s.69(1)

Memorandum

7209-8-2 (DCBA 2-2)

May 2011

Distribution List

ANALYSIS OF HOME EQUITY ASSISTANCE

Reference: 5080-1-10-A-53028 (CDS) 2 March 2011

1. At Reference, CDS directs DGCB to, in part, review the "*adequacy of HEA provisions with TB to ensure the aim of minimizing any negative effect on CF members is met.*" This benefit is contained within the Canadian Forces Integrated Relocation Program (CFIRP) and permits reimbursement of losses of equity incurred on residential sales when CF personnel are posted at public expense from one place of duty to another. It reimburses up to 80% of the equity loss to a maximum of $15,000 from the member's Core envelope, plus additional funds up to the maximum available in the member's Custom and Personalized envelopes. For some members, the total of these amounts can be in excess of $30,000, however, for most members the total available funds will be in the $20,000 to $25,000 range. In addition, the benefit allows for full reimbursement of the equity loss from the Core envelope if Treasury Board (TB) designates the area as a "depressed market." As of FY 2010, TB has not designated any area in Canada as a depressed market.

2. CF members must have some type of residence in which to live but, with the exception of temporary service reasons, policy does not determine what living arrangements are appropriate for CF members and their dependants. CF members thus have the option to rent or purchase to suit their needs. Real Estate investment, however, is an inherently speculative venture subject to market and personal choices. Determining why some CF members are able to sell at a profit while others suffer a loss is likely beyond the scope of any concise policy

The benefit specifies that HEA is not paid when the loss can be attributed to a lack of proper maintenance, s.69(1)

3. The intent of this analysis is to determine whether the HEA benefit as currently implemented meets the needs of CF personnel.

DISCUSSION

4. The following statistics are derived from the Relocation data on all CF personnel relocated under the CFIRP. The data has been retrieved from the relocation database of Brookfield Global Relocation Services (BGRS), for the period 1 April 2008 to 28 February 2011.

5. During this period, 43,896[1] CF personnel and their families were relocated under CFIRP. The number of moves has fluctuated somewhat each year for the past three from a high of 15,414 moves in 2008 to 13,557 moves in 2010. The average number of moves per year for this period is 14,259.

> Note: For the purpose of this discussion, a "move" is defined as a physical relocation, normally from one place of duty to another place of duty, of a CF member and/or their dependants. It includes the move of Household Goods and Effects (HG&E).

6. During this same period, 458 CF members have experienced an equity loss on their homes. The majority of these losses occurred during APS 2009 with 221 personnel losing equity on their home sales. 165 CF personnel lost equity on their home sales in 2010. Only 63 lost equity in 2008.

7. Based on the actual number of moves for each calendar year, this equates to less than 1.5% affected CF personnel in any year. A comparison of the actual numbers of affected personnel is presented in this table:

	2008	**2009**	**2010**	**2011**
Number of relocations:	13168	15072	14537	1119
Number of HEA claims:	63	221	165	9
Percentage of HEA moves:	0.48	1.47	1.14	0.80

[1] All moves including Single renters without dependants

Note: data were sorted by calendar year for this analysis to avoid cross-Fiscal Year skewing ie: CF personnel who commence the relocation process in one FY but actually do not move until the following FY.

8. Of these pers, roughly half, 192 of the 458 total, incurred losses in excess of $15,000 (which is the maximum that our current policy reimburses out of the Core envelope). The majority of these losses in excess of 15K occurred in 2009 (95 members) and 2010 (72 members).

9. CF personnel have two other funding envelopes from which they may draw reimbursement. When these envelopes are considered, the numbers change slightly. Of the 458 CF personnel who experienced an equity loss during the data period, 189 incurred losses in excess of the total amounts reimbursed from all of their funding envelopes. These members may not have had the entire equity loss reimbursed under the HEA benefit. Revising the table above to reflect only those personnel who were left with an apparent shortfall in the reimbursement of their equity losses reveals the following percentages:

	2008	2009	2010	2011
Number of relocations:	13168	15072	14537	1119
Number of HEA shortfall:	21	94	69	5
Percentage of HEA shortfall:	0.16	0.62	0.47	0.45

10. This table indicates that the HEA benefit as currently structured is sufficient for nearly 99.5% of CF personnel.

11. Of the shortfalls indicated, the dollar amounts range from a low of $0.05 to a maximum of $77,585.66 with an average loss per member of $15,464.11. The average of Custom funds used to reimburse the outstanding equity loss was $3,169.66. For the majority of affected members with shortfalls, personalized funds which would have been available to cover more of the loss were either cashed out or used by the member to reimburse other benefits. We cannot determine how many members used their personalized to cover the loss after cash out as that information is not captured in our data.

12. The total number of personnel who sold their residence and experienced a loss of equity in each location is indicated in the table below:

LOSSES by Location	HEA claims	2008	2009	2010	2011	Homes sold	% HEA moves	% successful
Garrison Edmonton	103	15	44	42	2	826	12.47	87.53
8 Wing Trenton	39	5	15	18	1	632	6.17	93.83
CFB Esquimalt	30		14	14	2	523	5.74	94.26
CFB Borden	28	2	15	11		670	4.18	95.82
19 Wing Comox	28		18	10		255	10.98	89.02
ASU Toronto	27	8	14	4	1	291	9.28	90.72

CFB Kingston	24	6	13	5		686	3.50	96.50
CFB Cold Lake	23	4	13	6		397	5.79	94.21
Camp Gagetown	23	4	7	12		904	2.54	97.46
CFB Wainwright	22	1	14	7		156	14.10	85.90
14 Wing Greenwood	19	5	5	9		432	4.40	95.60
NDHQ - Domestic	18	4	10	3	1	1608	1.12	98.88
Garnison St-Jean	5	2	3			302	1.66	98.34
CFB Halifax-Stadacona	11		7	4		562	1.96	98.04
CFB Halifax Dockyard	10	2	5	3		385	2.60	97.40
CFB Moose Jaw	8	1	3	4		154	5.19	94.81
CFB Shilo	7		4	2	1	227	3.08	96.92
CFB Petawawa	6	2	1	3		808	0.74	99.26
22 Wing North Bay	5		3	2		140	3.57	96.43
CFB Meaford	4		1	2	1	48	8.33	91.67
3 Wing Bagotville	4		4			255	1.57	98.43
12 Wing Shearwater	4		4			274	1.46	98.54
Garnison Valcartier	3	2	1			851	0.35	99.65
CFB Winnipeg	3		1	2		512	0.59	99.41
CF International	3		2	1		242	1.24	98.76
9 Wing Gander	1			1		137	0.73	99.27
	458	**63**	**221**	**165**	**9**	**12,277**		**95.64**

13. The majority of the losses seen occurred in Edmonton during APS 2009 and 2010 however almost every other Base and Wing in Canada produced an equity loss for one or more CF members. The next most significant location, 8 Wing Trenton, had less than half the incidents of equity loss as Edmonton and the remaining Bases and Wings saw fewer still with some locations having only one or two during the entire period.

14. On a percentage basis, CFB Wainwright was the most significantly affected base, followed by Edmonton, then 19 Wing Comox. All three have recently exhibited volatile real estate markets.

15. It reviewing the table above it should be noted that although just under 12.5% of CF members, for example, posted out of Edmonton during this period experienced an equity loss, 87.5% either broke even or made money on the sale of their homes. Similarly, of the 523 members moved from Esquimalt, fully 94% were successful in selling their homes with no loss of equity. Indeed, from a national perspective, 95.64% of CF members selling homes in these markets in the past three years did so successfully.

16. In an attempt to identify any obvious commonalities between these equity losses, an analysis of the actual purchase and sale values of CF member's homes was conducted. A review of claimed losses in Edmonton, the location with the most affected members, is indicated below:

Year	Location		Avg Purchase Price	Avg Sale Price	Avg profit/(loss)
2008	Garrison Edmonton	All moves	$195,804.47	$330,918.42	$135,113.95
		HEA Claims	$327,778.67	$296,333.33	($31,445.33)

2009	Garrison Edmonton	All moves	$199,636.15	$303,764.00	$104,127.85
		HEA Claims	$329,975.35	$288,565.30	($41,410.05)
2010	Garrison Edmonton	All moves	$239,768.53	$327,487.29	$87,718.76
		HEA Claims	$338,169.45	$304,816.67	($33,352.79)
2011	Garrison Edmonton	All moves	$275,000.00	$328,222.22	$53,222.22
		HEA Claims	$434,500.00	$353,500.00	($82,000.00)

17. This table indicates that the members who lost equity in Edmonton, on average, bought homes at significantly higher cost than those members who did not lose money, while selling in most years for less, on average, than those members who made a profit.

18. A similar review of the next most severely affected location, 8 Wing Trenton, is below:

Year	Location		Avg Purchase Price	Avg Sale Price	Avg profit/(loss)
2008	8 Wing Trenton	All moves	$169,517.88	$215,005.58	$45,487.70
		HEA Claims	$279,900.00	$269,200.00	($10,700.00)
2009	8 Wing Trenton	All moves	$184,501.26	$220,229.53	$35,728.27
		HEA Claims	$258,001.57	$247,200.00	($10,801.57)
2010	8 Wing Trenton	All moves	$188,250.94	$227,294.10	$39,043.16
		HEA Claims	$218,799.43	$210,155.56	($8,643.88)
2011	8 Wing Trenton	All moves	$144,243.64	$181,454.55	$37,210.91
		HEA Claims	$197,500.00	$188,000.00	($9,500.00)

19. These data reveal the same issue: CF members who utilized the HEA benefit purchased homes at a significantly inflated cost compared to their peers who did not incur equity loss, however, unlike their counterparts in Edmonton, those in Trenton were generally able to resell their homes at a somewhat higher average price than their peers.

20. In locations where fewer HEA claims were submitted, similar statistics are seen. For example, eight of the 154 homeowners posted from CFB Moose Jaw and four of the 48 homeowners posted from CFB Meaford in the previous three years utilized the HEA benefit. Again, on average, these members purchased homes that were more expensive than those purchased by other members posted to the same location. Both locations are presented below:

Year	BGRS location		Avg Purchase price	Avg Sale price	Avg profit/(loss)
2008	CFB Moose Jaw	All moves	$146,097.86	$276,455.43	$130,357.57
		HEA Claims	$362,500.00	$310,000.00	($52,500.00)
2009	CFB Moose Jaw	All moves	$166,720.10	$264,506.12	$97,786.02
		HEA Claims	$191,333.33	$184,833.33	($6,500.00)
2010	CFB Moose Jaw	All moves	$201,231.12	$273,616.00	$72,384.88
		HEA Claims	$337,674.31	$317,000.00	($20,674.31)
2011	CFB Moose Jaw	All moves	$161,875.00	$259,500.00	$97,625.00
		HEA Claims	No claims	No claims	No claims

Year	BGRS location		Avg Purchase price	Avg Sale price	Avg profit/(loss)
2008	CFB Meaford	All moves	$178,250.00	$217,566.67	$39,316.67
		HEA Claims	No claims	No claims	No claims
2009	CFB Meaford	All moves	$181,782.63	$234,157.89	$52,375.26
		HEA Claims	$237,570.00	$225,000.00	($12,570.00)
2010	CFB Meaford	All moves	$193,500.00	$233,568.18	$40,068.18
		HEA Claims	$252,000.00	$245,500.00	($6,500.00)
2011	CFB Meaford	All moves	$315,000.00	$300,000.00	($15,000.00)
		HEA Claims	$315,000.00	$300,000.00	($15,000.00)

21. Only one CF member relocated from Meaford thus far in 2011. That same member incurred a loss of equity.

22. Unfortunately, the BGRS data cannot confirm the underlying cause of individual equity losses. It does not, for example, identify why a specific individual facing a devastating personal financial loss was nonetheless compelled to relocate, or why such individuals did not utilize alternate relocation options such as Imposed Restrictions, Real Estate Incentives or Temporary Duel Residency benefits. It does not indicate the appraised values for many of the initial home purchases nor when the homes were purchased. Similarly, it is not possible from the data available to determine whether an individual residence was overpriced for a given market or neighbourhood, nor is it possible to determine whether other contributing factors such as poor maintenance or external factors outside the CF member's control negatively affected resale values. Some of this information may be available through cross-referencing to other databases and files, however it is presently unclear what resources would be required to complete a more detailed analysis.

23. It must be noted that these results could also be indicative of other issues. For example, those members who experienced a loss of equity may have been posted to their location only one or two years previously and posted away too quickly (ie: caught at the wrong ends of a local boom/bust cycle) or been posted out of the APS period when markets are slower. Alternatively, they may have invested poorly in homes that were simply overpriced compared to their actual real value or at the top end of the market. The available data considered in this analysis do not allow us to identify whether any of these CF members made high-risk investments such as purchasing homes with limited potential resale value. Similarly, we have not analyzed the purchase and sale histories of the HEA applicants for investment trends to determine whether the loss represents an actual overall loss of equity, or an adjustment from a previously above-average windfall. Indeed, this review has not considered the long term investment history of HEA-affected members at all. Unfortunately, it may be worth noting that CF members do not necessarily gain any particular insight into the real estate market. Some people simply make incorrect decisions at inopportune times.

24. One question we may ask is whether it is possible to increase the current cap of $15,000 from Core which the policy currently reimburses in non-depressed markets. Unfortunately, Canada Revenue Agency taxation policies also affect HEA. Tax law currently states that $15,000 is the maximum amount an employer who relocates an employee may pay to that employee tax free. Unless the Income Tax Act is modified, any amounts in excess of the $15,000 currently paid under this benefit would be taxable. Even if TB was to designate an area as depressed and reimburse 100 percent of an equity loss from Core, the member could then be faced with a substantial tax bill, somewhat defeating the purpose of the reimbursement. Adjusting policy to permit a higher percentage of reimbursement from Core (eg: 90% vice 80%) may be more feasible, however the $15,000 cap would not be affected.

CONCLUSION

25. From a systemic viewpoint, it is difficult to argue that the policy as it exists currently does not meet the CF's needs as a whole. Approximately 99% of CF members who relocate either do not need the benefit or find it sufficient to meet their needs when it is required. Over 95% of CF members who sell a residence do not utilize the benefit at all. In addition, as noted above, it is doubtful that TB ever intended this benefit to remove all risk to the CF member of what is, at its core, a speculative investment. The benefit appears to recognize that the CF may post members at inopportune times and, as a result, members may incur financial losses, but it seems clear that the intent was never to shield members from all loss or any possibility of incurring a loss. It may be important to recall that many other benefits and administrative tools exist to mitigate such losses and that it is only a very small percentage of CF members who do not or cannot utilize any of them who are most severely affected.

L. Bisson
Capt(Navy)
DGCB
995-1930

Distribution List

Action

XXXXXXXXXXXX

XXXXXXXXXXXX
Information