

CIRANO note based on a report written by Bryan Campbell, Laurence Allaire, Robert Normand , March 2015

In previous work we have proposed a financial structure that would, *ceteris paribus*, increase the potential number of units the SHQ could deliver by 50% for the same budgetary envelop. This proposal, called “Product 10-30,” was well received by the SHQ. Our goal has been to explore the feasibility and financial viability of the “Product 10-30” and to determine whether other financial approaches certain features of our proposal others could yield the same or better benefits than those delivered by the current program.

It is important to note that these approaches involve extending the maturity of loans and restructuring their financing—modifications that must account for the projects’ specific features, such as whether renovations are required or the acceptability of these changes to the stakeholders.

Our research is split along two main lines to reflect the orientation of the proposed financial products: the “mortgage,” or financial intermediation, approach, and the financial markets, or financial disintermediation, approach. An important contribution involves the determination of the risk exposure of the different products.

Using project parameters representative of the most recent cohort of projects from Phases (*Volets*) I & II of the AccèsLogis program and several years of historical data on growth rates, we simulated several thousand mortgage rate and inflation scenarios.

The first step consisted of running simulations on the status quo, i.e. the current AccèsLogis program. If the government chooses to grant the equivalent of an annual \$120M implementation subsidy, the current program configuration will result in the construction of 1980 units (which approximates the 2000 units announced in the 2011–2012 Quebec budget).

The main result identified in this simulation of the base case is a Value at Risk (VaR) amounting to 2.1% of the implementation costs, equivalent to approximately \$3220 per unit in present value. The rationale for expressing this risk as a percentage of the implementation cost is that these potential losses are borne by the government via the loan guarantee provided to the projects. Thus, in this case the share of the cost covered by the initial subsidy is approximately 39% and incorporating risk increases it to 41%. In terms of the annual budget, these potential losses represent an additional \$6.4M for each cohort of 1980 units (reflecting the per-unit VaR of \$3220).

Two proposals from financial institutions based on the mortgage approach were analyzed.. The theoretical product, “Product 10-30,” is also presented as a modified mortgage loan. Two further proposals from financial institutions based on a financial market approach were also analyzed. The product, “Product 10-30,” is presented here as an operation on bond markets. Our general finding is that the submitted proposals would increase the efficiency of the current programme, but not to the extent envisaged by the CIRANO product.

The CIRANO team involved in this project made great efforts to establish a methodological perspective based on a neutral evaluation of the current structure of the AccèsLogis program. This approach made it possible to assess new directions that funding of this project could take.

The full study (in French) is available on CIRANO’s Website at :

<http://www.cirano.qc.ca/pdf/publication/2015RP-02.pdf>