

The description below of the Net-Income Ratio was largely taken from *Testing the Risk-Rating Model for Federal Co-operative Housing Programs* (February 2006), a document written by the Co-operative Housing Federation of Canada for presentation to Canada Mortgage and Housing Corporation. The description was revised in 2010 when the model was modified at the launch of CHAIS V2.30.

### **Net-Income Ratio**

The net-income indicator is an income-statement test, intended to identify whether or not, on a current basis, the co-operative is earning sufficient income to allow it to meet all of its operating and debt-service costs and make a reasonable contribution to its replacement reserve.

The score for the Net-Income Indicator derives from the following formula:

$$\frac{\textit{Adjusted Operating Income}}{\textit{Capital Asset Value,}}$$

where

- *Adjusted Operating Income* is the total reported income for the year from all of the co-operative's CMHC-program properties, less the sum of scheduled debt-service costs, reported operating expenses, and, for ILM co-ops, contributions to the security-of-tenure reserve for those properties (contributions to the replacement reserve and any other transfers to reserves are excluded from expenses for the calculation);
- *Capital Asset Value* is the greater of
  - (a) the guaranteed insured replacement value of the properties operated under CMHC programs, and related furnishings and equipment taken from the co-operatives property insurance policy;
  - (b) the regional median per-unit guaranteed insured replacement value calculated for all CMHC-program housing co-operatives in the co-op's region, multiplied by the number of housing units the co-operative operates under CMHC programs.

The thresholds for this test are set as follows:

- a ratio of 0.25 per cent or less returns a score of Poor;
- a ratio above 0.25 per cent but less than or equal to 0.75 per cent returns a score of Fair;
- a ratio above 0.75 per cent but under or equal to 1.00 per cent returns a score of Good;
- a ratio above 1.00 per cent returns a score of Excellent.