PLAIN LANGUAGE POLICY GUIDELINES
FOR CO-OPS UNDER THE
FEDERAL CO-OPERATIVE HOUSING PROGRAM WITH INDEX-LINKED MORTGAGES ("ILMS")

These reader-friendly modules have been prepared in simplified non-technical language for the convenience of a general readership. They are available on the Agency's website for housing co-operatives that want to understand how the federally funded co-op programs work.

It is important to note that these modules do not replace CMHC's guidelines and policies. In the event of any conflict or lack of clarity, CMHC's guidelines and policies will prevail. Furthermore, any and all references to the Agency should be interpreted to mean "the Agency, on CMHC's behalf."

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GENERAL

(i) All Federal Co-operative Housing Program co-ops are funded by a special "index-linked mortgage," or ILM, from a National Housing Act (NHA) approved lender. The ILM is insured under Part I of the NHA.

All co-ops in the program have entered into a Federal Co-operative Housing Program agreement with CMHC. This agreement sets out the contractual arrangement between CMHC and the co-operative, including the standards for management.

The agreement lasts 35 years, or until the index-linked mortgage has been fully repaid according to the terms of mortgage and the operating agreement.

(ii) The ILM payment changes each year by the change in the Consumer Price Index (CPI), less two per cent. CPI is measured over the one year period ending six months before each anniversary of the Interest Adjustment Date (IAD). If the CPI is less than two per cent, Federal Assistance will go down.

Any changes to the agreement have to be in writing and signed by authorized signing officers for both CMHC and the co-op.

The co-op must, through the Agency, get CMHC's written approval before extending or adjusting the planned repayment period or prepaying the ILM loan.

If an ILM co-op is undergoing a workout, there may be some modifications to these policies so that the workout can be put in place.

All ILM co-ops are enrolled in the Federal Co-operative Housing Stabilization Fund. This is a joint CMHC/co-operative sector trust fund. The purpose of the Federal Co-operative Housing Stabilization Fund is to prevent claims against the Mortgage Insurance Fund by co-operatives in temporary financial difficulty.

FEDERAL ASSISTANCE

1.1 *Payment of federal assistance*

Federal Assistance will be paid each month by cheque directly to the co-op or by a transfer directly into its account at the bank, trust company or credit union. The first payment of federal assistance coincides with the day of the first mortgage payment (the Interest Adjustment Date or IAD).

1.2 *Adjustments to federal assistance after year 1*

Starting in the second year, the federal assistance is adjusted on the same basis as the ILM payment, as described under “General” above.

1.3 *Year 16*

Starting in year 16, the co-op’s federal assistance will be reduced from the inflation-adjusted amount, if regular occupancy charges would otherwise be more than 15 per cent below comparable market rents. The maximum reduction in federal assistance will be five per cent of the year-15 Regular Occupancy Charges (ROC). The Agency will consult with the co-op on the year-15 ROCs to ensure that they do not reflect extraordinary items or circumstances. The reduction in federal assistance will be less than five per cent of the ROC if this would result in housing charges greater than 85 per cent of market rents.

1.4 *After year 16*

Every year after year 16, the maximum reduction in federal assistance as calculated in section (ii) “General,” will be adjusted on the same basis as the ILM payment is adjusted.

1.5 *Market rents*

The procedure set out in (ii) “General” will be repeated in each year of operation from year 16 on. Comparable market rents will have to be established each year after year 15 to ensure that the co-op’s regular occupancy charges have not dropped below 85 per cent of market and that any reductions in assistance do not require ROC to exceed 85 per cent of market rents.

1.6 *Co-ops approved in 1991*

For co-ops approved in 1991, federal assistance will change after the first year, if need be, based on how much the co-op collects in surcharges. Surcharges are paid by households with incomes above the ingoing income ceiling.

EXTENSION OF THE MORTGAGE REPAYMENT PERIOD

2.1 *Extension of the mortgage-repayment period*

CMHC may approve extending the repayment period for up to 35 years. In the case of leasehold land, the lease must extend at least five years beyond the extended repayment period. Doing this would make sense only under particular economic conditions, such as periods of high inflation. CMHC is likely to approve an extended repayment period only in workout situations.

TREATMENT OF SURPLUSES

3.1 *Member involvement resulting in surplus*

If, in the Agency's opinion, member involvement results in a surplus of revenue through savings in the cost of management, the co-op may make the surplus available to the members through

- a reduction in occupancy charges for a future period, or
- generally, for the appropriate use and benefit of the members.

3.2 *Appropriate allocation of surpluses*

The co-op is responsible for ensuring the appropriate application or distribution of surpluses. Any clarification as to the appropriate use of surpluses should be sought from the Agency.

3.3 *No reduction in federal assistance*

Federal assistance will not be reduced because the co-op has a surplus. CMHC does not recover surpluses or cover deficits. The federal assistance is based on a formula, not on whether there is surplus or deficit.

3.4 *Recognition of surpluses*

Surpluses should be recognized only after taking into account the current year's mortgage costs and all other eligible expenses.

DISCRIMINATION

4.1 *Discrimination*

The co-op must respect the terms of the ILM agreement and follow any applicable Canadian laws against discrimination.

ENCUMBRANCES AND LENDING

5.1 *Encumbrances and lending*

A co-op can't charge, mortgage or otherwise encumber any part of its property unless it has prior written approval from its lender and CMHC, as recommended by the Agency.

With the exception of reasonable nominal gifts and donations, a co-op can't lend or give away any of its funds or guarantee or underwrite the repayment of any obligation by a third party without the prior written approval of CMHC, as recommended by the Agency.

INSURANCE

6.1 *Insurance*

The co-op must carry insurance as set out in its mortgage documents and as required in the "approved lender's requirements" for Part I of the *National Housing Act*.

The co-op is required to obtain insurance that fully protects CMHC's interests, including but not limited to the following:

- fire insurance to cover the cost of replacing the building(s)
- insurance for such risks as wind storms, hail, lightning and floods
- insurance with a "loss-payable" clause stating that the holder of the first mortgage is entitled to the first claims to be paid out.

Co-ops may insure with any federally or provincially registered Canadian insurance company.

PROPERTY TAXES

7.1 *Property Taxes*

The approved lender and the co-op will determine which of them is to arrange for the payment of property taxes.

REPLACEMENT RESERVES

8.1 *Replacement reserve – purpose of fund*

The co-op must maintain a replacement-reserve fund. It uses this fund to replace or make repairs to capital items. These are the capital items that can be replaced from the reserve fund:

a) **Major building components**
- Roofs, including coating, flashing, eavestroughs and downspouts
- Exterior wall finishes with a lower life expectancy than the rest of the property, including exterior painting and stucco
- Exterior doors and windows
- Exterior caulking that is hard to reach and hard to replace
- Aboveground waterproofing, including vapour barriers

b) **Major building services**
- Heating systems, including boilers (hot water or steam), forced air furnaces, radiant heat components, solid-fuel-burning systems, chimneys and related components
- Domestic hot-water tanks, booster pumps, circulating pumps and sump pumps found in multiple-unit buildings
- Septic tanks and tile beds
- Required air-handling systems

c) **Basic facilities**
- Kitchen facilities, such as stoves and refrigerators, sink and faucet installations, counter tops and cabinets
- Bathroom facilities, such as toilets, sinks, vanities, tubs and fixtures

d) **Safety features**
- Fire-alarm systems, such as hardwired smoke alarms and smoke and heat detectors linked to a central alarm
- Required fire-fighting or prevention equipment
- Emergency lighting
- Intercom systems in multiple-unit buildings
- Other safety items

e) **Other major facilities, equipment and features**
- Parking lots, enclosed garages and driveway and walkway surfaces, including multiple-unit garage surfaces and concrete slabs
- Garbage-disposal systems in multiple-unit buildings, such as compactors and disposers
- Interior floor coverings, including those in common areas and suites
- Exterior fences
- Laundry equipment
- Water softeners, where required by the hardness of well water

f) **Regulated changes**
- Changes required by the law within a set period

Extensions to the standard list

Extensions to the standard list are items that were designed, manufactured and installed to function and perform for the life of the co-op, but have failed owing to deficiency or environmental factors. Here are some examples:

- foundations or significant sections of foundations
- other structural components, such as walls, floors and roof framings
- brickwork and pre-cast concrete panels
- emergency generators
- retaining walls
- plumbing systems
- electrical installations, including transformers and emergency generators
- balconies.

The co-op can spend money from its replacement reserve in the circumstances described in 8.3 and 8.4.

8.2 *Contributions to replacement reserve*

After the first year, the standard contribution to the replacement reserve changes every year in the same way the ILM mortgage payment changes, as set out in (ii) General.

8.3 *Approval for expenditures from replacement reserve*

1. The co-op has an approved capital-replacement plan

If a co-op has a comprehensive plan, it does not need Agency approval to spend from the replacement reserve if

- the plan has a complete schedule for replacing capital items, along with estimates of how much each item will cost
- the plan has been approved by CMHC or the Agency
- the co-op updates the plan every three years, and
- the co-op is setting aside the annual amount required by the capital-replacement plan.

When the co-op updates its capital replacement plan at the end of three years, it does not necessarily need to do new technical studies. It may instead update the schedule of replacements and the cash-flow forecast. When a capital replacement plan is updated, it must be approved by the Agency, as it may affect the annual replacement reserve contribution. The annual contribution will have a direct impact on the budget and occupancy charges.

2. The co-op does not have an approved capital replacement plan

If the co-op does not have a long-term capital replacement plan approved by the Agency, the co-op needs the Agency's approval before it spends from its replacement reserve, except as permitted in the operating agreement.

8.4 *Emergency Expenditures*

Emergency replacements are repairs to capital items that, if delayed, would create a health or safety hazard. Examples include the replacement of a heating system in the winter or a structural failure that endangers the physical safety or members.

The co-op is expected to complete these repairs immediately and inform the Agency right away.

8.5 *Investing the Replacement Reserves*

The co-op can invest replacement-reserve money only in investments insured by the Canada Deposit Insurance Corporation, by a credit-union deposit-insurance corporation, or as otherwise approved by CMHC.

The replacement-reserve fund and investment earnings of the fund must be shown separately in the co-op's books of account and on its financial statements.

SECURITY OF TENURE FUND

9.1 *Security of tenure*

The security of tenure fund assists households that would have difficulty paying the market housing charge because of a decrease in their income after they have moved in. The amount of assistance given to a household cannot make their housing charge lower than it would be if the household were receiving a rent supplement. Assistance through security of tenure cannot result in the household's paying a lower percentage of income in occupancy charges than they did when they moved into the co-op.

9.2 *Contributions to the security of tenure fund*

After the first year, the contribution to the security of tenure fund is indexed annually. The formula is the same as for the co-op's ILM mortgage payments as that described under "General (ii)" above.

9.3 *Investing security of tenure funds*

The co-op can invest security of tenure funds only in investments insured by the Canada Deposit Insurance Corporation, by a credit-union deposit-insurance corporation, or as otherwise approved by CMHC.

The security of tenure fund does not have to be kept in a separate bank account, but it must be accounted for separately in the co-op's books of account.

9.4 ***Security of tenure at the end of the fiscal year***

Any amount contributed to or remaining in the security of tenure fund at the end of the fiscal year shall be kept in the fund for future use.

9.5 ***Intended purpose***

The security of tenure fund is to be used only for its intended purpose.

9.6 ***Subject to claims***

The security of tenure fund may be subject to all claims of the mortgage holder under the ILM and is made subject to all claims of CMHC and security of the performance of all obligations by the co-operative under the agreement. The fund may be terminated in whole or in part and disposed of in accordance with any agreement between the co-operative (or another owner of the property at the time), the mortgage holder and CMHC.

SPECIAL PROVISIONS FOR 1991 ILM CO-OPS

10.1 ***Surcharge fund***

The co-operative will set up and keep a surcharge fund. This fund will hold money collected from households whose income has risen above the annual adjusted ingoing income ceiling and who must pay a surcharge on top of their regular housing charges.

10.2 ***Balance of surcharge fund***

The co-op will pay the balance of this fund to CMHC annually or CMHC may adjust the federal assistance payments for the following year.

10.3 ***Ingoing income ceilings***

Individuals applying for occupancy in a co-op approved in 1991 are subject to ingoing income ceilings.

Households that don't provide income verification annually will pay the full surcharge.

Household income is based on total income (before tax) from all sources for everyone in the household who is at least 15 years old. There are no deductions.

Households that become liable for a surcharge are entitled to a six-month grace period, before they have to pay the surcharge. That grace period applies only once per household.

10.4 *Income ceilings are established provincially*

Income ceilings are established provincially every year, based on the Household Income, Facilities and Equipment (HIFE) database. A co-op's income ceiling remains in effect for that calendar year.

The following additional rules apply to the 1991 ILM program:

- An applicant can only move into the co-op when household income is less than the income ceiling.
- Income of all households must be declared annually.
- Where the total income of the household exceeds the income ceiling, the co-op shall reduce the subsidy by 30% of the excess. The excess, which is considered a "surcharge," is paid by the co-op to CMHC.
- The maximum surcharge would be no more than it would take to bring the occupancy charge up to the full economic rent.

If the co-op can demonstrate that imposing income ceilings results in severe vacancy loss as a direct result of the implementation of the income ceiling, the Agency can approve 20 per cent flexibility in the income ceiling.

SALE OF CO-OP/UNITS

11.1 *Sale*

No co-op can sell all or part of its assets without the permission of CMHC, as long as the ILM agreement is in force. CMHC will only consider the sale of a property in exceptional circumstances.

Here are some examples of exceptional circumstances:

- the merger or combining of a co-op with another not-for-profit co-op
- transferring some units to another not-for-profit project
- transferring a co-op to a non-profit housing provider, where the co-op says it is not able to carry out the governance duties needed in a housing co-op

The sale would take place only if it was in the best interests of the co-op and in keeping with program purposes. The co-op would be sold for $1 and the buyer would take on the outstanding mortgage balance. The buyer would assume the obligations of the co-op, operate it within the program and follow the operating agreement with CMHC.

Under certain circumstances, it may be necessary for a co-op to sell a portion of its property to ensure its survival. Any such sale must be at market value, and the specifics associated with it would require the prior approval of the Agency, in consultation with CMHC.

REMEDIES OF CMHC – BREACH OF AGREEMENT

12.1 *Breach of agreement*

If a co-op breaches the ILM operating agreement, CMHC may, on the Agency's recommendation

- suspend federal-assistance payments after one month's written notice
- obtain a court order to force the co-op to comply with the operating agreement (specific performance), or
- appoint a receiver to manage the housing.

12.2 *Remedies*

In the case of a breach of the operating agreement, CMHC can use all remedies available in the operating agreement to enforce compliance. These remedies can be used concurrently any number of times. Non-use or delay in exercising the remedies does not prevent their use in the future.

SUSPENSION, REDUCTION OR DISCONTINUATION OF FEDERAL ASSISTANCE

13.1 *Suspension of federal assistance*

The Agency, in consultation with CMHC, may suspend federal assistance if a co-op breaches the operating agreement, but it will exercise the greatest of care so that suspension does not result in financial problems.

If the co-op breaches the operating agreement, the Agency must inform the co-op and CMHC in writing immediately, setting out the nature of the breach. The Agency must also remind the co-op that it may suspend, reduce or discontinue federal assistance if the breach is not corrected.

If the co-op misses a mortgage payment, the Agency may stop subsidy payments or send the subsidy payments directly to the lender.

The Agency and the co-op will work to resolve the co-op's financial problems or breach of the operating agreement. If necessary, both sides should agree on an action plan.

A co-op that fails to correct a breach of the operating agreement may find that federal assistance is suspended, reduced or discontinued until the breach is corrected.

OBTAINING A COURT ORDER

14.1 *Court order*

The Agency, with CMHC's approval, may obtain a court order to force compliance with the operating agreement.

A court order will be obtained only at the request of the Agency and after consultation with CMHC and their solicitor.

APPOINTMENT OF A RECEIVER

15.1 *Appointment of a receiver*

The Agency, with CMHC's approval, can appoint a receiver (or manager) if the co-op breaches the operating agreement or is in financial difficulty.

The terms and conditions of the receiver's appointment will vary from case to case.

15.2 *Units to be filled with members*

The receiver/manager must always try to fill units with members. If no members are available, the receiver/manager may then look to other occupants to fill the units.

ADDITIONAL REMEDIES – CMHC'S RIGHT OF FIRST PURCHASE

16.1 *Right of first purchase*

If the co-op attempts to sell the property without CMHC's approval, or if the co-op breaches the operating agreement in a manner that is substantial and permanent, CMHC has the right of first purchase. The purchase would include

- the replacement reserve fund
- the security of tenure fund
- the first-mortgage balance plus one dollar, with adjustments for capital improvements approved by CMHC and financed without the ILM or replacement reserves, and
- legitimate outstanding debts recognized by CMHC.

16.2 *CMHC efforts to buy are unsuccessful*

If CMHC efforts to buy the property are unsuccessful, the co-op will be required to pay CMHC the amount set out in section 22 (1)d)-(4) of the operating agreement within three months of receiving the demand.

16.3 *Additional remedies*

Information about all additional remedies can be found in section 22 of the operating agreement.

CO-OP MANAGEMENT

17.1 *Management in keeping with operating agreement*

The co-op is to keep to the terms and conditions of the operating agreement as it conducts its business.

17.2 *Management*

The co-op is to manage itself effectively. It will maintain and repair the property based on professional management standards that, in the Agency's opinion, will reduce operating risk to acceptable levels.

The co-op can hire suitably qualified staff to manage the co-op. Except for the employment of its own staff, the co-op will not enter into an agreement for management without the prior written approval of the Agency.

17.3 *Poor management*

If the Agency believes that a co-op is not meeting the standards in 17.2, it can require the co-op to make changes in its management, even if the co-op is not behind with its mortgage payments.

If the Agency believes the co-op is in financial trouble, it can require the co-op to hire a professional manager. A professional manager is a firm or individual with the skills to assess business difficulties and put in place ways to solve the problems and keep them from returning.

If the co-op breaches the mortgage agreement and will not agree to a management change that the agency thinks is necessary, the Agency will advise CMHC that professional management must be hired.

17.4 Giving control of management back to the co-op

When the Agency requires the co-op to hire professional management, it will give the co-op back the right to choose its management as soon as the Agency and co-op agree that the co-op is ready to do so.

If there are outside directors on the board, the Agency will agree with the board on a plan to replace them with resident directors over time.

17.5 ***Governance***

The co-op will ensure good governance of the organization and its affairs by having a trained, committed board of directors.

Any board member or manager with a conflict of interest must tell the board that there is a conflict. That person may not take part in discussions or in making decisions about the matter that causes the conflict.

A conflict of interest can happen when a director, officer, employee or committee member is involved in co-op decisions that could give that person, or their relative or business associate, some benefit the rest of the co-op wouldn't have.

17.6 ***Weak Governance***

If the Agency believes that a co-op is not meeting the governance standards set out in 17.5, the co-op may be asked to

- get training for board members
- require directors to resign if they are in breach of their duty
- hold elections for new directors to fill vacancies on the board
- appoint temporary directors from outside of the co-op.

OCCUPANCY CHARGES

18.1 ***Regular occupancy charges***

After year one, the co-op will set the Regular Occupancy Charges. It will adopt a budget that at least breaks even after paying the mortgage, operating expenses and making the replacement-reserve and security of tenure fund contributions, less any federal assistance, and not including sector-support levies.

18.2 *Sector-support contribution*

Where the co-op financed a sector-support contribution through its ILM financing, it can require households that don't receive rent-supplement assistance to pay a sector-support levy.

18.3 *Non-RGI occupant refuses to become or remain a member*

When a non-rent-geared-to-income (RGI) occupant refuses to become or remain a member, the co-op can require that person to pay a higher occupancy charge as long as the occupancy charge is not greater than a comparable market rent. The additional revenue, if any, between the occupancy charge for a member and non-member goes into the security of tenure fund, in addition to the annual contribution.

HOUSEHOLDS IN RECEIPT OF RENT-SUPPLEMENT ASSISTANCE

19.1 *Signing a rent-supplement agreement*

Co-ops will sign a Rent Supplement Assistance Agreement with CMHC or the Province delivering the rent supplement program in that province.

19.2 *Number of rent-supplement units*

The co-op will try to keep the same number of rent-supplement units that were provided at the time of commitment. Co-ops approved before 1991 must have at least 15 per cent of units in receipt of rent supplement. Later developments must have at least 30 per cent of units in receipt of rent supplement, unless CMHC waives this condition.

19.3 *Occupancy charges for income-tested occupants*

The rent-supplement agreement will set out occupancy charges for income-tested occupants, as well as how these charges change when the household situation or income level changes.

19.4 *Payment of RGI assistance*

Procedures for the payment of rent-geared-to-income assistance are addressed in the co-op's rent-supplement agreement.

19.5 *Barriers to occupancy*

The co-op will make sure that households eligible for rent supplement do not face other barriers to occupancy, such as

- membership fees and other qualifying fees and charges
- share-purchase requirements
- equity contributions and member loans
- other advances to the co-operative, and
- sector-support levies.

ANNUAL REPORTING AND AUDITED FINANCIAL STATEMENTS

20.1 *Audited financial statements*

Within four months of the end of the co-op's fiscal year, the co-op has to send in its audited financial statements, along with an Annual Information Return, to the Agency.

Audited financial statements include the

- auditor's report
- a statement of financial position or balance sheet
- a statement of revenue and expenses for shelter and non-shelter components as applicable
- a statement of funded reserves
- a statement of cash flow
- a statement of changes in fund balance(s)
- notes to the financial statements, and
- Auditor's confirmation.

20.2 *Duties of the auditor*

The auditor will complete and send in the Annual Information Return electronically.

The auditor will verify

- the statement of financial position or balance sheet
- the statement of revenue and expenses
- the statement of cash flow
- the statement of changes in the fund balance
- the statement of funded reserves
- the application of the rent-supplement conditions, and
- that the mortgage is not in arrears.

The auditor will also confirm that income has been verified and surcharges collected as required under the 1991 ILM program.

The auditor will provide a report saying whether

- the audit has been conducted according to generally accepted auditing standards
- the financial statements fairly present the co-op's financial position
- the statements have been prepared according to Canadian generally accepted account principles (GAAP), except for exceptions to GAAP required by CMHC.

20.3 *Auditor's notes*

The notes must say whether or not the co-op has properly funded the replacement-reserve fund and the security of tenure fund. The notes must also say that the co-op has added investment earnings on these funds to the fund, as required.

20.4 *Explanation of audited financial statements*

The co-op will provide an explanation of information contained in the audited financial statements, as may reasonably be required by the Agency.

20.5 *Consolidated financial statements*

A co-op can provide consolidated financial statements for multiple phases of development, in which case the audit must have separate statements of revenue and expenditures for each phase. In cases where consolidated statements are provided, disclosure should be provided for the funded reserves for each phase.

ANNUAL INFORMATION RETURN

21.1 *Annual Information Return - AIR*

The Annual Information Return (AIR) is a new reporting document.

After the Agency has gathered and reviewed the data from the AIR, it will report to the co-op on its findings and analysis.

The annual key-indicators report will show how well the co-op has been performing. The report looks at income from housing charges and other sources, vacancy losses, turnover, households in arrears, bad debts, spending on upkeep and so on.

The report will also provide comparative information showing co-op performance against the average performance of a similar co-op and the whole portfolio.

The annual report will identify compliance issues that require follow-up by the co-operative as a result of a breach to the operating agreement.

ANNUAL OPERATING BUDGETS – YEAR FIFTEEN AND SUBSEQUENT YEARS

22.1 *Operating budgets in year 15*

By the second quarter of year 15, the co-op must have prepared up-to-date annual operating budgets for the whole of year 15 and at least the first nine months of year 16.

22.2 *Current budget information*

The budgets have to be current as of the date they are submitted to the Agency, so that they reflect recent events and expectations changed since the budgets were first set.

The budgets will show all regular occupancy charges.

22.3 *Anticipated decrease in federal assistance*

The budgets are to set out any anticipated decrease in federal assistance for year 16 or later. The calculated decrease is to be accompanied by a supporting calculation of the maximum reduction in federal assistance for year 16 or later. The co-op should also include their opinion about current comparable market rents.

22.4 *Change in reduction*

If necessary, and on three months' notice, the Agency may change the reduction calculated by the co-op, but the change must be reasonable.

22.5 *Assistance in completing the calculation*

The co-op may ask at any time for the Agency's assistance in completing the calculation.

22.6 *Excused from completing the annual submission*

In the following years, the Agency may excuse co-ops from completing the annual submission if their circumstances are well known and the regular occupancy charges are clearly greater than 85 per cent of market rents.

PHYSICAL INSPECTIONS

23.1 *Review period for inspections*

The Agency will inspect a co-op every two years. The visual inspection will be limited to the exterior, common areas of the property and vacant units, unless the results of the inspection indicate that an inspection of occupied units is also required.

23.2 *Property inspection*

The inspection will look at the property’s marketability and overall upkeep, including standards of maintenance and repair.

23.3 *Full inspection*

The Agency will carry out a full physical inspection if it determines that one is needed based on the results of the annual compliance analysis or after a property inspection. The Agency may also decide to carry out an inspection if the co-op breaches its operating agreement.

The Agency may require the co-op to have a building-condition assessment carried out at the co-op’s expense.

Based on the results of the building-condition assessment, the co-op may be required to complete certain repairs or carry out general maintenance.

ON-SITE REVIEW

24.1 *Triggers for on-site reviews*

If the Agency’s risk assessment of the co-op or other indicators has raised compliance concerns, the Agency will initiate an on-site review.

24.2 *On-site review*

The Agency may

- review the books and records
- meet with the co-op’s board, staff or committees
- inspect the property or the units
- carry out other examinations and analyses, as necessary.

24.3 *On-site review report*

Following the on-site review the Agency will complete an on-site review report. A copy will be sent to the co-op’s board of directors with the Agency’s recommendations for improvements. The Agency will follow up, if necessary, to make sure the co-op is complying with the operating agreement and addressing any problems identified in the on-site review.

ELIGIBLE CO-OP OPERATING EXPENSES

25.1 *Eligible operating expenses*

The following expenses are considered reasonable eligible expenses that co-ops will usually encounter in their day-to-day operations:

- interest, amortization and depreciation
- property taxes
- insurance
- maintenance and repairs (including janitorial services)
- utilities
- security
- ground rent or lease payments
- marketing and advertising
- administration*
- governance
- GST/HST
- bad debts
- allocation to replacement-reserve fund.

When the Agency reviews the amounts of expenses, it considers industry standards and best practices.

* CMHC has historically used a six per cent guideline to assess the reasonableness of administration costs. In effect, CMHC's guideline states that a co-op's administration costs should generally not exceed six per cent of the total operating expenses, including principal and interest payments. However, CMHC has recognized that many factors can affect the cost of administration for any given co-op and considers these factors in applying the guideline. Until the Agency accumulates its own data on operating expenses for annual comparison, it will look to CMHC's administration-cost guideline for comparative purposes.

INELIGIBLE EXPENSES

26.1 *Ineligible expenses*

These are examples of ineligible expenses:

- costs of running non-shelter parts of the co-op (such as daycare), including a share of common operating expenses associated with the non-shelter parts, such as property taxes

- costs of a benefit that isn't shelter related, such as vocational-training resources (Reasonable social expenses that encourage member involvement in the co-op are eligible.)
- costs that belong to another phase of the co-op developed under a different program.
- general co-op-wide expenses (such as administration costs) that should be divided among all phases
- gifts and donations, except for nominal ones
- costs of housing-related services, such as cable television, for income-tested households over and above the operating agreement's definition of full-service accommodation.

Ineligible expenses can be recovered only through

- surcharges added to the occupancy charge
- revenue from non-subsidized sources, such as earning from the investment of member loans, deposits and shares or funds raised through social events
- Non-shelter revenue, such as laundry and parking revenue.

CO-OPS IN FINANCIAL DIFFICULTY

27.1 *Co-ops in financial difficulty*

Any co-op in or at risk of financial difficulty, or expected difficulty, should ask for assistance from the Stabilization Fund as early as possible, and before defaulting on its mortgage.

STABILIZATION FUND

28.1 *Federal Co-operative Housing Stabilization Fund*

The Federal Co-operative Housing Program created the Stabilization Fund. Every ILM co-op in the program with an index-linked mortgage is required to pay into this fund at three per cent of the co-op's eligible capital costs. Through loans, the fund can provide financial assistance to co-ops with financial difficulties.

The Agency or CMHC may ask the Stabilization Fund to look at a co-op's operations and provide advice and financial assistance.