



Questions and Answers Workouts for Co-operative Housing



THE AGENCY
FOR CO-OPERATIVE
HOUSING

L'AGENCE
DES COOPÉRATIVES
D'HABITATION

What is a workout?

Workout, or financial workout, refers to a package of outside help for a co-op in serious trouble. (Bear in mind that new workouts are only available for co-ops that still have a Canada Mortgage and Housing Corporation (CMHC) operating agreement.)

Usually, a co-op seeks a workout when it has found that it doesn't have enough money to pay the bills or carry out major work on buildings. A workout often, but not always, involves a repayable loan. Like a medical intervention, a workout calls for lifestyle changes so that the co-op can survive its difficulties and stay out of trouble in future.

There may be a pre-workout period when the Agency, the local and national co-op housing federations and others help the board look for a way out of the co-op's problems. A workout is the last resort. The Agency proposes it only when a co-op can't raise enough money from its members, from a bank or credit union or from one of the special programs available under the National Housing Strategy.

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. This leaves the co-op with money it can use 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 their operations. 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, we may ask your board to take training so that all directors know their job.

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 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 you have unspent rent-geared-to-income funds, you should use them to fill any vacant units.

If your co-op has no reserve and is 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 you can never recover. 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 demanding and collaborative process that will not go smoothly without your commitment.



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 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 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 unusually early. After your members have approved it, 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.



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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. Act 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.

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