chfs Co-operative Housing Finance Society

Leveraging assets to reduce borrowing costs

experience from the

Co-operative Housing Finance Society in the UK

David Rodgers

Executive Director

CDS Co-operatives

Co-operative Housing Finance Society Ltd

CHFS was set-up in 1997 to do 3 things:

- to make it easier for new housing co-operatives to raise mortgage finance for new developments
- to reduce the margin on mortgage loans to new housing co-operatives
- to reduce the costs associated with setting-up mortgage loans for housing co-operatives

Co-operative Housing Finance Society Ltd

It does this by doing 3 things:

- by enhancing the credit rating of loans to housing co-operatives by providing lenders with a twelve month mortgage interest guarantee;
- by standardising loan documentation and procedures to reduce the cost of raising mortgage finance, and
- by offering improved risk management through quarterly performance monitoring of CHFS guaranteed co-ops.

Co-operative Housing Finance Society Ltd

It achieves this by **leveraging** primary housing co-op assets in the following way:

- loans are secured on the **Open Market Vacant Possession** value of the co-operative's housing assets
- this enables **capital housing subsidy** to the co-operative to be used as security for the interest guarantee.

Why?

Because commercial mortgage lenders:

- do not like “non-recourse loans”
- do not like lending to new organisations without a business and management track record
- do not want the task of monitoring a portfolio of relatively small commercial loans
- do not want the job of sorting out the risk of default should a breach of loan covenants occur

How?

Co-operative Housing Finance Society Ltd

Worked example: (Minster Housing Co-operative, Kent)

Development costs:	£2,316,012
Capital subsidy:	£1,047,292
Net cost (mortgage):	£1,268,720
Open Market Value (OMV):	£2,272,000
Written-down OMV (72.5%):	£1,647,200
Residual equity (OMV- mortgage):	£ **378,480**
12 months interest (7.123% 1999):	£ **82,678**
Ratio – 12 months interest to residual equity =	**4.58:1**

Co-operative Housing Finance Society Ltd

The costs:

- 0.5% of mortgage principal charged and paid into CHFS guarantee fund
- 0.25% annual guarantee fee
- 0.5% of annual 12 month interest payable as annual fee to Co-operative Bank plc
- 0.25% payable to the bank as commitment (non-utilisation) fee
- small risk monitoring fee payable to CHFS

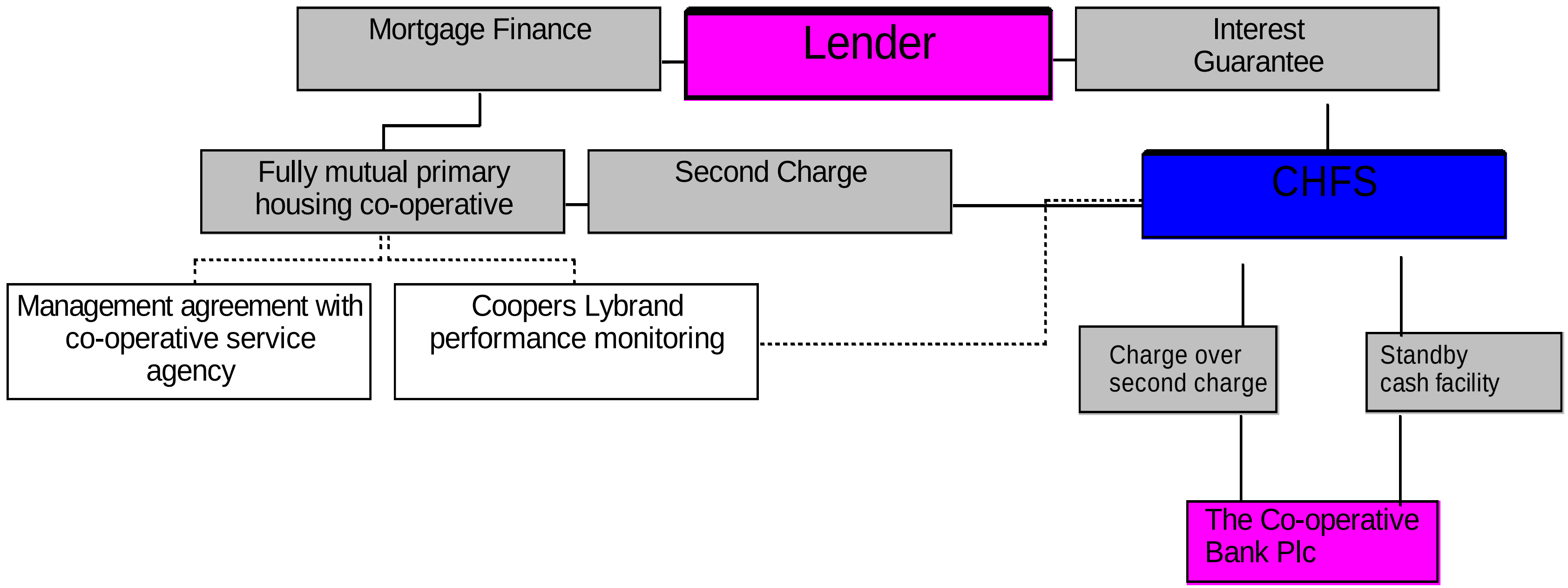
Co-operative Housing Finance Society Ltd

The benefits:

- interest rate margins are lower – typically 0.85% over base rather than 1.5%
- set-up costs are lower
- loan documentation is standardised
- burden of annual monitoring of risk and administration of the loan is easier
- **net savings for Minster of approx £5,500 per annum (£3 per household per week)**

Co-operative Housing Finance Society Ltd

The legal structure:



Where did the idea come from:

CHF Canada!

National Canadian Mortgage Insurance Fund

The lessons:

- leverage your assets to arrange finance and reduce borrowing costs
- look to examples in other countries and adapt to meet your housing finance needs
- work to overcome concerns of commercial lenders and make lending for co-op housing an attractive commercial proposition

Where next?

- Possibility that CHFS registers as a Financial Service Provider to accept investments and become a prime lender in its own right
- source ethical investments for new co-operative housing projects by issuing Co-operative and Mutual Housing Bonds
- lending to Mutual Home Ownership projects
- possibly using innovative mortgage financing such as the Canadian capital index linked loan

Co-operative Housing Finance Society

Leveraging assets to reduce borrowing costs

experience from the

Co-operative Housing Finance Society in the UK

David Rodgers

Executive Director

CDS Co-operatives