



Questions and Answers Underfunded Reserves



THE AGENCY
FOR CO-OPERATIVE
HOUSING

L'AGENCE
DES COOPÉRATIVES
D'HABITATION

The Agency says our co-op's capital replacement reserve is underfunded. What does that mean?

When we review your co-op's Annual Information Return (AIR), we look closely at your capital replacement reserve. We also check to see how much money you hold in cash and investments. We've noticed that your co-op has less in cash and investments than it holds on paper in its reserve. In other words, your reserve is underfunded.

What does an underfunded reserve have to do with compliance?

If your co-op has an operating agreement with Canada Mortgage and Housing Corporation (CMHC), it is expected to hold a reserve to cover the future cost of major repairs and replacements. Rules governing these reserves vary by CMHC program. However, all operating agreements require co-operatives to maintain enough cash and investments to fund their capital replacement reserves in full. A co-op with a capital reserve that is not fully backed with funds is not complying with its CMHC operating agreement.

Is an underfunded reserve unusual?

By its very nature, a healthy housing co-op is in a strong cash position and will always be able to fund its reserve. Members' charges are due at the start of the

month, but most expenses are paid over the course of the month, including salaries, utility bills and maintenance costs. The mortgage payment you make on the first day of each month is for the previous month. Housing co-ops hold deposits, loans or shares from members for all occupied units, adding to the cash on hand. This means that a well-run co-op can easily pay all its bills on time, as well as any that must be paid in advance, such as property taxes, insurance and sector dues.

How could we have ended up with an underfunded reserve?

Underfunding can occur for various reasons. It happens most often when a co-op has been operating at a loss because its housing charges are too low. High vacancies, arrears from current or former members, and failing to keep member deposits in line with current housing charges add to the problem.

What can we do?

If your co-op is short of cash, the first step is to make sure you are collecting all the money you are owed. Collect past arrears and take firm action on any new member arrears as soon as they occur. Hire a collection agency to collect from any households that move out owing money. If you have empty units, start working to fill them.

Your next step is to increase your cash by earning more money. This means raising the housing charges more

than you have in the past for several years in a row. Your goal should be to set your charges high enough to cover all current costs and recover your past losses over time.

Another way to build up your cash is by raising the member deposit, loan or share purchase you ask your members to make to at least the co-op's full monthly housing charge. Even assisted households should be asked to pay the full amount over time, provided the subsidy program permits this. HST or GST rebates are another possible source of cash. File your application promptly every year.

Talk to your relationship manager and come up with a plan together. Once your co-op has achieved a fully funded reserve, take care to set your housing charges high enough every year. This, and collecting all the money your co-op is owed, should be enough to ensure that your capital replacement reserve doesn't slide back into the hole.



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