

Q&A

Questions and Answers about Your Annual Risk Rating

What is risk rating?

- Risk rating is a technique the Agency for Co-operative Housing uses to see how stable your co-operative is. It gives us a way to measure your financial strength. And it helps us assess your co-op's capacity to pay its bills and provide housing of good quality, now and in the foreseeable future. The final result of the Agency's risk-rating process is a composite risk rating for each co-op.
- Important as it is, risk rating does not reveal the whole truth about your co-op. It has nothing to say about the richness of your community life and is not a comprehensive judgement of the quality of your management or governance.

How does the risk rating help my co-op?

- Our Composite Risk Rating gives your co-op the recognition it deserves when it is operating well. The Agency hopes that a risk rating of **Low** or **Moderate** will encourage the best-run co-ops to keep up the good work and aspire to do even better.
- At the least, a risk rating of **Above Average** is a warning signal that a co-op is not in as good health as it could be. By sharing this rating with a co-op, we hope to help the co-op's board recognize the beginnings of a problem. The co-op may be able to take corrective action, with support from the Agency and perhaps CHF Canada or a local federation. Or it may simply need to steer carefully through a weak market or a period of physical renewal.

- Our risk rating can also point to danger signs that confirm the existence of more serious difficulties. A rating of **High** tells you that the co-op needs to address its problems without delay if it hopes to continue operations over the long term.
- In future years, the Agency's risk assessment will show a co-op's health is changing over time and supply you with information that will let you compare your performance with that of other co-ops like yours.

How did the Agency come up with my co-op's Composite Risk Rating?

The Agency used several tools to build your co-op's Composite Risk Rating:

1. The Annual Information Report (AIR)

Your auditor filed this report over the Internet, drawing information from your co-op's latest year-end financial statements and other records. The Agency reviewed the AIR and accepted it as valid once it was complete and supported by the necessary documents.

2. Risk Analysis

We put the information collected electronically through two automated tests:

- a test of your financial strength (Liquidity Ratio)
- a test of your current financial performance (Net-Income Ratio)

3. Physical-Condition Rating

In a separate process, the condition of your co-op's property was assessed. We added the resulting Physical-Condition Rating to our information system to provide more data for the Composite Risk Rating.

4. Further Indicators of Risk

These indicators are serious enough to raise the risk rating of any co-op where even one of them is found. They include being behind with mortgage payments or property taxes, not having the recommended level of insurance or getting an adverse opinion or denial of opinion from your auditor on your year-end financial statements.

5. Computer-Generated Risk Rating

Our information system rolled together the Liquidity Ratio, Net-Income Ratio, Physical-Condition Rating and further indicators of risk into a system-generated rating of your co-op's risk level.

6. Assigning the Composite Rating

Your relationship manager at the Agency looked at the system-generated rating and, using their best judgement, raised, lowered or accepted it. A rating can change because of what the Agency discovers when following up with your co-op after reviewing your AIR. Other knowledge your relationship manager has about your co-op and the marketplace around you could also explain a raised or lowered risk rating.

Will our rating change before next year?

If new information on your co-op's condition or operations comes to the Agency's attention or the co-op takes action on problems the risk assessment has brought to light, your composite risk rating could change during the year.

What do these ratios and ratings mean?

Liquidity Ratio

The Liquidity Ratio sums up your co-op's results from the time it began to the end of your last fiscal year. It measures how many months' property-tax, mortgage and average utility payments your co-op can meet at year end, after allowing for any amounts you owe on that date. If your co-op pays an annual rent for leased land, this charge is also taken into account.

The ratio is complex, so we have posted it on our website at <http://www.agency.coop/pages/en/what1.asp#risk> for those who would like to view it in more detail.

Net-Income Ratio

The Net-Income Ratio tells us how well you did in your last reported year. Its focus is on whether the co-op earned enough to meet all its operating and debt-service costs and make a reasonable contribution to its replacement reserve. You can also find the full test on our website at <http://www.agency.coop/pages/en/what1.asp#risk>.

Physical-Condition Rating

The Physical-Condition Rating is based on a visual inspection of your co-op, undertaken every two years. The inspection focuses on the grounds, building exteriors, internal service and public areas, and any vacant units. Appearance, maintenance, structure and systems, and health and safety factors all contribute to your co-op's rating. In most cases, we based our first Physical-Condition Rating on CMHC's latest inspection of a co-op's grounds and buildings. In future years, the Agency will rely on its own inspections.

What are the possible composite ratings?

There are four possible composite ratings:

- High Risk
- Above-Average Risk
- Moderate Risk
- Low Risk

The full definitions are available on our website at <http://www.agency.coop/pages/en/what1.asp#risk>.

Was this all the Agency looked at?

At the same time as we carried out a risk assessment of your co-op, the Agency also checked that you had been doing what you said you would when you signed your operating agreement with CMHC. (We call this a compliance review). This review does not have the same focus as our risk assessment, but it could influence your composite risk rating. The results appear in a separate report.

Who gets to see all this information?

The Agency protects your co-op's composite risk rating and other data. This information is not available to the general public, although your co-op's results could be combined with those of other co-ops in our public reports about how different groups of our co-op clients are performing.

The Agency will only share your co-op's individual risk rating with

- members of the Agency's staff
- Canada Mortgage and Housing Corporation, on request,
- service organizations you belong to, such as CHF Canada, and professionals you deal with, provided your co-op has signed a consent to share information for its own benefit.

To find out more about our rating system and how we use the results, visit our website at www.agency.coop or contact your co-op's relationship manager at the Agency.