

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.