

# **ON-RESERVE LENDING WITH Ministerial Loan Guarantee**

**Formerly known as Section 10**

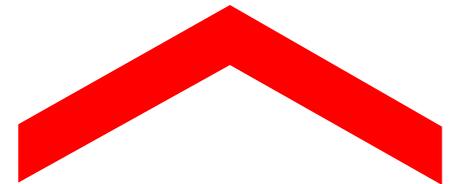
**Northern Housing Conference**

**Thunder Bay, February 25, 2010**



# Why do we need On-Reserve Lender's Insurance Programs?

- f First Nations lands cannot be mortgaged. Therefore the normal mortgage security is replaced by one of CMHC's On-Reserve Lender's Insurance Programs
- f To provide First Nations borrowers with improved access to housing financing



# Current Homeowner Financing On-Reserve

## Ministerial Loan Guarantee-Section 10

- MLG is issued as security
- Ultimately 100% guarantee by First Nation council

## Private lender programs

- Guaranteed by First Nation council
- Often 100% collateral (cash) security required
- Loans often capped based on dollar amount of loan rather than home value

## First Nation revolving loan funds

- First Nation council provides mortgage financing
- Limitations of capital as finance mechanism

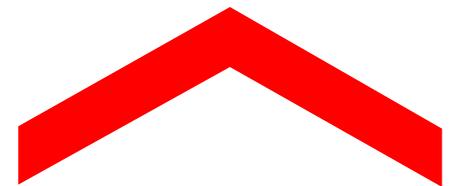
## On-Reserve Homeownership Loan Insurance Pilot Product

- Trust Fund provides security
- Portion of guarantee absorbed by CMHC



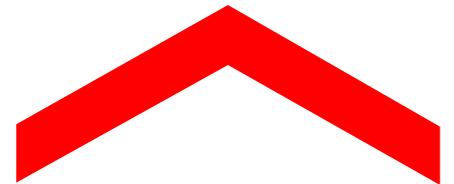
# What is On Reserve Lending with a Ministerial Loan Guarantee?

- f A product to assist First Nation individuals and First Nations Councils access to financing for homeowner and rental housing
- f Loans guaranteed by Indian and Northern Affairs Canada (INAC) through a Ministerial Loan Guarantee (MLG) allowing CMHC to provide loan insurance
- f Provides loan insurance to Approved Lenders to make loans on residential properties



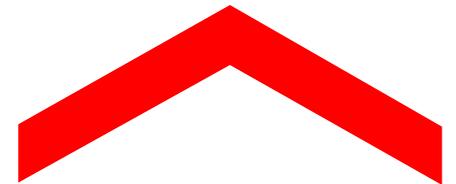
# Eligibility - Property

- f Purchase of existing homes
- f Purchase plus Improvements to existing homes
- f New construction
- f Manufactured homes
- f Modular homes
- f Rental and Multiple Residential Units



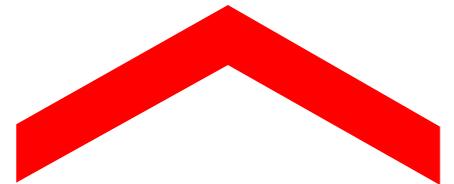
# Eligibility - Borrower

- f Regular underwriting guidelines apply, e.g. now 5% downpayment for homeowner, minimum 10% for rental as determined by underwriting review; and ability to meet lending criteria
  
- f The following is also required:
  - f the right to occupy the land granted by the First Nation, e.g. Certificate of Possession, Certificate of Occupation, Location ticket, Custom Allotment
  - f Band Council Resolution from the First Nation
  - f Ministerial Loan Guarantee
  - f Environmental Site Assessment as required



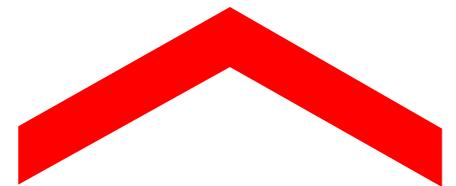
# Responsibilities - Borrower

- f Borrower requests Band Council Resolution in support of application for housing loan and approval for financial contribution if applicable
- f Borrower meets with Lender to discuss eligibility and loan terms
- f Borrower provides Lender with supporting documentation, i.e. BCR, MLG, etc for file



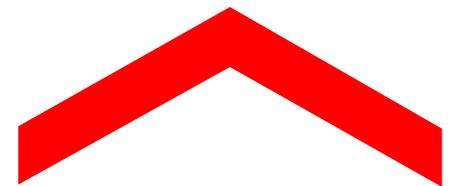
# Responsibilities - First Nation Council

- f Assesses the borrower's request for Band Council Resolution
- f Determines borrower's eligibility for housing funds and assigns funds as applicable
- f Provides a Band Council Resolution requesting a Ministerial Loan Guarantee
- f Complies with INAC requirements, i.e. Environmental Assessment



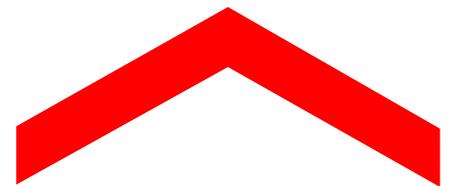
# Responsibilities - Lender

- f Qualifies borrower according to Lender and CMHC criteria
- f Provides guidance and assistance to the borrower
- f Submits request for insurance to CMHC
- f Holds supporting documentation on file
- f Submits CMHC Insurance Certificate to INAC



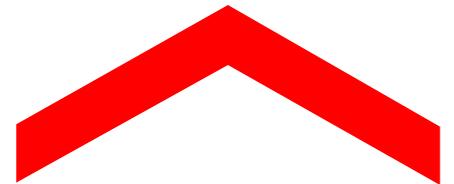
# Responsibilities - INAC

- f Receives request for Ministerial Loan Guarantee and reviews documentation from Borrower
- f Receives and reviews loan documentation received from Lender
- f Issues Ministerial Loan Guarantee



# Responsibilities - CMHC

- f Assesses application for loan insurance
  
- f Provide program support and training
  - f Marketing Material
    - "Financing a Home On-Reserve"
    - "Pocket Guide to Financing On-Reserve"
  - f Lender Training



# Contact Information

*Marquise Dumont*

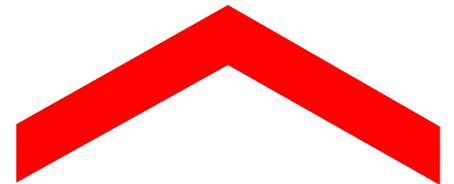
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Indian and Northern  
Affairs Canada

Affaires indiennes  
et du Nord Canada

# Ministerial Loan Guarantee Section 10

Northern Housing Conference  
February 2010



Canada 



## What is a Ministerial Loan Guarantee (MLG) and Why is it required?

- A Ministerial Loan Guarantee acts as an equivalent to collateral for the purpose of securing a housing loan.
- Reserve lands are held by the Crown for the use and benefit of First Nations, as set out in the Indian Act
- Furthermore, the Indian Act (Section 89(1)) protects Indian property from seizure by a non-Indian
- These restrictions pose an impediment to Chief and Councils, individuals and Indian businesses seeking loan financing for on reserve projects including housing
- In most instances, financial institutions will not take the risk of providing a housing loan on reserve unless there is a guarantee of payment in the case of default.



## Partnering Relationships

- Processing a Ministerial Loan Guarantee Application involves the partnering of the following organizations:
  - First Nation Member/First Nation
  - Financial Institution – Lender
  - Canada Mortgage and Housing Corporation – CMHC
  - Indian and Northern Affairs Canada - INAC



## **Program Areas that require Ministerial Loan Guarantees**

A Ministerial Loan Guarantee (MLG) is required whenever there is a First Nation request for financing from a Financial Institution for the construction, acquisition or renovation of houses, specifically for:

- National Housing Act (NHA) (Sec.10) Loans for First Nation Projects/Individual homeownership
- Non-NHA loans First Nation Projects/Individual homeownership



## Section 10 MLG's for the First Nation

- Promotes home ownership
- Allows First Nation the flexibility to use their funding for Social Housing or Band Rentals
- Allows the First Nation member to build a home that is a key turn operation
- Increases the number of homes that can be built and reduces the backlog of housing needs
- Payments are made to the financial institute directly reducing the need for administration (i.e. collections etc)



## Checklist for First Nation Members for Section 10

- First Nation members should find out if their Chief and Council supports Section 10 Ministerial Loan Guarantees (MLG) and obtain copy of their policy
- First Nation Members should notify the First Nation Housing Department of their intent to apply for a MLG
- Make application with Financial Institute to see if you prequalify for a mortgage
- When letter of intent is received from the Financial Institute, make application to the First Nation
- The First Nation Housing Department plays an important part – they are the liaison between the member and Chief and Council



## Who can apply for Section 10 MLG

- Any First Nation that is in good standing with the department
- The MLG is given to the First Nation on behalf of the individual First Nation member
- A First Nation Member can not receive the MLG without the consent of Chief and Council
- Ultimately Chief and Council are guarantors of the mortgage and are responsible in the cases of arrears or default



# First Nation Eligibility Requirements

- The First Nation has a satisfactory record of completing previous housing projects and meeting financial obligations
- All approved Ministerial Loan Guarantees are current
- Site location is on unencumbered reserve land
- A Capital Plan is in place for housing and infrastructure and confirmation that service lots are planned or available (Sec 95)
- Outstanding Capital Reports (30 days overdue) will halt a Ministerial Loan Guarantee approval
- Outstanding Audit (30 days overdue) will halt a Ministerial Loan Guarantee approval
- If there is a significant operating deficit (above 8%), a Financial / Remedial Management Plan needs to be in place and has to be operating effectively for at least six consecutive months.
- If Band has a prior default and the loan was paid out by Minister, a debt recovery plan has to be operating effectively for the previous six months

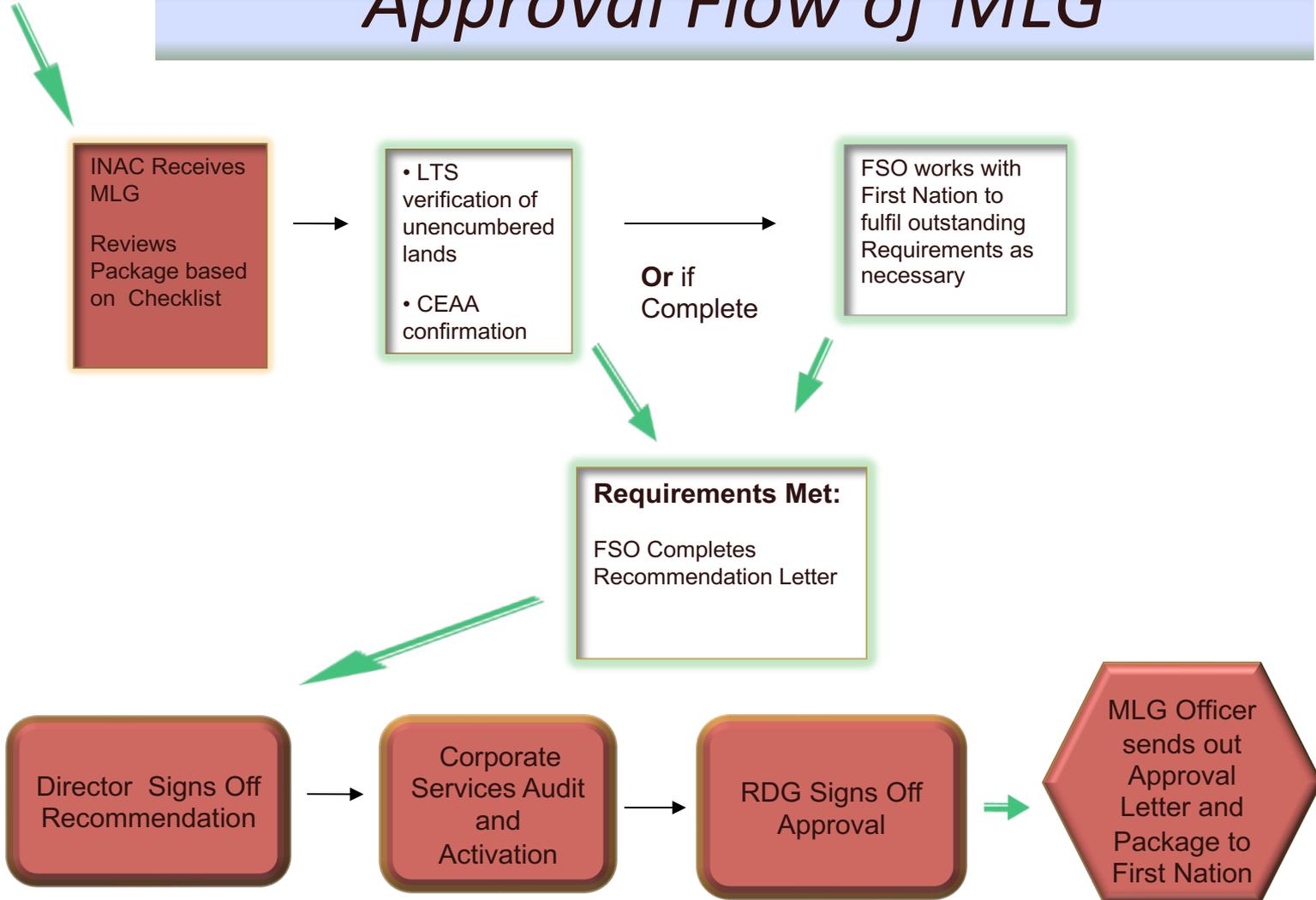


## Application Requirements

- Individual Home Ownership Application Form
- A Band Council Resolution, signed, dated and with all clauses
- Project Description and Site Plan/Lot Description for each new house to be constructed, acquired or renovated
- CMHC Certificate of Insurance
- CMHC Commitment to Lend



# Approval Flow of MLG



*Applications take approximately 4-6 weeks once all eligibility criteria have been met*



# Arrears

- Lenders routinely communicate with INAC about the status of their loans
- Should a loan fall into arrears, the lender notifies the borrower and INAC of the arrear status. For NHA Section 10 individual homeownership loans, the individual borrower, the First Nation and INAC are notified
- MLG will not be processed while there are arrears
- It is the borrower's responsibility to contact the lender to arrange payment



## Defaults

- The Lender notifies the borrower of default within 30 days of the first payment being missed
- Within 90 days of the first missed payment, INAC is notified by the lender of the default and each 30 days thereafter
- If the loan remains in default for 120 days from the first day of default, then the lender may submit a Claim for Payment to the Minister
- If INAC pays the lender, the loan becomes a First Nation debt owed to the Crown
- INAC may utilize multiple revenue sources of a First Nation or enter into a repayment plan for debt recovery
- NHA Section 10 individual defaulted loans become the responsibility of the First Nation



Complete submissions are to be mailed to:

Indian and Northern Affairs Canada  
Regional Operations North  
100 Anemki Drive, Suite 101  
Thunder Bay, ON P7J 1A5  
Attn: Ministerial Loan Personnel

Contact your FSO or Senior Housing Officer, Siva Appiah at (416) 973-7433 if you have any questions about your submission before mailing