

Briefing Note and Frequently Asked Questions  
**HPC Housing Investment Corporation Proposal**  
Last updated: November 2017

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**Background:**

- Housing Partnership Canada (HPC) is seeking the support of Ontario service managers to explore the feasibility of creating a dedicated lending institution for affordable housing providers across Canada to finance the regeneration and development of their assets.
- This entity would focus on pooling capital requirements of a diverse group of borrowers and giving them access to capital lending markets efficiently and cost-effectively.
- Such a dedicated lending institution will also offer prospective investors an investment opportunity with direct ties to a social return.

**The Challenge:**

- The need for a dedicated lending institution grows out of the current state of the Canadian affordable and social housing sector:
  - **Government funding commitments are ending:** Over the next 17 years, operating funding from senior levels of government is being phased out. Jurisdictions across Canada need to make major decisions on how to meet the growing need for affordable housing and maintain their aging social housing portfolios.
  - **Current funding model shortfalls:** Research indicates that the Canadian housing sector is facing a multi-billion dollar unmet capital funding need. Relying on government subsidies, grants and revenue tools cannot cover these capital requirements or those going into the future.
  - **Providers must unlock and leverage equity of existing assets:** Due to the fragmented nature of the affordable housing sector, most Canadian housing providers lack the knowledge and scale necessary to carry out complex financial transactions and to bear the associated costs.
  - **The sector needs a financing option built to meet its needs.** Lenders have been challenged by the complexity of the sector -- different jurisdictions, provider sizes and ownership structures – to offer a large-scale financial solution. In the absence of a lender that “gets” the sector, providers don’t have efficient low cost access to capital to fund their development and growth.



### **The Opportunity:**

- Housing Partnership Canada, in partnership with the Housing Services Corporation and BC Housing are exploring the bond market as an alternative source of capital for social and affordable housing in the Canadian context.
- Raising capital in the bond market is a complicated and sophisticated process that requires significant time, effort and resources.
- Any effective capital funding program needs significant scale in order to provide investors with liquidity and address otherwise prohibitive transaction costs.

### **The Proposal: HPC Housing Investment Corporation - a dedicated lending facility**

- The creation of a dedicated low cost lender that “gets” the sector.
- This entity would focus on pooling capital needs through the private capital markets to provide a sustainable, long term source of funding specifically tailored to the needs of the sector.
- Social and affordable housing providers would have access to:
  - Financing on a predictable basis that exceeds the capabilities of existing lending sources;
  - Low cost, long term funds available for all providers regardless of size;
  - Expert staff that can provide investment advice tailored to the realities of the social and affordable housing operating environments;

### **Other Jurisdictions:**

- The Housing Financing Corporation (THFC) in the UK is a not-for-profit financial intermediary that raises money in the capital markets and lends to UK housing associations.
- Since inception in 1987, THFC has raised over £3.3B for registered housing associations and maintained an A+ credit rating from S&P, all with a current staff of 17.
- In the Canadian context, BC Housing has also established a very efficient social housing finance model in which BC Housing serves as a National Housing Act insured lender, offering both construction financing and CMHC insured financing at excellent rates with low transaction costs.



### **Next Steps:**

- In order to analyze and assess the need, shape and scope of the HPC Housing Investment Corporation, a detailed Feasibility Study is underway
- The Feasibility Study is comprised of two phases:
  - **Market canvas and initial product assessment** to test the feasibility of the sector bank, assess interest based on broad-based outreach (Complete)
  - **Financial forecast, initial credit rating and resource/governance assessment**, based on satisfactory results from the first phase (2018)

### **Contact:**

- For more information or to arrange a presentation to committee or council, please contact Housing Partnership Canada representatives:
  - Shayne Ramsay, CEO, BC Housing and Chair, Housing Partnership Canada at [sramsay@bchousing.org](mailto:sramsay@bchousing.org); or
  - Howie Wong, CEO, Housing Services Corporation which is supporting this initiative at [hwong@hscorp.ca](mailto:hwong@hscorp.ca).

## Frequently Asked Questions

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**Q. What is the need that the HPC Housing Investment Corporation is trying to meet?**

**A.** The Canadian social and affordable housing sectors are facing an unmet capital funding need that is expected to measure in the billions of dollars. In addition, the sector is managed by people who often are outside of their comfort zones in dealing with financial institutions.

Existing lending facilities have in most cases been unwilling or unable to fill this funding need. We believe that a financing vehicle must be developed that is specifically designed to meet needs of the housing sector; underwriting loan administration and policies that reflect the realities of social and affordable housing operating environments, and expert staff that can support housing providers through the financing process.

**Q. Why are you engaging with municipal service managers and DSSABs at this time?**

**A.** Housing Partnership Canada is reaching out to the municipal service managers and DSSABs in Ontario at the same time that they are engaging with Provincial housing Ministries across Canada. The goal is to engage the sector on the challenges that are being faced by all of us and to garner support for a “Made in Canada” solution that provides a real way to meet these challenges.

Our goal is to get your support in further exploring the concept of a dedicated lending institution.

**Q. Are there not already financial institutions providing financing to social and affordable housing? Why create something in addition to that?**

**A.** Prior to developing the proposal to undertake a Feasibility Study, Housing Partnership Canada commissioned a review which looked at the effectiveness of current funding sources to meet the housing funding challenge. This review looked at commercial banks, direct capital markets, as well as government programs and non-bank commercial lenders.

We found that none of these funding sources could meet the needs of the sector. A dedicated lending institution could meet all of the needs of the sector by:

- Providing long term and low cost funds
- Adapting its underwriting loan administration and portfolio management policies to the realities of the social and affordable housing operating environments
- Ensuring funding is available to all housing providers, regardless of their location or size.
- Being staffed by experts who will assist housing provider borrowers of any size in understanding and meeting the underwriting requirements.

**Q. How would the HPC Housing Investment Corporation be structured?**

- A.** The governance and operating structure of the entity continues to evolve. The Feasibility Study is to be conducted in two phases;
- Phase 1 will explore the market canvas and initial product assessment, phase and then the financial forecast, initial credit rating and resource/governance assessment.
  - Phase 2 will explore the legal and governance requirements in detail; including who will own and manage the entity and who its stakeholders and potential shareholders would be.

**Q. Can you expand on key details on quantum of loans needed, credit rating, loan guarantees etc.?**

- A.** The proposal is still at the conceptual stage.

The purpose of the first phase is to undertake a complete market analysis; including potential borrowers, product types, geographic scope and identify, review and analyze the need for a centralized capital funding mechanism. A decision to move to the second phase of the Feasibility Study will not be made until this first phase is complete.

The first phase is critical in helping us determine key details, including:

- The quantum of loans needed to be launch
- The credit rating of the entity
- Government and sector support needed (i.e., municipal/provincial/federal loan guarantee)

**Q. Who would be eligible for a loan?**

- A. The goal is to create a financing vehicle that is able to meet the needs of all types of social/affordable housing providers and programs.

Decisions about eligibility will be dependent on whether there is sufficient cash flow since new loans will be repaid by providers from either current “free” cash flow and/or new cash flow generated from the new loan projects. The eligibility test is whether a financial business case exists for the use of the loan proceeds regardless of whether the project is social, public or affordable housing; non-profit or co-op.

**Q. Will loans be secured or unsecured?**

- A. One of the chief reasons behind the desire to explore the creation of this entity is to provide a financing vehicle that can meet all of the unique needs of the housing sector, including recognizing the realities of social and affordable housing operating environments.

For that reason, our goal is for the loans to be unsecured.

**Q. What is the anticipated date for the launch?**

- A. Our goal is to create the lending platform (including operational and governance structure) and launch the initial transactions in 2018.

**Q. What will be the lending rate and terms?**

- A. Information on the market demand and lending structure, which will drive lending rates and terms, will be known following both phases of the Feasibility Study. However, the full details on the lending rate and terms will not be fully known until we move to the creation of the lending platform stage. In this stage the financial forecasts, credit rating profiles and initial transactions will be determined, as they are necessary to firm up the final lending rates and terms.



**Q. What kind of support are you asking of municipalities/DSSABs?**

- A.** Housing Partnership Canada is reaching out to the municipal service managers and DSSABs in Ontario at the same time that they are engaging with Provincial housing Ministries across Canada. Our goal is to get your support in further exploring the concept. The support can be in any of the following ways:
- Help to pass a committee or council resolution that recognizes the challenges facing the sector and supports an exploration into alternative solutions such as the HPC Housing Investment Corporation
  - Provide data to feed into the market analysis portion of the Feasibility Study, such as capital project types (new builds/re-development/regeneration), funding needed and regional area.

**Q. What is Housing Partnership Canada?**

- A.** Housing Partnership Canada (HPC) is a peer-based network and business cooperative for CEOs from Canada's major affordable housing organizations. Its members represent organizations whose stock represents more than half of Canada's social housing assets. HPC is a member of the International Housing Partnership (IHP), which brings together housing CEOs from the United Kingdom, the United States, Australia and Canada.

**Q. Who should I contact if I want further information or a presentation to council?**

- A.** Shayne Ramsay, CEO, BC Housing and Chair, Housing Partnership Canada at [sramsay@bchousing.org](mailto:sramsay@bchousing.org); or Howie Wong, CEO, Housing Services Corporation which is supporting this initiative at [hwong@hscorp.ca](mailto:hwong@hscorp.ca).