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 measure your co-operative's financial strength and performance. Risk rating helps us assess your co-op's capacity to pay your bills and provide housing of good quality, now and in the future. The result of the process is a risk rating for your co-op.

Important as it is, risk rating does not tell the full story about your co-op. It has nothing to say about member involvement or the richness of your community life. Risk rating makes no definite statement about the quality of your management or governance. Nor does it tell you whether your co-op is following its Canada Mortgage and Housing Corporation (CMHC) agreements. This is discussed in a different report.

How does risk rating help my co-op?

Our 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 as healthy as it could be. By sharing this rating with a co-op, we hope to help the co-op's board recognize a growing or emerging problem. The co-op may need to take corrective action with support from the Agency and perhaps CHF Canada or a local federation. Or it may be able 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 is continue over the long term.

The Agency's risk assessment also shows how a co-op's financial health is changing over time and what it will look like if the trend continues. This information may tell you more than a snapshot taken at a particular moment.

How did the Agency come up with my co-op's risk rating?

The Agency used several tools to build your co-op's risk rating:

1. The Annual Information Return (AIR)

Your auditor filed your co-op's AIR on line, drawing information from your 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. The information from the AIR goes into our database.

2. Risk Analysis

We put the information we receive 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**

   Every three years, we inspect your co-op's property. From the inspection and any other information we have on hand, we arrive at a Physical-Condition Rating. This gives us more information for the risk rating.

4. **Other Concerns**

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

5. **System-Generated Risk Rating**

   Our information system rolled together the liquidity ratio, net-income ratio, physical-condition rating and other concerns into a system-generated rating of your co-op's risk level.

6. **Assigning the Rating and Trend**

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

   The final step is to assess whether your co-operative's situation is about the same, getting better or getting worse.

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 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-taxes, mortgage payments and average utility bills 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 Liquidity 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 your co-op earned enough to meet all its operating and debt-service costs and make a reasonable contribution to its replacement reserve. You can find the formula on our website at Net Income.

Physical-Condition Rating

The physical-condition rating is based on a visual inspection of your co-op undertaken every three years. The inspection focuses on the grounds, building exteriors, public and internal service areas, and any vacant units. Appearance, maintenance, structure and systems, and health and safety factors all contribute to your co-op's physical-condition rating.

What are the possible composite ratings?

There are four possible composite risk:

- High Risk
- Above-Average Risk

- Moderate Risk
- Low Risk

In each case, we also assign a trend of Strengthening, Stable or Weakening.

The full definition for each rating is on our website.

What does the Agency mean by trend?

The trend we assign shows how the situation of a co-op is changing over time and where it is heading.

A risk trend of Stable indicates little change in the co-operative's situation. This may be good or bad, depending on its risk rating. Where the risk rating is positive, so is a Stable trend, which shows that the co-operative continues to manage its finances effectively and take good care of its property. A Stable trend where a co-operative has a risk rating of Above Average or High suggests that the co-op is keeping its situation from growing worse, but needs to do more to solve its problems. By contrast, a Strengthening trend suggests that the co-op's situation is improving.

A risk trend of Weakening is a red flag for any co-operative with a positive risk rating, suggesting that it has issues to address. If the trend continues, the co-op's membership will lose the benefits of the good decisions and hard work in past years that earned the co-operative its positive risk rating.

A risk trend of Weakening is even more serious in a co-operative risk rated Above Average or High. This trend warns that its management may not be up to the demands of its challenging situation.

Was this all the Agency looked at?

At the same time we carried out a risk assessment of your co-op, the Agency checked that you had been doing what you said you would when you signed an operating or other agreements with CMHC. (We call this a compliance review). The results appear in a separate report.

Who gets to see all this information?

The Agency protects your co-op's risk rating and other data. This information is not available to the general public, although your co-op's results will be combined with those of other co-ops in our public reports on 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
- 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 or contact your co-op's Agency contact.

Updated November 2020