

*Expanding Your Housing Options*  
Financing for First Nations Communities



*Supporting  
Investment in  
Communities*

*9<sup>th</sup> ANNUAL FIRST NATIONS 2011 NORTHERN  
HOUSING CONFERENCE*

*Valhalla Inn - Thunder Bay, Ontario*

*February 17, 2011*

# *Topics*

- Introduction to the Fund
- Why is the Fund Needed
- Access Criteria
- Housing Loan Guarantee Credit & Credit Enhancement
- Capacity Development Program
- Benefits
- Success

## *About the Fund...*

- Launched May 5, 2008
- Designed to support market housing arrangements between First Nations and lenders
- \$300 million federal investment
- Intended to leverage \$3 billion in on reserve housing investment across Canada
- Goal is to create 25,000 new homes over 10 years
- First clients announced in Feb '09

## *...about the Fund*

- New tool to create more on reserve housing
  - Homeownership
  - Rental units
  - Renovations
- Respects communal ownership of reserve lands
- Only First Nations can apply
- Developed with input from AFN, First Nation communities and organizations across Canada

# *What is Market-based Housing?*

- Housing where the acquisition, operation and maintenance is paid for by the owners and occupants
- Includes ownership and rentals

# *How does the Fund support investments?*

- 10% backstop for housing loans
- Leverage to negotiate with lenders
  - lower interest rates
  - reduced program access fees
  - risk sharing
  - administrative arrangements
- Capacity Development

# *First Nations Set Parameters*

- Market Housing program parameters include:
  - Types of borrowers
  - Permitted uses
  - Loan characteristics
  - Land tenure method

# *Examples of Borrowers*

- First Nation members
- Wholly-owned First Nation Entities (FNE)
  - housing authorities
  - development corporations
- Partnerships where FNE or individual(s) hold majority share



# *Examples of Possible Uses*

- Home Ownership
- Rental, Rent to Own
- Renovations
- Seniors' Homes
- Community Workers
- Refinancing for Renovation Purposes

# *Eligible Loan Characteristics*

- All amortizing loans. Lines of Credit or interest-only loans are not eligible
- Maximum amortization period – 25 years
- No minimum loan term
- Fixed and variable rate mortgages

## *Eligible Land Tenure Methods*

- Land tenure management method up to First Nation e.g. - Lease, Certificate of Possession, FNLMA, FN Land Registry System
- All non-designated lands where there are loan security restrictions beyond the First Nation's control
- Term of tenure must be longer than amortization of loan

# *Construction Standards*

- Homes built subject to standard set by the First Nation Authority Having Jurisdiction (with NBC being the minimum standard)
- Inspected by qualified professionals.
- Non-residential space limited to 20% of floor space and up to 20% of lending value

# *ACCESS CRITERIA*

# *What are the Access Criteria?*

- Access Criteria are based on a principle, not rules and separated into three main pillars:
  1. Financial Management
  2. Good Governance
  3. Community Commitment and Evidence of Demand for Market-Based Housing
- First Nation chooses how they best satisfy each principle

# *1<sup>st</sup> Pillar:*

## Financial Management

The First Nation to demonstrate:

- competency in financial management,
- a history of paying its obligations and
- an adequate financial position.

## *2<sup>nd</sup> Pillar:*

### **Good Governance**

The First Nation to demonstrate:

- It has good governance and administration within the community.
- In particular, it has sustainable processes and systems
- That will support the community's commitment to housing management over the long-term.



## *3<sup>rd</sup> Pillar:*

### **Community Commitment and Evidence of Demand for Market Based Housing**

- There is evidence that the community is willing to make the commitment to support market-based housing; and
- That members have the desire and ability to afford home ownership and market rentals in the community.

***FIRST NATION HOUSING LOAN  
GUARANTEE CREDIT (HLGC)  
&  
CREDIT ENHANCEMENT (CE)***

# *What is the Housing Loan Guarantee Credit (HLGC)?*

- HLGC is the amount of borrowing the First Nation can safely support. It is based on information provided as part of the application, including:
  - Expected loan demand over the next 5 years
  - First Nation's financial capacity
  - Amount the First Nation is willing to guarantee
- The stronger the community, the greater the potential for a higher HLGC

# *How is the HLGC calculated?*

- The stronger the community, the greater the potential for a higher HLGC.
- FN needs to demonstrate they have cash or other available sources of liquidity to:
  - Support a given level of P&I payments resulting from borrower defaults for a given period of time; and
  - Absorb a corresponding severity of losses resulting from default

	<u>Strong</u>	<u>Satisfactory</u>
Borrower Default Rate	4%	8%
# months of P&I	12	18
Loss ratio (HO)	30%	30%
Loss ratio (rental)	50%	50%

- 25 year amortization and 5-year posted rate assumed for calculations

# *The Result:*

- The accompanying table illustrates the value of housing loans which could be guaranteed by a community as a function of their rating.
- In this example, a FN has \$100,000 in financial capacity (cash or other sources of liquidity)

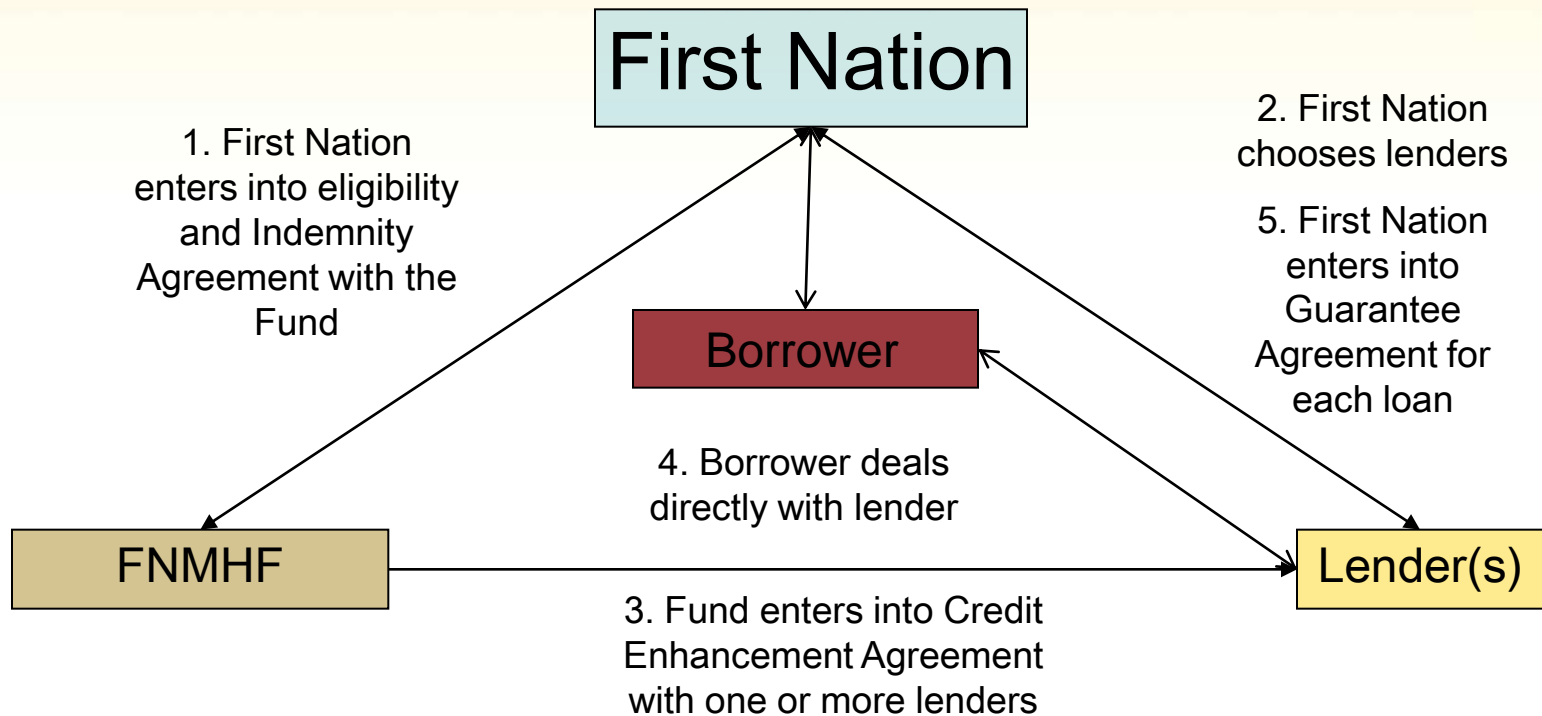
Posted Rate* (Examples)	Overall Community Rating	
	Strong	Satisfactory
6%	\$6.6M	\$3.0M
8%	\$6.3M	\$2.8M

\* Latest monthly posted 5-year rate as reported by the Bank of Canada

# *Credit Enhancement (CE) is the Backstop*

- The Credit Enhancement Facility provides a financial backstop to FN's housing loan guarantees made to a lender.
- 10% coverage on loans advanced for both "Strong" and "Satisfactory" communities
- Gives leverage to First Nations, attracts lenders
- CE accumulates as the volume of loans increases – e.g. if \$5M is HLG, maximum CE would be \$500K

# *What happens once a First Nation is approved for Credit Enhancement?*



# *How does a borrower apply for a housing loan?*

- FN member applies to the lender or lenders chosen and approved to work with the community
- Underwriting criteria based on normal property and borrower qualification requirements
- FN guarantees the housing loan



# *What happens if a borrower is in arrears?*

- Lender, First Nation work with borrower
  - counselling
  - repayment options
  - First Nation may assume loan
- In case of default, First Nation honours its guarantee in the manner negotiated with the lender
- FN takes corrective action on unit ownership and occupancy

# *What happens if a First Nation is unable to meet their obligation?*

- The lender will be able to seek reimbursement for a portion of its losses from the Fund.
- If the housing loan is insured, the loan may be assigned to the insurer.
- If the Fund pays a claim to a lender/insurer in relation to the default of a FN, the Fund will not approve any further credit enhancement in that community until the First Nation reimburses the Fund.

# *As of February 1 - Lenders participating in Ontario*

## *Bank of Montreal*

*Contact: Stephen Fay*

*Email: [stephen.fay@bmo.com](mailto:stephen.fay@bmo.com)*

## *Peace Hills Trust*

*Contact: Tony Shirt*

*Email: [tony.shirt@peacehills.com](mailto:tony.shirt@peacehills.com)*

## *Desjardins*

*Contact: Yves Poirier*

*Email: [yves.poirier@desjardins.com](mailto:yves.poirier@desjardins.com)*

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# *CAPACITY DEVELOPMENT*

# *FNMHF Capacity Development Program*

- Provides support for First Nation communities that want to use the Fund and meet most criteria but have areas which require strengthening
- The Fund's Capacity Development Program focuses on the three pillars of the Access Criteria.

# *What types of services will be delivered?*

- Developing a Regulatory Framework that includes:
  - Updating and implementing housing and finance policies
  - Developing land use by-laws, codes, registries, and security of tenure
- Accredited training for staff including financial, technical, housing, economic development & land management
- Home ownership and rental training sessions

# *How are capacity development needs assessed?*

- First Nation performs a self-assessment as part of the application process
- Fund and First Nation will agree upon needs and a development plan
- Delivery will be completed by Aboriginal contractors whenever possible

## *What happens when a First Nation is approved for Capacity Development?*

- Letter of Agreement signed, good for up to 3 years
- Identifies areas of financial support from the Fund in financial management, governance and community commitment
- As First Nation has time to work on specific initiatives, the deliverables and timelines are identified and costed



# *Sample CD Requests*

- Staff development – finance, systems, property management, project management, lands management, communication, real estate, inspections, arrears management, technical skills
- Policy development and support for implementation – finance, housing, land tenure, governance
- Plans – capital, land use
- Housing authority development
- Member education on housing maintenance, finance, personal credit, construction management techniques

# *First Nation application procedure*

1. Complete the “Self Assessment” for capacity consideration to determine FN Capacity Development needs.
2. Complete the “Application for the Credit Enhancement Facility” to support CE determination.
3. Gather and submit above with supporting documentation:
  - ✓ BCR supporting application
  - ✓ Min. 3 years of consolidated audited financial statements.
4. Mail application and documentation to our office and participate in site visit once arranged.

# *Benefits to First Nation*

- Expands housing options for First Nations
- Complements existing programs and helps strengthen systems
- Attracts more private financing and encourages competition among lenders
- No Ministerial Loan Guarantees
- Promotes creation of a housing market

# *Success to date*

- 40 applications received from First Nations – more coming
- 13 First Nations approved for Credit Enhancement and Capacity Development
- 13 First Nations approved for Capacity Development only – working toward qualifying for Credit Enhancement
- 6 Lenders participating – 2 national; 4 regional

# *First Nations announced for Credit Enhancement as at February 1, 2010*

- Miawpukek NF
- Membertou NS
- Lac La Ronge SK
- Batchewana ON
- Onion Lake SK
- Sagamok ON
- Seabird Island BC
- Kamloops BC
- Moose Cree ON
- Serpent River ON

And More to be announced soon

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*Thank you*

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