FIRST NATIONAL FINANCIAL LP

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APARTMENT FINANCING QUARTERLY

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Jason * is an accountant who owns several apartment buildings. He has both CMHC insured and conventional mortgages. When Jason approached us to finance the purchase of a 35 unit apartment building in Victoria, he asked that we provide both CMHC insured and conventional options along with our recommendation. Purchase details were as follows:

Purchase Price	$5,250,000	$150,000/unit
Actual Rents	$371,000/yr	$881/unit/month
Stabilized NOI	$242,000/yr	4.6% cap rate

Jason wanted the maximum amount of financing at the best possible interest rate for a 10 year term and, with respect to the CMHC options, the lowest possible CMHC premium. The two best options for Jason's situation were as follows:

	CMHC	Conventional
Loan Amount	$3,520,000	$3,520,000
LTV (based on purchase price)	67%	67%
LTV (underwriting value)	80%	69%

First National is one of the largest apartment lenders in Canada, funding over $2 billion per year.

We've achieved this market leading position by providing low interest rates and excellent service to our clients – whether they own 6 units or 600.

The CMHC insured option provided the same loan amount as the conventional option, however, at 80% LTV (CMHC underwriting value) it required a 3.5% CMHC premium which worked out to $123,000. CMHC insured interest rates are typically 1% to 1.5% lower than conventional interest rates. At the time of our analysis, the CMHC insured rate was 0.97% lower than the conventional rate.

The conventional loan amount was constrained by the LTV (70% of underwriting value is typically the maximum for the best conventional rates) and by the debt service coverage ratio (due the higher conventional interest rate).

The key question was whether it was worth paying $123,000 today (can be added on top of the loan amount) in order to save 0.97% per year for at least the next 10 years. This involved a present value calculation which is a key concept in comparing financial alternatives (and one with which Jason was very familiar). The present value of the interest savings of 0.97% per year over the next 10 years is $230,000. Jason would be ahead by $107,000 in the first 10 years by choosing the CMHC option. If the difference between CMHC insured and conventional rates remained similar on future renewals, he would be even further ahead with the CMHC option.

Jason decided to proceed with the CMHC option. Within 3 weeks of giving us the go-ahead, we had obtained CMHC approval and provided Jason with our commitment letter – well ahead of his condition removal date. In this case, substantial savings over the term of the loan and likely continued savings on renewal made CMHC the best option.

If you need assistance with an apartment financing question, please call.

* Names and some details changed for privacy

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MEET YOUR MORTGAGE EXPERT

Russ Syme

I joined First National in 2009 due to its reputation as a great commercial mortgage lender. First National gets it - this business is about quick turnaround with the best possible terms. From senior management to funding and administration, everyone at First National strives to provide exceptional service to clients.

Having spent over 15 years in commercial lending with a major bank I was thrilled with the flat organization structure and entrepreneurial spirit at First National - decisions are made and funding occurs faster here than at any other major lender I know.

The combination of great interest rates and exceptional service has enabled First National to become possibly the largest rental apartment lender in Canada, funding over $2 billion per year. I'm proud to be heading up First National's commercial mortgage branch in BC and eager to share our positive approach with new clients.

Russ Syme
Assistant Vice President, Commercial Mortgages, BC