The Agency for Co-operative Housing
L'Agence des coopératives d'habitation

Questions and Answers on Workouts for Co-operative Housing

What is a workout?

Workout, or financial workout, refers to a package of outside help for a co-op in serious trouble. Usually, there isn't enough money to pay the bills or carry out major work on buildings. Like a medical intervention, a workout calls for lifestyle changes so that the co-op can stay out of trouble in future. A workout often, but not always, involves a repayable loan.

There may be a pre-workout period when the Agency, the local and national co-op housing federation and others help the board look for a way out of the co-op's problems. A workout is the last resort. It is offered only when a co-op can't raise enough money on its own, either from its members or from a bank or credit union.

What form does a workout take?

Sometimes a workout involves lowering a co-op's monthly mortgage payment, leaving it with more money to pay its other bills. Or it might mean skipping mortgage payments (with permission) and making them up later, leaving the co-op with money for urgent repairs. (Both are known as debt restructuring.) In either case, the payment relief means more interest paid over the life of the mortgage.

When debt restructuring isn't possible, a workout loan from CMHC may be an option.

Our co-op does need money for work on the property, but what's the catch?

A workout loan means more debt. Like any other lender, CMHC will expect to be repaid, with interest. To show that you can afford the payments, you may have to change the way you operate.

What changes would we have to make to get a workout?

Co-ops with workouts live within strict rules and must take a business-like approach to running themselves. In the past, they may have overlooked ways to bring in more money. Their housing charges may not be high enough to meet their present needs, let alone cover new loan costs. To get a workout, you'll have to raise your housing charges to the full market rate and keep them there until the loan has been repaid. If your charges are well below market, raising them quickly won't be popular. But your co-op will benefit: the more bills you can pay with your own money, the less interest you'll pay on borrowed funds.

If your co-op has paid parking, you should keep the parking charges at the market rate for your area. The laundry room, if you have one, should produce all the income possible, with the cost of washing and drying set close to the charges in a commercial laundromat. Cable or satellite TV fees should go up if they are below the rate members would pay on their own.

To get the full benefit of these changes, you'll need a sound plan for marketing your units and keeping them filled. Your Agency relationship manager can help with that.

Will we have to make changes in our management?

You'll need to look carefully at both your governance and your management. If your co-op is having problems governing itself, your board may be asked to take training so that all directors know their job. The Agency may also ask you to work with your local federation to find some candidates for your board from outside the co-op. (Your members will need to approve this.) Well-chosen non-residents can help a co-op take a business-like point of view and make decisions that will benefit it over the long term.

Your stumbling-block to healthy finances may be high vacancy losses or arrears and bad debts. Some co-ops need new management to do better in these areas.

Will our spending be affected?

Your co-op will need to look for ways of to cut costs where it can prudently do so, such as by retendering costly contracts. Limits may be placed on spending in certain areas, such as maintenance or administration.

If your co-op has a funded capital replacement reserve, you will have to spend it all before CMHC will advance new money for repairs. If your co-op is under the Section 95 Program, you may need to spend your subsidy-surplus reserve to help fill vacancies. If you have no reserve and are paying for internal subsidies from your operating budget, you may have to phase out this expense. You can start to do so by filling every vacancy with a household that pays the co-op's full charge. Your relationship manager will have other advice on how to stretch subsidy dollars.

Couldn't we avoid a workout?

The Agency has been working with your co-operative for some time. We will continue to help you try to succeed on your own. But a point may come when you no longer have a choice. A co-op needs a workout because its finances or building—or both—are in poor shape. Without new funding, units that need work will become harder to fill. Vacant units mean lost income that can never be recovered. Eventually, your co-op may not be able to pay its mortgage, if this hasn't happened already. Sooner or later, a business that can't pay its way has to close. If your co-op fails and the property is sold, moderate-income members will manage. But those with a subsidy may either face rehousing or the loss of valuable financial help that they count on.

We need a workout. Now what do we do?

Talk to your relationship manager. What happens next varies from co-op to co-op. A building condition assessment or property appraisal, commissioned by the Agency on your behalf, might show that you need to spend a lot of money on your property. The annual information return filed with the Agency might show that you are behind with your bills. Your relationship manager and analysts at the Agency will study your financial statements, property-inspection reports and history of management and governance. They will come up with a plan tailored for your co-op.

Our staff will walk you through each step, making recommendations and guiding you through the decisions you have to make. A workout is a difficult but collaborative process that will not go smoothly without your help.

Who makes the final decision?

Up to a point, the Agency acts on behalf of CMHC. We review your situation, develop the workout plan, get your board's agreement and help you present the plan to your members. We prepare the paperwork and make the recommendation to CMHC. Then CMHC decides.

How long will it take?

The Agency's aim is to have a workout approved in one year or less from the time when we see that you need one. If your situation is complex, the process will take longer. Things may not go smoothly and you will have to be patient. If your co-op does everything fast and by the book, you could have your workout approved within six months, with luck on your side. This is rare.

How soon will we see some changes?

About four months after CMHC gives the green light to your workout, you will see mortgage and tax arrears disappearing from your financial statements or repairs getting underway, depending on your co-op's needs. During this waiting period you will be busy. You and the Agency will be working to get a mortgage in place. There will be papers to sign and your lawyer may need to provide opinions and documents.

How can we speed up the process?

Never waste a minute. Remember that the workout is your co-op's first priority.

- If your relationship manager asks for information, get it to them as fast as possible.
- If a decision needs board or member approval, call the meeting right away.
- If your lawyer needs to do something, phone in advance and let them know that you are counting on them to act fast. Ask how soon their work will be done.
- Courier, hand-deliver or personally pick up documents.
- Always make sure to keep your relationship manager informed.

What information does our co-op need to give the Agency for the workout?

The Agency will work with you to find out what building repairs your co-op needs. We'll ask you for detailed financial information from your current year, regularly updated. We will also need to understand how your co-op runs and why it got into trouble.

Once your workout is in place, in future you will need to prepare your budget very early. After it's been passed, you will send it to the Agency at least four months before the start of your fiscal year. We may make changes before approving it and asking CMHC to confirm it. If changes have been made, Agency staff will help to ensure that your members understand why and are prepared to ratify them. Your co-op should expect to send the Agency monthly reports on its finances.

Can our board do anything to help CMHC decide in our favour?

Present yourself as a responsible governing body of people who understand the scope of the problem. Show yourselves ready to do whatever is needed to return your co-op to health. Don't wait for the approval of the workout to take the following steps. Start now.

1. Move your housing charges closer to market by presenting your members with a proposal for an increase, even if you are in the middle of a year. Your co-op's relationship manager can give you information on market rents.
2. Review your expenses with your relationship manager and ask for their advice on spending.
3. Make sure you are charging market rates for parking, laundry and cable or satellite TV.
4. Improve the look of your co-op from the street. If the property is littered, fix the problem. Keep garbage out of sight. In warmer weather, keep the grass cut and the flower beds tidy.
5. If you have vacancies, do whatever you can afford to make the units appealing. Market your co-op on the Internet, point out the good features when you show units, and make sure your approval process for new members is smooth and fast. Don't neglect credit checks, however, or accept applicants with bad references.
6. If your co-op doesn't already forbid director arrears, add this provision to your rules or by-laws.
7. Take action as soon as a household falls into arrears, and pursue old arrears forcefully.
8. If you don't already do this, use a collection agency if someone moves out owing money.
9. For Section 95 co-ops, if you are topping up the subsidy money from CMHC with funds of your own, look for ways to spend less.

Your relationship manager can help with these changes. It will be hard work, but your co-op is worth it.

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