsible	Those who do the work to achieve the task. Can be shared amongst various stakeholders
A Accountable	Those who are ultimately accountable for the correct completion of the task. Only one stakeholder should hold ultimate accountability.
C Consulted	Those whose opinions are sought (two-way line of communication).
I Informed	Those who are kept up to date on progress. Assumes 1 way line of communication
S Supports	Provides support to those completing the task, if necessary.

Tasks	BC Housing	Partner	Commercial Lender
All Projects:			
Submit proposal	-	R/A	-
Review proposals	R/A	-	-
Work with partners to further develop proposals	R/A	C	-
Select and advise successful partners	R/A	I	-
Develop Agreements	R/A	C	-
Prepare interim construction financing package including security documents	R/A	C	-
Conduct underwriting analysis	R/A	C	-
Final project approval	R/A	I	-
Register Section 219 Covenant and/or Option to Purchase	R/A	I	-
Negotiate and execute Agreements	R/A	C	-
Oversee the construction phase: review Project Monitor reports; approve draws etc.	R/A	C	-
Public announcement of project	R/A	R	-
Report regularly to BC Housing	-	R/A	-
Monitor partners' compliance with program requirements	R/A	C	-
Additional Responsibilities — Rental Housing:			
Tenders to commercial take-out lenders	R/A	I	C
Execute take-out mortgage financing	I	R/A	C

Major Tasks	BC Housing	Partner	Commercial Lender	Buyer
Additional Responsibilities — Home Ownership:				
Establish unit fair market values	C	R/A	-	-
Establish unit purchase prices (buyers' down payment + 1 st mortgage)	C	R/A	-	
Implement marketing strategy	C	R/A	-	
Establish eligibility of interested buyers	S	R/A	-	C
Qualify for mortgage from private lending institution	-	I	A	R/A
Provide down payment of at least 1% of unit purchase price	-	C/I	C/I	R/A
Home ownership education	S	R/A	C	I
Provide assistance with down payment and closing costs	I	R/A	C	C
Obtain independent legal advice prior to entering into the Purchase and Sale Agreement	-	S	-	R/A
Execute Purchase and Sale Agreement	-	R/A	I	R
Execute 1 st mortgage	I	I	R/A	R
Where 2 nd mortgage is extended: amounts established; approved by BC Housing; mortgages registered and extended to buyers, recapture of 2 nd mortgage approved and clearly described in supporting documents	C	A	-	R
Proceeds received from the Cash Contribution used to pay down the Interim Construction Loan	C	R/A	-	-
Management of default scenarios		Depends on Scenario		
Monitoring and evaluation	R/A or C	R/A or C	-	C
Obtain proof from the home owner that the property is being maintained as their primary residence.		Depends on Scenario		