

Supplement to Staff Report: Mortgage Renewal – Village on the Green

Purpose

To provide additional information to the Capital Region Housing Corporation (CRHC) Board of Directors on the staff recommendation to renew the mortgage with Vancouver City Savings Credit Union (VanCity).

Background

At the Hospitals and Housing Committee meeting of September 1, 2021 additional information was sought that would provide further context to the CRHC Board and support their consideration of the staff report recommendation. Staff offered to provide a supplement to the staff report that focussed on qualitative and quantitative aspects that helped to inform the recommendation.

Mortgage Context

Multi-unit buildings require commercial mortgages and are classified differently than a standard residential mortgage with some lenders not offering commercial mortgages. This limits the pool of potential lenders to charter banks and larger credit unions that typically do not publish “posted rates” for commercial mortgages. This is different to how residential mortgage rates are often advertised and posted.

Commercial rates are determined by the risk profile of the client, current bond yields, and the risk tolerance of the underwriter. Commercial lenders have access to the same or competitive underwriters and therefore institutions usually offer identical rates on any given day to the same borrower. Further, bond yields can change daily and institutions typically offer the rate available on the date of their loan commitment letter with a 30-day expiry. Rates can fluctuate a few hundredths of a percent over the course of a few days.

The lenders active in the commercial pool typically determine their rates based on the Cost of Funds plus 20 basis points and therefore are relatively comparable in the rates on offer.

Term

CRHC financing is typically provided through BC Housing with an initial 10-year term and 5-year renewals. However, in the cases where BC Housing is not involved, CRHC follows this same practice of 10-year initial term followed by 5-year renewals, unless there is a reason to pick a different term length. In the case of Village on the Green (VoG), it has been identified as a potential redevelopment in an approximate 3-year timeframe, therefore staff have chosen a 3-year renewal term to minimize the risk of an early pay-out penalty should this project be approved for redevelopment in the future.

Sensitivity Analysis

Staff undertook a sensitivity analysis to determine the impacts of differing interest rates as shown in Chart 1.

Chart 1: Rate Sensitivity Analysis

Mortgage Principle	\$1,797,949	Interest Rate	Annual Payments	Difference (Annual)	Difference (3-Year Term)
Amortization (Months)	217	2.00%	\$118,485	(\$3,130)	(\$9,390)
		2.20%	\$120,499	(\$1,116)	(\$3,348)
		2.31%	\$121,615	\$0	\$0
		2.40%	\$122,532	\$917	\$2,751
		2.50%	\$123,556	\$1,941	\$5,823

As the term of the mortgage renewal is short (3-years) the overall cost differential is relatively small in the event that another lender may be able to provide a more competitive rate.

Process To Secure A New Lender

VoG is secured as a collateral property for the Vergo mortgage and for CRHC to identify a new lender, it would have to release this security to maintain the Vergo mortgage at another property. Further, CRHC would be required to prepare a full application package that includes obtaining a commercial appraisal and environmental assessment while also paying a lender application fee. These additional costs would offset savings on the lender rate.

It should also be noted that the existing rate with VanCity is 3.50% and the recently quoted rate is 2.31%, for a reduction of 1.19%.

Rationale to Continue with VanCity

- Commercial lenders have access to the same or competitive underwriters and therefore institutions usually offer identical rates on any given day to the same borrower.
- VoG has been identified as a potential redevelopment, therefore staff have chosen a 3-year renewal term to minimize the risk of an early pay-out penalty.
- The sensitivity analysis showed that the potential cost differential between the different rates to be relatively small over the 3-year renewal term.
- The process to secure a new lender would result in CRHC incurring additional costs.
- VanCity provided a quoted rate that is lower than the current mortgage.