

The description below of the Liquidity 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. In 2010 the model was modified at the launch of CHAIS V2.30.

Liquidity Indicator

The liquidity indicator is a balance-sheet test, intended to reveal a co-operative's financial strength as measured by its ability to service its non-negotiable financial obligations.

The liquidity indicator is calculated using the following formula:

$$\frac{\text{Adjusted Liquid Assets}}{\text{Effective Monthly Debt Service, Ground Rent, Property Taxes and Utilities,}}$$

where

- *Adjusted Liquid Assets* is the sum of all cash, restricted and unrestricted short- and long-term investments (at the lesser of book or market value), including accrued investment earnings, GST or HST rebates or input tax credits receivable, CMHC, provincial or municipal rent-geared-to-income or operating subsidies receivable, loan advances receivable and pre-paid expenses, minus the sum of any draft on a line of credit or bank overdraft, all accounts payable, construction holdbacks payable, any subsidy due to CMHC, a province or a municipality, payroll and other accrued liabilities, including accrued interest charges due within one month of the fiscal year end, and unearned income;
- *Effective Monthly Debt Service, Ground Rent, Property Taxes and Utilities* is the sum of current scheduled monthly principal and interest payments on all mortgages and loans, monthly ground-rent payments, if any, and, at rates reported for the previous year, property taxes and utilities for common areas and, if applicable, units, paid by the co-op less any current monthly operating subsidy to which the co-operative is entitled. The values used in the test derive from all of the co-op's properties, whether under a CMHC program, or not.

The indicator tells how many months' mortgage, ground-rent, property-tax and average utility payments the co-operative has on hand, thus serving as a broad indicator of its liquidity.

The following are the initial threshold ratios:

- a ratio of 3 or less returns a score of Poor;
- a ratio above 3 but less than or equal to 5 returns a score of Fair;
- a ratio above 5 but under or equal to 8 returns a score of Good;
- a ratio above 8 returns a score of Excellent.