

SCHEDULE B: SERVICE PROVIDER SCOPE OF SERVICES AND AUTHORITY

Subject to the terms and conditions of this Agreement, the Service Provider will perform the services set out below.

The Service Provider will operate within the accountability framework established through this Agreement, while possessing the authority it needs in order to perform its duties efficiently and effectively on CMHC's behalf. The Service Provider and CMHC will make every effort to develop and maintain a co-operative working relationship. Consistent with this, where one Party is required to provide information, advice or approvals to the other, that Party will act in a timely way, allowing the other to perform its responsibilities fully, in the best interests of both the Program clients and the public.

SUMMARY OF SERVICES TO BE PROVIDED

In support of the administration of the Portfolio the Service Provider will

- provide information to Program clients and others on the Programs, CMHC Policies and Guidelines, and the Service Provider's practices;
- monitor and seek compliance with project Operating Agreements;
- assess and take action to mitigate the risks to CMHC associated with the Portfolio;
- provide default prevention services to the Portfolio;
- provide default management services to the Portfolio;

LIMITATIONS ON SERVICES

Policy

In performing the Services the Service Provider will not

- assume the role of the federal government in determining housing policy;
- make changes to
 - the graduated occupancy charge schedule
 - the definition of income
 - the income ceiling for eligible households, other than annual adjustments in accordance with the Guidelines
 - acceptable securities for the investment of subsidy surplus fund assets
 - acceptable securities for the investment of replacement reserve fund assets or other matters over which CMHC has policy discretion under its Operating Agreements with housing cooperatives;

- ❑ have the authority to change Portfolio administration and default management policies (the "CMHC Policies"),¹ except with the explicit agreement of CMHC.

The Service Provider will give advice to CMHC on the CMHC Policies, as may be appropriate, but decisions to change the CMHC Policies will rest with CMHC.

Program Guidelines

Before the Service Provider assumes responsibility for administering the Portfolio, CMHC and CHF Canada will review all existing CMHC guidelines governing the Programs to be administered (the "Guidelines") and agree on any changes to the Guidelines that may be necessary in light of the Service Provider's planned business model, including its emphasis on plain-language communications. The Service Provider will not make substantive changes to the Guidelines afterwards without CMHC's consent.

Loans Administration

The Service Provider will monitor loan repayments as part of its risk and default management activities, but will not otherwise administer mortgage loans within the Portfolio or liaise with insured lenders, unless requested to do so by CMHC.

Projects in Difficulty

The Service Provider will not have the authority to

- ❑ approve CMHC's financial participation in project workouts
- ❑ approve workout repayment terms and conditions;
- ❑ authorize CMHC loan advances to projects;
- ❑ approve project termination implementation strategies and communication plans;
- ❑ adjust or settle loan insurance claims from lenders;
- ❑ approve project sales or partial sales;
- ❑ approve new project borrowings from or insured by CMHC;
- ❑ approve other project borrowings secured by an encumbrance against the project land or buildings;
- ❑ discontinue federal assistance to a project in difficulty in the Portfolio without the explicit agreement of CMHC.

¹ Portfolio administration policy is the body of policy that guides CMHC's management of the Programs. An example is the policy on the treatment of net revenues in the Section 95 Program (Pre-86). Default management policy governs CMHC's management of loan defaults and financial workouts.

SCOPE AND AUTHORITY

Providing information to Program clients and others on the Programs, CMHC Policies and Guidelines, and the Service Provider's practices

1. The Service Provider will provide a Web-based plain-language information service in support of its administration of the Programs. It will receive and respond, through appropriate media, to specific information requests from housing cooperatives, the general public, professionals providing services to housing cooperatives in the Portfolio, and service providers in the cooperative housing sector.
2. Following each annual review, the Service Provider will provide each cooperative in the Portfolio with the results of its financial review and risk analysis for the cooperative, in an accessible and understandable form. The report will include a comparative analysis of the coop's performance against its own past performance and the current performance of its peers. Throughout the year, cooperatives will have Web access to the Service Provider's analyses and other information on their projects.

Authority:

Except as set out in this Agreement, the Service Provider will have the authority to respond to all enquiries and requests for information made directly to it or referred to it by CMHC, ensuring that it complies with all applicable privacy laws and confidentiality requirements. It will consult with CMHC before responding to formal access-to-information requests. Where the law or this Agreement may require, the Service Provider will obtain CMHC's approval of its response or forward the request to CMHC for response.

Monitoring and seeking compliance with project Operating Agreements

1. The Service Provider will seek to ensure the compliance of housing cooperatives in the Portfolio with the project Operating Agreements they have entered into with CMHC, the Guidelines and CMHC Policies. It will provide information on Program requirements and communicate with housing cooperatives to support compliance.
2. The Service Provider will provide approvals to cooperatives under project Operating Agreements, as necessary, in accordance with the Guidelines. Examples are the approval of replacement reserve expenditures that are not pre-authorized under the agreement, approval of replacement reserve plans and contribution levels, and approval of operating budgets for projects with Operating Agreements or workout agreements in which the right of budget approval is reserved to CMHC.

3. The Service Provider will obtain an annual information return from each cooperative in the Portfolio, as well as the cooperative's audited financial statements, and, in the case of cooperatives with funding under the Pre-1986 Section 95 Program, a reconciliation of income-tested assistance allocated to households during the year. The annual information return and assistance reconciliation will be in a form acceptable to CMHC.
4. For cooperatives funded under the Pre-1986 Section 95 Program the Service Provider will undertake a reconciliation of federal assistance through the review of the annual information return, audited financial statements and reconciliation of income-tested assistance form and provide to CMHC a recommendation for any subsidy adjustments that may be required. The recommendation will be supported by the documentation submitted by the cooperative and the Service Provider's working papers in sufficient detail to allow CMHC to confirm and make the subsidy adjustment.
5. The Service Provider will carry out a visual inspection of site and building conditions at each project in the Portfolio at least once every two years to determine the standard of care of the property and its general state of repair. If the inspection of interior and exterior common areas indicates an inadequate state of repair, the Service Provider may undertake an inspection of a sample of individual units.
6. From the annual information returns and other evidence available to it, such as physical inspection reports, complaints and periodic communications with cooperatives, the Service Provider will seek to identify any breaches of the financial or other terms of project Operating Agreements.
7. The Service Provider may carry out an on-site review, as necessary, in instances where a project's compliance with the terms of its Operating Agreement is in doubt.
8. The Service Provider will advise cooperatives of identified Operating Agreement breaches and the requirement to cure them, following up as appropriate to ensure the project returns to full compliance.
9. The Service Provider will produce an annual operating-agreement compliance report for each project and share it with the cooperative.
10. The Service Provider will provide CMHC with periodic Program and Portfolio-wide compliance performance reports and, through a secure website, with the names of cooperatives that are in breach of their Operating Agreements. Serious agreement breaches will be reported directly to CMHC as soon as known.

Authority:

1. The Service Provider will obtain CMHC's agreement prior to obtaining or applying independent legal advice on the interpretation of project Operating Agreements.
2. Where the Service Provider believes it necessary to invoke one or more of the remedies available under the Operating Agreement or at law in order to obtain Operating Agreement compliance it will so advise CMHC and together CMHC and the Service Provider will agree on the appropriate action to be taken. Such remedies include, depending on the Program, suspension of federal assistance, the repayment of the Subsidy Surplus Fund, action for specific performance and the appointment of a receiver, whether court-ordered or not.

Assessing and taking action to mitigate the risks to CMHC associated with the Portfolio

1. The Service Provider will perform the activities necessary to identify and intervene with cooperatives facing actual or emerging financial, physical, or operational difficulties that, if not corrected, could impair their ability, on a continuing basis, to meet their financial obligations as they fall due.
2. The Service Provider will monitor the repayment of mortgage loans by cooperatives in the Portfolio, obtaining information on projects in arrears from CMHC.
3. The Service Provider will perform a systematic risk analysis of each cooperative in the Portfolio upon receipt of the coop's annual information return.² It will perform additional, interim reviews as circumstances may require. The Service Provider will classify cooperatives according to the degree of risk they represent and follow up with the coops in accordance with its established protocols, in order to mitigate identified risks.
4. The Service Provider will carry out on-site examinations of cooperatives' operations and detailed property inspections as necessary, including inspections of unit interiors, to support its risk management activities.
5. The Service Provider will submit periodic Program and Portfolio-wide risk-management reports to CMHC and, through a secure website, will provide CMHC with access at all times to a list of projects in each established risk category. Projects in the high-risk category will be reported directly to CMHC as soon as identified.

² The same data collected through the review of cooperatives' annual returns will be used to conduct a formal performance benchmarking service. Although that service is planned to begin only in a later phase, it is expected that before then, when advising Program clients, Service Provider staff will make considerable informal use of the comparative data the risk-management system will make available.

Authority:

The Service Provider will carry out project risk analyses. After appropriate consultation with CMHC, the board of directors of the Service Provider may approve changes to the risk analysis model employed and the supervisory and intervention protocols for at-risk projects.

Providing default prevention services to the Portfolio

1. The Service Provider will carry out an analysis of each project that is in default of its mortgage repayment obligations or is at risk of defaulting if corrective action is not taken. The analysis will be carried out using CMHC's analytical model and decision framework for the analysis of housing cooperatives in difficulty, which CMHC may modify from time to time. The Service Provider will give advice to CMHC on the framework, as may be appropriate.
2. The Service Provider will refer projects with funding under the Federal Co-operative Housing (ILM) Program that are experiencing financial difficulty to the Federal Co-operative Housing Stabilization Fund for assistance.

Providing default management services to the Portfolio

1. The Service Provider will develop for CMHC's approval responsible recommendations for financial workouts³ or terminations of projects in serious financial difficulty in accordance with CMHC Policies.
2. Where assistance from the Federal Co-operative Housing Stabilization Fund is indicated, either from the Stabilization Fund alone or in conjunction with CMHC, the Service Provider will assist the Fund in obtaining the information it requires on the project.
3. The Service Provider will implement approved financial workouts and administer workout agreements with cooperatives, acting to ensure the successful completion of the workout and the cooperative's compliance with the workout terms.
4. Prior to the end of the planned workout period, the Service Provider will make a recommendation to CMHC regarding repayment of the workout loan or other action.

³ Financial workouts may include second-mortgage loans, payment deferrals or other special payment arrangements, extensions of the amortization period of the existing first-mortgage loan, provision of Enhanced Assistance or other CMHC assistance, loan increase, or partial sale of the property, or other techniques to avoid or cure a loan default and to facilitate the return of a project to financial health.

5. Where a project termination is approved, the Service Provider will develop a communication plan and strategy for protecting assisted households and will implement the termination according to a plan approved by CMHC .
6. The Service Provider will monitor the repayment of workout loans.

Authority:

The Service Provider will perform analyses of projects in default or serious financial difficulty, using CMHC's analytical model and decision framework and, following CMHC Policies, will recommend financial workouts or project terminations to CMHC.