

*The*  
**CO-OPERATIVE  
HOUSING  
FEDERATION**  
*of Canada*



**Brief to the  
Standing Committee on  
Finance  
2014 Pre-Budget  
Consultations**

## **Living Within Our Means: Affordable Solutions for Canada's Co-operative Housing**

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## **EXECUTIVE SUMMARY**

The Co-operative Housing Federation of Canada (CHF Canada) and its over 900 member co-ops look forward to working with the Minister of Finance, Minister Responsible for Canada Mortgage and Housing Corporation (CMHC) and Minister of State (Social Development) to find new and innovative ways to protect and preserve co-operative homes.

1. Across Canada, about 21,000 low-income co-op households (housing an estimated 50,000 low-income Canadians) depend on federal operating agreements that provide financial assistance to help them pay their rent.<sup>1</sup> The annual cost of this federal assistance is estimated at \$100 million. Almost all of these agreements are administered directly by Canada Mortgage and Housing Corporation; almost all of these co-ops fall under federal jurisdictions.
2. Housing co-ops are taking advantage of the federal government's 2013 initiative to facilitate new private sector mortgage borrowing by housing co-operatives, to make necessary repairs, to renovate and to modernize. While refinancing is paying dividends for federally-administered Section 95 co-ops (built from 1979 to 1985),<sup>2</sup> co-ops under the federal Section 61 program (delivered from 1973 to 1978)<sup>3</sup>, are not able to refinance because of high prepayment penalties.
3. Finally, CHF Canada invites senior governments to consider new national targets for new affordable housing.

CHF Canada therefore asks the Committee to adopt these recommendations in its report, and proposes that the federal government:

1. Continue to provide federal subsidies to low-income co-op households, at a cost of \$100 million per year.
2. Revise CMHC mortgage prepayment penalties to facilitate additional private sector investment in Section 61 housing co-operatives for necessary capital repairs and modernization.
3. With the provinces, set new national affordable housing targets for provinces, territories and municipalities.

## INTRODUCTION

### The Co-op Difference

Canada's 2,200 housing co-ops (with over 97,000 homes) serve a greater purpose than simply providing Canadians with safe and secure affordable housing. They represent an effective form of purpose-built, mixed-income non-profit housing that builds strong and cohesive communities across the country.

A quarter of a million Canadians benefit from the "co-op difference" as they are equal stakeholders in their housing enterprises and are directly affected by the decisions that they collectively make. Co-op members engage in their co-op communities in significant ways that foster personal growth and skills development, a process that, in turn, creates productive and successful citizens.

## CHF CANADA'S RECOMMENDATIONS

### Recommendation 1:

**The federal government should continue to provide rental assistance to low-income co-op households living in housing co-operatives under federal jurisdiction.**

We estimate the current cost of federal subsidies to co-op households at approximately \$100 million per year (the average household: approximately \$4,500 per year).<sup>4</sup> This funding can be phased in over time, as existing agreements expire.

Canada cannot afford to lose affordable co-operative housing. 50,000 low-income Canadians living in housing co-ops (including seniors, single-parent working families, people with disabilities, aboriginal people and new Canadians) are frightened that they will not be able to pay for their housing when a **majority** of the federal housing agreements under the Section 95 program end between 2014 and 2021.

This rental assistance will save federal taxpayers' dollars in health, social services and the justice system. Continued federal support will ensure that vulnerable households can remain in their homes – an outcome that supports the 'Housing First' approach.

### Recommendation 2:

**Develop an affordable framework for CMHC mortgage prepayment to facilitate increased private sector investment in federal Section 61 program housing co-operatives, so that they can undertake necessary capital repairs and modernization.**

In January 2013, the federal government provided its response to a report that was presented in the House of Commons on September 17, 2012 by the Special Committee on Co-operatives.”<sup>5</sup> In its response,<sup>6</sup> it stated that “...CMHC will offer a discounted prepayment penalty. The discounted penalty will be consistent with industry practices and available for projects that meet eligibility criteria. This will enable project sponsors with financially healthy projects to undertake significant capital repair work, thus extending the useful life of their projects. It will also benefit low-income households living in the projects including families, seniors, persons with disabilities and Aboriginal people.”

CHF Canada applauded this announcement, which paved the way for fair and reasonable mortgage prepayment penalties. During the first six months of 2014, using a new refinancing program offered by CHF Canada,<sup>7</sup> nearly \$25 million has been provided in new credit union loans to housing co-ops. New loans for capital improvements to renew Canada’s housing co-ops will continue to assist Canada’s economy by employing Canadians working in skilled construction trades.<sup>8</sup>

Many more of Canada’s housing co-ops want to take advantage of refinancing opportunities to revitalize their housing. However, Section 61 co-ops are not able to take advantage of refinancing opportunities using the existing prepayment formula. Their CMHC mortgages were set between 1973 and 1978 for 40 to 50 year terms; typically at 8% interest rates. Prepayment penalties for these Section 61 co-ops are unaffordable.

For example, a Section 61 co-op in Toronto with 103 homes, built in 1974, would face a prepayment penalty of approximately \$850,000 to prepay its remaining \$2.2 million mortgage balance (ending in 2027).

In July 2014, CHF Canada wrote to the Minister Responsible for CMHC about the need for new capital investments in Section 61 housing co-operatives, asking that the government consider a workable prepayment formula. A workable formula will allow many more co-operatives to handle their building repairs, with no need for government spending for capital repairs.

If an affordable formula for Section 61 co-ops’ mortgage prepayment is developed quickly, these co-ops can take advantage of the 2015 summer construction season to renovate their properties (through private refinancing), while stimulating employment and growth.

### **Recommendation 3:**

**With the provinces, set targets to build new affordable housing their delivery by provinces, territories and municipalities.**

In July 2011, the federal government developed a new Investment and Affordable Housing Framework 2011–2014. The \$1.4 billion combined investment with provinces and territories was applauded by CHF Canada for including new accountability measures for federal housing spending.<sup>9</sup>

With the goal of building on the Framework and the federal government's recent investments in affordable housing,<sup>10</sup> governments should establish new national affordable housing targets to address affordability challenges for Canadians. New targets – to be met by provinces and territories – would reduce housing need for Canada's renters, including those in the lowest income groups.<sup>11</sup>

An Organization for Economic Co-operation and Development (OECD) report recently suggested that the federal government address high housing prices and household debt in Canada's urban areas.<sup>12</sup> CHF Canada supports the OECD recommendation for Canada to “expand low-cost rental housing supply and densification by adjusting zoning regulations to promote more multi-unit dwellings.”<sup>13</sup>

Governments could also improve taxation policies and give affordable housing priority on surplus government land across the country. New targets would lead to new opportunities both to expand existing co-ops and build new ones.

## CONCLUSION

CHF Canada's recommendations represent a new and innovative partnership between the Government of Canada and Canada's housing co-ops – one that will lead to cost-effective and long-term investments in affordable housing.

By protecting the affordability of co-op homes, the federal government can continue to provide many Canadians with secure and affordable homes to live after current federal agreements end. New private sector investments will allow the housing to remain in good condition for many years to come, stimulate employment and growth, and remove the need for public dollars to be used for capital repairs. Finally, new affordable housing targets would lead to positive outcomes by addressing urban affordability challenges across Canada.

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*CHF Canada is the national voice of the Canadian co-operative housing movement. Its members include over 900 non-profit housing co-operatives and other organizations across Canada. More than a quarter of a million Canadians live in housing co-ops, in every province and territory*

<sup>1</sup> It is estimated that these households now living in co-op and non-profit housing are at risk of losing their housing subsidies without the capacity to replace them. This figure is based on analysis provided by housing expert Steve Pomeroy, Focus Consulting Inc., April 2011.

<sup>2</sup> CMHC's Section 95 housing co-op program was the second, and largest, of the three federal co-op housing development programs that were active from 1973 to 1991. Between 1979 and 1985, the Section 95 program delivered some 39,000 homes in 1,000 co-operative projects across Canada.

<sup>3</sup> CMHC's Section 61 housing co-op program was a program for co-ops and non-profits. The program was called the 34.18 program until the sections of the act were renumbered. Today, there are about 7,700 co-op homes in 185 co-ops under this program.

<sup>4</sup> The federal government would work with its counterparts to negotiate the best cost-sharing arrangements for the new programs in jurisdictions across the country.

<sup>5</sup> *Status of Co-operatives in Canada*, Report of the Special Committee on Co-operatives, September 17, 2012. Online, available from <http://www.parl.gc.ca/HousePublications/Publication.aspx?DocId=5706528&Language=E&Mode=1&Parl=41&Ses=1>.

<sup>6</sup> *Government Response to the Report of the Special Committee on Co-operatives Entitled: Status of Co-operatives in Canada*, January 28, 2013. Online, available from <http://www.parl.gc.ca/HousePublications/Publication.aspx?DocId=5944088&Language=E&Mode=1&Parl=41&Ses=1>

<sup>7</sup> For more information, go to <http://www.chfcanada.coop/eng/pages2007/refinancing.asp>.

<sup>8</sup> Housing investment has a multiplier effect, with each new home creating four to six person-years of direct and indirect employment.

<sup>9</sup> CHF Canada media release: "Canada's Housing Co-ops Warmly Welcome Accountability Measures in New Affordable Housing Framework," July 4, 2011. Online, available on [http://www.chfcanada.coop/eng/pages2007/news\\_2011\\_08.asp](http://www.chfcanada.coop/eng/pages2007/news_2011_08.asp).

<sup>10</sup> Announced in the 2013 federal budget which CHF Canada welcomed. "Canada's housing co-ops welcome renewed affordable housing investments in 2013 budget." Online, available from [http://www.chfcanada.coop/eng/pages2007/news\\_2013\\_03.asp](http://www.chfcanada.coop/eng/pages2007/news_2013_03.asp).

<sup>11</sup> According to data obtained by CMHC for 2010, the incidence of core housing need for urban renter households was 28%. Compared to owners at 5.7%. That same year, 52.6% households in the lowest income quintile were in core housing need. A household is said to be in core housing need if its housing falls below at least one of the adequacy, suitability, or affordability standards and it would have to spend 30% or more of its before-tax income to pay the median rent of alternative local housing that is acceptable (meets all standards). 1.5 million Canadian households are in core housing need. Canadian Housing Observer 2013, online, available from [http://www.cmhc-schl.gc.ca/en/corp/about/cahoob/cahoob\\_001.cfm](http://www.cmhc-schl.gc.ca/en/corp/about/cahoob/cahoob_001.cfm).

<sup>12</sup> "OECD Economic Surveys Canada 2014" June 2014. Online, available from [http://www.oecd.org/eco/surveys/Overview%20\\_CANADA\\_2014.pdf](http://www.oecd.org/eco/surveys/Overview%20_CANADA_2014.pdf)

<sup>13</sup> Ibid., p.3.