

Expanding Your Housing Options

Financing for First Nations Communities



Taking control of your money

First Nations Housing Conference 2019

Thunder Bay – February 26, 2019

Objectives

- Stretching your dollars
- Budgeting and money management
- Understanding credit
- Managing debt
- Credit reports and credit scores
- Debt servicing Ratios
- Mortgages and buying a home

Stretching Your Dollars - Budgeting

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What is a Budget?

A budget is a document that helps you take control of your personal finances. It is especially important in the following situations:

- If you find money is tight
- If you don't know where your money is going
- If you have problems paying off your debt
- If you don't save regularly
- If you want to find ways to make your dollar stretch further

Setting Goals

Before you develop a budget you should set your goals

- Do you need to pay off some debt?
- Do you want to buy a car / home / go on vacation?
- Are you a seasonal worker?
- Does your income constantly change?
- Do you have money left over at the end of the month after your pay cheque?

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How Much Money Do You Have to Work With?

- Where does your money come from?
- What income can you count on?

Money I can count on each month	
Income (wages or salary after deductions)	\$
Income (wages or salary after deductions)	\$
Child Tax Credit	\$
Other Regular Income	\$
Total Monthly income	\$

Where do I Spend My Money?

- Track your expenses
- Fixed expenses / needs – bills you have to pay and that tend to be the same amount month-to-month or year-to-year. (rent, mortgag
- Variable expenses / wants – amounts that vary from month to month and over which you have some control (recreation, clothing,)

Fixed (needs) Monthly Expenses	
Rent / Mortgage	
Property taxes	
Home Insurance	
Utilities (heat, hydro, water, gas, sewer)	
Car Loan	
Car Insurance	
Personal Loans	
Credit Cards (3% of outstanding balance)	
Groceries	
Child Care	
Life, disability, and medical insurance	
Other	
Total Fixed Monthly Expenses (Needs)	\$

Variable (wants) Monthly Expenses	
Vacation	
Restaurants/Fast Food	
Hair Care / Personal grooming	
Gifts	
Entertainment (movies, bar)	
Internet / Cable	
Cell Phone	
Transportation – Gas	
Other	
Total Variable Monthly Expenses (Wants)	\$

What's the outcome?

Income is greater	
Total Monthly Income	\$2,400
-Total Fixed (need) Exp.	\$1,800
-Total Variable (want) Exp.	\$ 400
Total Expenses	\$2,200
How much is left	\$ 200

Savings

Expenses are greater	
Total Monthly Income	\$2,400
-Total Fixed(need) Exp.	\$2,100
-Total Variable (want) Exp.	\$ 900
Total Expenses	\$3,000
How much is left	-\$600

No Savings

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Income is greater than expenses

- You are achieving your financial goals
- You can still make changes to increase your savings
- Create a rainy day fund
- Save for kids education
- Down payment on house / car
- Retirement fund
- Vacation

Expenses are greater than income

- Cut your variable cost (wants)
 - Eat out once a month (restaurants) or cheaper restaurants
 - Cut your internet / cable
 - Staycation – stay home on your vacation
 - Switch to a cheaper cell phone plan
 - Car pool to work – save on gas
 - Stock up on your groceries when they are on sale
 - Buy smaller car that is easier on gas
 - Don't lend money

Fixed (needs) greater than income

- This is a serious problem – these are bills you have to pay
 - Rent a cheaper apartment / refinance your mortgage
 - Watch your utilities – heat/hydro/water
 - Debt consolidation loan

Money Management

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Tips to successful money management

- Plan – Plan for future major purchases
- Set financial goals – short and long range goals
- Know you financial situation – determine monthly living expenses
- Manage your credit wisely – avoid paying only minimum payments
- Save for unexpected – emergency funds
- Pay your bills on time

Tips to successful money management

- Distinguish between needs and wants – take care of your needs first – money should be spent for wants after needs have been met.
- Pay off high interest debt first
- Downsize – smaller home
- Cut down on expenses -eat out once a month, bulk buy groceries, brown bag lunches
- Buy insurance – life / disability / group

Managing Debt & Understanding Credit

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How to Manage Debt

- Have you lost control of your finances?
- How can you beat debt?
 - Keep track of spending and make a budget
 - Put needs before wants
 - Keep your credit card in your wallet
 - Avoid buy now, pay later offers
 - Pay down high interest debts first
 - Consolidation loan

Managing Credit

- Establish Healthy Credit habits
 - Do pay your bills – Hydro, phone, Cable
 - Do get a credit card
 - Do pay your credit cards bills on time
 - Limit yourself to one or two credit cards
 - Don't draw cash advances on credit cards
 - Don't bounce cheques, co-sign for loans with someone who has poor payment history
 - Don't default on loan payments or pay bills after due date

Managing Credit

➤ Be a smart borrower

- Good debt represents investment in your future – student loans
- Loans used to purchase an asset – real estate
- RRSP loans – retirement
- Loans for investments

- BAD Debt – Cash advances – interest charged from day of the advance – borrowing to buy luxury items

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Credit Report

- Canada has two credit card reporting agencies – also known as credit bureaus – that keep your credit history files
- Equifax and Trans Union
- Every time you apply for a loan or pay a bill, that information is recorded on your file. Some information can remain in your file up to six years – bankruptcy

Credit Report

- What's in your credit file?
 - Identifying Information – name, address, D.O.B., and SIN number
 - Employment history
 - Credit status – late payments, current debt, payment history, credit score

Credit Score

- Credit scores are based solely on information in credit reports and consider payment history, balances relative to credit limits, credit inquiries and the length of credit.
- Payment history – ability to pay bills on time
- Balances relative to credit limits – are your payments more than the minimum.
- Credit inquiries – inquiries are important because it can look bad to have too many

How is your credit score calculated?

- 35% of your score is based on Payment History
- 30% is amounts owed
- 10% types of credit used
- 10% New credit
- 15% Length of Credit History

Credit Score

Canada Population	Rating	Score Range
4%	Poor	300-569
10%	Fair	560-659
15%	Good	660-724
14%	Very Good	725-759
57%	Excellent	760-900

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Repairing Bruised Credit

- How are you turned down for credit?
 - Too much Credit
 - Bad Credit history / Low score
 - No job
 - Bankruptcy

Repairing Bruised Credit

- Pay your bills on time – watch the due date!!
- Get a credit card if you don't have one. Build a score – you must be in debt to get a good score
- Add an installment loan to the mix. You will get the fastest improvement in your score if you show you're responsible with both kinds of credit: Revolving (credit cards) and installment (personal, auto, student loans, mortgage)

Repairing Bruised Credit

- Pay down your credit cards. Paying off your installment loans can help your scores but typically not as dramatically as paying down or paying off revolving accounts such as credit cards. Lenders like to see a big gap between the amount of credit your using and your available credit limit (utilization rate).
- Getting balances below 30% of the credit limit can really help. Getting balances below 10% is even better.

Repairing Bruised Credit

- Use your credit cards lightly. Racking up big balances can hurt your score regardless of whether you pay your bills in full each month. What's typically reported to the credit bureau, and thus calculated into your scores, are the balances reported on your last statement.
- Your credit score pays a lot of attention to the amount of credit your using vs. your credit limit.

Repairing Bruised Credit

- Check your limits – keep an eye on your available credit.
- Dust off an old credit card. The older your credit history the better. If you stop using the card, the supplier may cancel or stop reporting them to the bureau. The accounts may still appear, but they won't be given much weight in the credit score as your active accounts.

Repairing Bruised Credit

- Don't apply for too many credit cards – opening new accounts over a short period of time represents risk – especially if you don't have a long credit history.
- Pay off your collections – they will still appear on your credit history, but it will improve score if it shows they have been paid.

How do I obtain my credit report?

- Equifax Canada call 1-800-465-7166 or visit their website at equifax.ca
- TransUnion Canada – 1-800-663-9980 or visit website at transunion.ca
- When you pull your credit report on-line, for a fee, it does not count as a hit on your credit report

Financial Ratios - Mortgages

- Housing Affordability (GDS) measures how much of your gross monthly income is spent on combined housing costs – monthly mortgage payment & utility cost. Should not exceed 32%.
- Maxing out Credit - (TDS) measures how much of your gross monthly income is spent to service your mortgage and all other debts and obligations. (e.g. credit cards, car payments). Should not exceed 40%.

Are you financially ready to own a home?

- Loans are approved on the strength of your application
- What does this mean?
 - Good Credit
 - Income sufficient to support mortgage payment
 - Good job tenure (usually two years)
 - Current debt load is not too high

Test Yourself

Monthly Debt Payments	Average Monthly Amount
Personal loans or lines of credit	\$
Car payments or lease payment	\$
Student loans	\$
Credit Cards (3% of credit limit)	\$
Other loans	\$
Current mortgage, if refinance	\$
Total Monthly Debt Payments	\$

First Affordability Rule

Monthly housing cost shouldn't be more than 32% of your gross monthly income. (mortgage and heating expenses)

GDS Calculation	
*Your Gross Monthly Income (gross up 25% if on reserve)	\$
Your spouse's gross monthly salary	\$
Other monthly income	\$
(A) Total month income	\$
(B) Multiply amount (A) X 0.32 = GDS	\$

- Take your yearly income and divide by 12.
- $\$40,000/12 = \$3,333$

Second Affordability Rule

Your entire monthly debt load shouldn't be more 40% of your gross monthly income.

TDS Calculation	
(A) Total Monthly Income	\$
(C) Multiply (A) x 0.40 = TDS	\$
(D) Total Monthly Debts (earlier slide)	\$
(D)-(C) = Monthly Income left for housing	\$

Example – Currently rent

- Married couple who both work and rent an apartment.
 - His income \$45,000, Her income \$34,000
 - Visa Credit limit \$10,000 – balance is 3,450
 - Amex limit is \$2,500 – balance is 1,120
 - Loan with TD Bank - \$25,000 – Payment \$425 per month
 - Leon's Credit Card limit is \$3,000 – Balance \$2,900
 - Ford Credit approved \$30,000 – Payment \$450 per month
 - GMAC - \$20,000 – Payment is \$300 per month.

Example

Monthly Debt Payments	Average Monthly Amount
Personal loans or lines of credit	\$425
Car payments or lease payment	\$750 (Ford Credit & GMAC)
Student loans	\$
Visa (3% credit limit of \$10,000)	\$300
Amex (3% credit limit of \$2,500)	\$ 75
Leon's (3% credit limit of \$3,000)	\$ 90
Total Monthly Debt Payments	\$1,640

First Affordability Rule

Monthly housing cost shouldn't be more than 32% of your gross monthly income. (mortgage and heating expenses)

GDS Calculation	
*Your Gross Monthly Income (gross up 25% if on reserve)	\$3,750
Your spouse's gross monthly salary	\$2,833
Other monthly income	\$
(A) Total month income	\$6,583
(B) Multiply amount (A) X 0.32 = GDS	\$2,106

- Take your yearly income and divide by 12.
- $\$45,000/12 = \$3,750$
- $\$34,000 / 12 = \$2,833$

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Second Affordability Rule

Your entire monthly debt load shouldn't be more 40% of your gross monthly income.

TDS Calculation	
(A) Total Monthly Income	\$6,583
(C) Multiply (A) x 0.40 = TDS	\$2,633
(D) Total Monthly Debts (earlier slide)	\$1,640
(D)-(C) = Monthly Income left for housing	\$993

Affordability

Monthly Payment	Mortgage
\$526	\$100,000
\$657	\$125,000
\$789	\$150,000
\$920	\$175,000
\$1032	\$200,000
\$1,183	\$225,000
\$1,315	\$250,000
4% interest Rate – 25 years	

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Affordability

- What if I want to borrow more?
 - Do I ask for a raise?
 - Win the lottery?

 - How about you restructure your debt

Example

Monthly Debt Payments	Average Monthly Amount
Personal loans or lines of credit	\$425
Car payments or lease payment	\$750 (Ford Credit & GMAC)
Student loans	\$
Visa (3% credit limit of \$5,000)	\$150
Amex (3% credit limit of \$1,200)	\$ 36
Leon's (Pay out and cancel)\$3,000)	\$ 0
Total Monthly Debt Payments	\$1,361

Second Affordability Rule

Your entire monthly debt load shouldn't be more 40% of your gross monthly income.

TDS Calculation	
(A) Total Monthly Income	\$6,583
(C) Multiply (A) x 0.40 = TDS	\$2,633
(D) Total Monthly Debts (earlier slide)	\$1,361
(D)-(C) = Monthly Income left for housing	\$1,272

Affordability

Monthly Payment	Mortgage
\$526	\$100,000
\$657	\$125,000
\$789	\$150,000
\$920	\$175,000
\$1032	\$200,000
\$1,183	\$225,000
\$1,315	\$250,000
4% interest Rate – 25 years	

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Will you have trouble qualifying for a mortgage?

- Your calculations may show that you will have trouble meeting monthly debt payments and that you will likely have trouble getting approved for a mortgage. Here are some things you can do:
 - Pay off some loans first
 - Save for a larger down payment
 - Revise your building cost or renovations cost.
 - Meet with a credit counsellor who can help

Questions – need more information?

- Contact us:
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