



Questions and Answers for ILM Co-ops Post Year 15

Why is year 15 important in the ILM Program?

When the Index Linked Mortgage (ILM) program was introduced, a mechanism was built in to ensure that co-ops' housing charges did not sink too far below market at government expense. This mechanism is activated in the co-op's fifteenth year.

How does the Post Year 15 mechanism work?

When your co-op reached Year 15 of its operations, Canada Mortgage and Housing Corporation (CMHC) (or the Agency on CMHC's behalf) checked your housing charges against rents for reasonably similar private-sector housing in the same market area. If your charges were less than 85 per cent of the going market rate, the adjustment kicked in and, beginning in Year 16, your co-op saw a one-time cut in its federal assistance equal to five per cent of its Year-15 housing charges.

How low do our housing charges have to be to bring about this reduction?

If your co-op's housing charges in Year 15 were 80 per cent of market or less, in Year 16 your federal assistance went down by the full amount of the cut.

An example might make this clearer. To keep it simple, for now we'll leave inflation out of the picture. (We'll say more on that subject later.)

If Downmarket Co-op's average Year-15 housing charge is \$750 and the market charge for similar units is \$1,000, Downmarket's charges are less than 80 % of market. This means that in Year 16, the co-op's federal

assistance will drop by **\$37.50** per unit per month—five per cent of its average Year-15 charge. Downmarket will have to make up the difference with a higher housing charge increase than usual, unless it is running a large annual surplus.

Since our ILM co-op is Post Year 15, does Year 15 still matter? Can we assume that the reduction is already over and done with?

Not necessarily. Year 15 could still be important to you, because you might not have seen the full reduction. Read on and you'll find out how this could happen.

What if our co-op's Year-15 housing charges were higher than 80 per cent of market?

Whatever your co-op's charges were in Year 15, CMHC calculated the five per cent assistance reduction, as described earlier, and the information remains on the record.

If your co-op's housing charges were higher than 80 % of market in Year 15, but under 85 %, CMHC did not impose the reduction all at once. Instead, it was phased in.

So, if Lowball Co-op's average Year-15 housing charge is \$820 and the market charge for similar units is \$1,000, Lowball's charges are more than 80 % of market. The federal assistance should drop by **\$41** per unit per month—five per cent of the co-op's average Year-15 charge. But, because the full drop in assistance would take the charges above 85 % of market, it is spread over more than one year. In Year 16 the assistance will drop by **\$30** per unit per month: the difference between 85 % of market in Year 15—or \$850—and the co-

op's Year-15 charge. Before Year 17 arrives, the Agency will look at the co-op's charges once again. If they are less than 85 % of market, CMHC will phase in some or all of the rest of the remaining \$11 of the drop in assistance calculated in Year 15.

What if our co-op's Year-15 housing charges are more than 85 % of market?

As long as your co-op's housing charges remain within 15 per cent of market, you will not lose any federal assistance. However, for future reference a record is kept of the five per cent reduction calculated on your co-op's charges in Year 15.

Is that all there is to the calculation?

No. Another element enters in that will not surprise anyone familiar with the finances of ILM co-ops. As you know, each year there is a change in your co-op's mortgage payment and the amount of its federal assistance. The adjustment to both is based on the change in the Consumer Price Index over the 12-month period that ended six months before the adjustment is made, less two percentage points. (We'll call this "tilt.")

The assistance reduction changes each year by that same factor. To get the exact sum that will go to your co-op in a given year, CMHC subtracts the adjusted reduction amount from the adjusted assistance amount. If your co-op has taken the full reduction, you will need only the net assistance amount (the full assistance, less the cut). But if the reduction is being phased in, the details of the calculation are important. The phase-in is complete when your co-op has taken the full adjusted assistance reduction.

You said the reduction is based on how our housing charges

compare with market. How is this determined?

The Agency is responsible for telling CMHC how your co-op's charges compare with market. Our first step is to find out about rents in the private sector. Every three years, we hire an expert to conduct a full-scale study of market rents at multiple-unit rental properties of similar size, age and quality in your market area. The expert may begin by visiting your co-op to confirm information about units and amenities. The timing of this visit will be arranged with your designated contact person. When the Agency has the expert's report, we will share the results with you. If you disagree with our findings, we will explain them or, if there are good grounds, reconsider.

If our co-op does its own study, will the Agency accept the results?

Yes, if the study meets CMHC's requirements. You may conduct your own market comparison, but do check with us first. This task is more difficult than it may seem. CMHC's guidelines call for housing charges to be compared only with those of commercial rental housing. Comparisons with the rents charged by other co-ops or non-profit housing are not allowed. If the market units are not just like your co-op's, then adjustments must be made to arrive at a comparable market rent.

Does this comparison of housing charges with market rents happen just once?

The comparison happened only once for all co-ops whose Year-15 housing charges were less than 80 per cent of market. These co-ops took the full reduction in Year 16 and, for them, the Post-Year-15 process is over. For ILM co-ops whose Year-15 housing charges were above 80 per cent of market, the comparison will happen yearly until the full reduction has been phased in or until the year before your ILM mortgage is due to be fully repaid.

In two years out of three, the Agency will make the comparison by referring to the CMHC-determined average rate of rent increases in your co-op's market area. We apply this rate of increase to the previous year's market rate to see how close your co-op's housing charges are to market. As soon as your co-op has taken the full reduction, the Agency stops comparing your charges to market.

Does the Agency need to look at any co-op information other than the current housing charges to make this comparison?

Yes. The Agency also needs to review your co-op's budget, which we ask you to send in 120 days before your year end. As required by the standard ILM operating agreement with CMHC, the Agency looks for any significant one-time costs or revenues that, if removed, would lower your co-op's housing charges—or raise them. If we see any, before checking your break-even housing charges against market, we work out what they would be without that spending or that extra income.

Does this mean that the Agency can change our co-op's budget?

No. The Agency has no power to change your budget. We review it only so that we can make a recommendation to CMHC about the level of assistance that your co-op qualifies for in the budget year to come.

We have already had the maximum reduction. Now our housing charges are well above 85 per cent of the market. Can we get our assistance back?

So your co-op has taken the full reduction and your housing charges have risen far above 85 per cent of market? In that case, you may be entitled to more, or even all, of the assistance you used to receive. If you think this is your co-op's situation, please speak to your relationship manager.

Where do I go for more information?

Please get in touch with your relationship manager. You can also read [CMHC's bulletin](#) on the Agency's public website.

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