



First Nations Market Housing Fund

Business Plan Summary 2019



The Fund's 2019 Plan at a Glance

Environmental Scan

The process of achieving market-based housing is lengthy and requires significant time, focus, energy and consistency to build the foundation of knowledge and systems through which individuals, families, communities, Councils and financial institutions can participate in First Nations communities. There are challenges with First Nations members qualifying for home loans in Fund-backed communities resulting in a lag in unlocking the credit the Fund has already approved for close to 6,600 home loans (as at June 30, 2018). As part of its leadership role to build home ownership capacity within First Nations communities, the Fund partnered with Deakin University to lead a research project exploring the critical elements needed to sustain a successful home ownership approach on reserve. Findings and recommendations from this research are being discussed during the Fund's regional engagement sessions conducted in 2018. The findings, recommendations and input received will help shape new ways to make the Fund's capacity building more effective; ensuring that the expertise and capacities built through the delivery of our First Nations organization continue to support more people living on communally held reserve lands to have the ability to successfully finance and own their own homes. Helping potential borrowers qualify for home loans within the communities with Fund approved credit will continue to be a key focus in 2019.

The Government of Canada's agenda supports opportunities for Indigenous persons to get ahead. Enabling self-sufficiency and wealth creation, as well as supporting better health outcomes are key thrusts. Building a successful housing market will have a strong positive effect, strengthening the quality of life of families while providing economic opportunities.

Priorities and Initiatives

The 2019 Business Plan Summary provides an overview of the Fund’s Board and staff’s work to plan the business and activities of the Fund and build on the Fund’s momentum and strong foundation. It includes our locally-driven strategies, performance indicators and our financial plans and is organized around four key objectives:

1	2	3	4
Promote increased participation and commitment to market-based home ownership	Support expertise for individual home ownership within First Nations communities	Continuously improve the Fund’s processes to support intended market-based housing outcomes	Move towards increased autonomy and independence of the First Nations Market Housing Fund

Through these efforts, the Fund is achieving both the short-term objectives and long-term intentions it was designed for and fulfilling its role in ensuring that ***“Every First Nation family has the opportunity to have a home on their own land in a strong community.”***



2019 Planned Operational Results

Projected Activity	Actuals to End of 2017	2018 Plan	2018 Forecast	2019 Plan
Applications				
Received	237	20	20	20
Cumulative	237	266	257	277
Approved First Nations				
CE and CD (55% of applications received *)	107	11	11	11
CD Only (45% of applications received *)	83	9	9	9
CE after CD *	5	13	13	15
New Qualified First Nations for Credit Enhancement				
# First Nations	112	24	24	26
Cumulative	112	152	136	162
Potential # of Units Approved Under the CE Program				
# of Potential Units **	6,496	1,440	1,440	1,560
Cumulative	6,496	8,805	7,936	9,496
Units Approved				
# of New Units	255	821	600	672
Cumulative	255	1,694	855	1,527
Lenders				
# Qualified ***	17	16	12	12

* Based on actual results to date (inception of the Fund in 2008 – June 30, 2018), 55% of the applications received are anticipated to qualify for Credit Enhancement in the year in which they are received, while the remaining 45% will qualify for CD Only. The exception is that applications received in the last 2 months of the year will not be completely processed until the following year. Of those approved for CD Only in the year in which they are received, 80% are anticipated to qualify for Credit Enhancement after 4 years, 10% are anticipated to qualify after 5 years of capacity development and it is estimated that the remaining 10% of applications approved for CD Only will not proceed to qualify for Credit Enhancement.

** Based on actual results to date (inception of the Fund in 2008 - June 30, 2018), the average number of potential units that a CE-qualified First Nation anticipates being back-stopped under the CE Program is 60.

*** The Fund previously publicized 17 lender partners which included six Caisse Populaires in northern Ontario. Having chosen to amalgamate, the six, together with several others will now be known as Caisse Populaire Alliance Ltée and will operate as 1 lender with 29 branches. As a result, the number of approved lenders in the 2018 forecast and 2019 plan decreased by 5.

Mandate

The First Nations Market Housing Fund (“the Fund”) is a unique tool developed with input from First Nations communities and organizations across Canada. It was launched on May 5, 2008 with a federal government investment of \$300 million. The Fund is a standalone, long-term, self-sustaining, non-profit trust established to¹:

- “...facilitate the availability of financing for and the accessible supply of Market-based Housing in First Nations communities and help to create the capacity in First Nations communities to become self-sufficient in developing and sustaining the Market-based Housing...”
- “create a platform for long-term change in housing provision and accommodation, leveraging more private-sector financing, progress in stabilizing the backlog in housing, greater housing investment by First Nations themselves and their members, and enhanced housing capacity in First Nations communities.”
- “...move away from a system that depends almost entirely on government subsidies, to a system that provides to First Nations residents the same housing opportunities and responsibilities in their communities as other Canadians.”

Consistent with these objectives, the Fund is successfully establishing the system through which mortgage-based home ownership – where the acquisition, operation and maintenance of housing is paid for by owners and occupants – is becoming a reality on First Nations reserves and settlement lands.

For more information about the Fund

You can reach the Fund by email, fax or letter:

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¹ Excerpted from the March 26, 2008 Indenture of Trust between the CMHC on behalf of the Government of Canada and the Original Trustees.

Foreword

This is a summary of the 2019 Business Plan that was approved by the Board of Trustees of the First Nations Market Housing Fund (“the Fund”) and by the Minister for Canada Mortgage and Housing Corporation in accordance with the provisions of Section 18 of the Indenture of Trust.

In November 2017, the Government of Canada unveiled the National Housing Strategy. The National Housing Strategy stated that *“First Nations are leading the development of a First Nations National Housing Strategy and Infrastructure Strategy to ensure the future of housing and infrastructure reform is envisioned from a First Nations perspective. Moving forward, First Nations and the Government of Canada will continue to work together to co-develop a new policy framework for housing and infrastructure reform that moves toward a long-term approach that will support First Nations care, control and management of housing and infrastructure and address the needs of First Nations people living both on and off reserve.”*

The National Housing Strategy does not specify a timetable to achieve the First Nations housing strategy, however officials have signaled that the Government of Canada’s direction as a result of the ongoing consultations is now expected in early 2019. The Fund has conducted research and will be meeting and gathering insights from First Nations across the country to feed into the Government’s process.

Given these current happenings, the Fund sought and received the Minister’s approval to develop a one-year plan for 2019. The Fund recognizes that it will need to be agile and responsive to the Government of Canada’s direction, and has prepared a plan limited to activities and the budget for 2019, while still shaping the path for the future.

It is anticipated that the Fund will be able to return to preparing a five-year plan for 2020-2024 period, as the Minister will be in a position to provide the Government of Canada’s direction informed by these consultations. The Government of Canada has already made significant investments to close social and economic gaps between Indigenous and non-Indigenous Canadians – and we know that an effective housing strategy is a key pillar of this objective.

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Executive Summary

The Fund celebrated its 10th year anniversary in 2018. Over this first decade, much focus was placed on setting up the needed framework and supporting systems across communities to create local conditions and capacity to support a market housing system, to strengthen expertise and financial literacy for communities and individuals and to instill confidence that the dream of home ownership is attainable.

Building the foundation to expand an emerging market-based housing system in First Nations communities involves a wide range of First Nations, their organizations and the financial community in an often-multi-year process. The Fund has served as the first market-housing experience for many First Nations communities and is enabling them to build expertise, administration systems and governance models to ready themselves for home ownership. This carefully built foundation has resulted in the Fund seeing dramatic increases both in practical results and movement towards achieving its ambitious goals. Just shy of forty percent (40%) of First Nations have now chosen to pursue the option of Fund-backed market-based housing – with many making it a central component of their community development.

One-fifth (19.4%) of the total Aboriginal population in Canada reported living in a dwelling in need of major repairs as compared to 6.0% of the non-Aboriginal population – The housing conditions of Aboriginal people in Canada, Census of Population, 2016

This focus supports First Nations Chiefs and Councils partners to manage conversations about market housing with members who believe they don't have to pay for housing because of treaty rights or the predominance of band-owned and band-provided housing – *i.e. place market-based housing within the context of the right to be independent, self-sufficient and have control over one's life*. Community investment and employment opportunities contribute to an improved quality and quantity of housing on reserve and free up social housing units for other citizens. Furthermore, First Nations residents have the opportunity to own or renovate a home, not only receiving economic benefits and the security of home ownership but provide local success stories that inspire others to follow suit.

Buzz and Maple Manuel utilized the new home-ownership program in the Upper Nicola Band and moved into their brand-new home in early 2018.



Their advice to fellow members and/or home owners – *“Working with the band and bank was great! They pointed us in the right direction and provided support we never thought imaginable! This was definitely a right choice for our family and worth every dollar saved!”*

Millie Pawis of Henvey Inlet First Nation knew what she wanted in a home when she decided to renovate the house left to her by her late father. While the renovation to this DIA house took almost nine months for a contractor to fully complete, Millie says it was worth it. As opposed to building on a new lot, she was able to save money by using the services to the original house. More space for her family was Millie's key desire, and she got it. What was once a small house with three bedrooms squeezed into space for two, is now transformed into a two-story, four-bedroom house with two baths, a family room, a garage and two balconies.



“I am so grateful for the opportunity to be able to access the financing via the First Nations Market Housing Fund program in order that I may renovate my house the way I want it done so it meets my wants as well as my needs.” – Millie Pawis

In the upcoming planning period, the expertise acquired by the Fund's Board of Trustees and staff will continue to be shared to create hope, opportunity and dreams for families like the Manuels and Millie Pawis – [building one home at a time](#).

The Fund's Credit Enhancement Facility provides backing, in addition to First Nations guarantees, that attracts lenders by offsetting some security issues. This enables First Nations to achieve favourable financing terms and conditions (for example, interest rate discounts, loan features, and risk-sharing opportunities).

The Fund's principal is used to create the Credit Enhancement Facility. There is approximately *\$954 million in credit that has been approved* to borrow against – enough to *finance close to 6,600 home loans* (as at June 30, 2018) in *113 First Nations communities*. In the planning period, further concentration will be directed toward facilitating those First Nations already approved for credit enhancement in realizing upon and drawing down their credit. Unlocking the full potential of the Fund's approved credit will have an incredible impact on closing the housing shortage gap for those citizens seeking and accessing financing for home ownership within Fund partnering communities.

In addition to the 113 First Nations approved to access the Credit Enhancement and Capacity Development Program, another *84 First Nations have been approved to use the Fund's Capacity Development Program* (as at June 30, 2018). A concerted effort will be made during the planning period to support those approved for capacity development progress towards qualifying for Credit Enhancement.

There are twelve (12) lenders that have been approved by the Fund to use the facility. The Fund previously publicized 17 lender partners which included six Caisse Populaires in northern Ontario. The six Caisses have amalgamated with other Caisses to create Caisse Populaire Alliance Ltée and will operate as one lender with 29 branches. In the planning period, more lenders willing to serve First Nations with favorable terms and conditions will be welcomed by the Fund.

The table below outlines the revenue and expense budgets of the Fund for the year 2019.

STATEMENT OF OPERATIONS \$M	2017 Actual	2018 Plan	2018 Forecast	2019 Plan
Revenue				
Investment Income	10.654	9.879	10.170	11.170
Total Revenue	10.654	9.879	10.170	11.170
Expenses				
Administration	3.804	5.274	4.685	5.796
Capacity Development	1.277	4.000	4.000	4.000
Credit Enhancement Guarantee	(0.098)	(0.070)	0.385	0.431
Evaluation	-	-	-	-
Total Expenses	4.983	9.204	9.070	10.227
Excess of Revenue over Expenses	5.671	0.675	1.100	0.943

Who We Are

Vision

Every First Nation family has the opportunity to have a home on their own land in a strong community.

Governance

The Fund was established through an Indenture of Trust on 26 March 2008 between CMHC and the Trustees. The governance, management and operations of the Fund are in accordance with the terms and conditions of the Fund's enabling documents. These documents include an Indenture of Trust, and a Funding Agreement with CMHC. The documents were designed to protect both the Fund's federal funding and the parameters put in place for the administration of the funding over the long term. The Fund received a one-time contribution of \$300 million from the Government of Canada. Interest earned from investing the contribution is used to pay for the Fund's administration costs and its Capacity Development Program. The Fund is self-sustaining through the investment of the Government of Canada's capital contribution and the reinvestment of a portion of its revenues.

Nine (9) Trustees who have been drawn from the First Nations community, the Government of Canada community and the private sector financial community provide oversight to the Fund. The Minister for CMHC appoints six (6) Trustees and the Minister for INAC appoints three (3) Trustees. Trustee appointments are outstanding currently with all terms having reached their end.

In October 2018, the Government of Canada issued a Notice of Opportunity seeking qualified individuals for appointment as Trustee to the Fund. The appointment of new Trustees is anticipated to be completed in early 2019.

To support the Trustees in their responsibilities, five (5) Board Committees have been established – Audit Committee; Investment Committee; Human Resources Committee; Operations Committee; and Governance Committee. Mandates and responsibilities have been set out for each committee.

CMHC was appointed Manager of the Fund for an initial 5-year period to April 2013 – there was a 12-month extension of the Management Agreement followed by two additional extensions until March 31, 2015. While the initial and extensions' terms have expired, an implied management arrangement continues to be in place. CMHC continues to provide direct services and oversight as manager of the Fund in certain areas, including management of the

investments of the Fund and authority over financial obligations. As such, the terms and conditions of the current arrangements are unclear and uncertain.

Board of Trustees

John Beaucage Chair of the Board <i>(citizen of Wasauksing First Nation)</i>		
Ruth Williams Vice-Chair <i>(member of Tl'etinqox Government)</i>	Maurice Biron Chair – Audit Committee <i>(member of Garden River First Nation)</i>	
Jim Prodger	Eric Menicoche <i>(member of the Liidlii Kue First Nation)</i>	Gail Shawbonquit <i>(member of Whitefish Lake First Nation)</i>

Executive Team

Deborah Taylor Executive Director	
Travis Seymour Director, Finance and Administration	Earl Commanda Program Manager

What We Do

The Fund is a self-sustaining, independent and not-for-profit trust and is the only federally established mechanism dedicated to home ownership in First Nations communities. Building on the successes of innovative communities, the Fund facilitates the availability of private-sector financing for First Nations, helps to ensure an accessible supply of market-based housing in First Nation communities and increases the capacity of First Nations seeking to expand or develop market-based housing.

What is market-based housing?

Market-based housing is recognized as a necessary component of any long-term effective approach to meeting the current and future housing needs of Indigenous people in Canada. It is a broad term that encompasses private home ownership, rentals, and rent-to-own housing. Simply put, market-based housing means the owners and occupants pay for the cost of their housing either through rental or loan payments. Non-Indigenous Canadians take it for granted that they can accumulate wealth by investing in their home. Market-based housing gives First Nations a powerful means to invest in their communities, and it gives First Nations families the ability to invest in their futures by building personal wealth in their homes. Together with our partners, the Fund has freed up social housing units for the use of other families in need and reduced the overcrowding in some communities.

In 2016, 18.3% of Aboriginal people lived in housing that was crowded – The housing conditions of Aboriginal people in Canada, Census of Population 2016

How does the Fund accomplish this?

The Fund qualifies a First Nation and provides partial financial backing (10%) to approved lenders for housing loan guarantees made by the First Nation to financial institutions. The First Nation then uses this backing to negotiate an arrangement with an approved lender or lenders, so their members can apply directly to the lender(s) for financing. The financing will help build, buy, or renovate a home on reserve or settlement lands where appropriate, to either own or rent. Due to the communal nature of the land, the First Nation needs to guarantee the housing loans of its members.

If a borrower defaults on an eligible loan, the lender will first seek compensation from the First Nation. Should the First Nation not honour its obligation as guarantor, the lender will be able to turn to the Fund for compensation up to the amount of Credit Enhancement accumulated by the lender for loans made in the community. The Fund itself does not provide loans.

Access Criteria

The idea of building housing markets on-reserve to respond to housing needs has already been implemented in some innovative First Nations in Canada. However, establishing housing markets in these communities did not happen overnight. It was first important for community leadership and community members to make a commitment to changing the nature of housing in their communities. It was also necessary for First Nations to commit financial resources, build capacity and develop the processes necessary to support better housing systems. These communities now enjoy the benefits of living in good quality homes, experience the pride of home ownership and benefit from the associated economic opportunities.

The Fund's Access Criteria were developed in relation to the demonstrated examples of these innovative communities as well as the input of First Nations and financial institutions from across the country. Access criteria are based on principles, not rules. The criteria are separated into three pillars:

Financial Management	Good Governance	Evidence of Community Demand and Support for Market-based Housing
Overarching principle to be assessed:		
First Nation demonstrates competency in financial management, a history of paying its obligations, and an adequate financial position.	The First Nation demonstrates that it has good governance and administration within the community. In particular, it has sustainable processes and systems which will support the community's commitment to housing management over the long-term.	There is evidence that community members support the concept of market housing and can afford homeownership and/or market rentals in the community.

First Nations choose how to best satisfy each principle by demonstrating their own strengths in each of the pillars. Application to the Fund's services and products is strictly voluntary.

Benefits

First Nations using the services of the Fund have the opportunity to create the following benefits to their membership:

- Build homes suitable to needs and affordability
- Employment growth based on construction
- Increase housing supply
- Opportunity to build equity and generate wealth
- Alleviate pressures on social housing
- Supports renovation and housing durability



Fund-backed homes



Strategic Analysis & Risk Management

Strategic Planning

In April 2018, the Fund convened its annual strategic planning session. The session included dialogue with representatives from nine partnering First Nations' leadership, helping the Trustees to take stock of the current environment and to discuss its implications for the Fund's 2019 Business Plan, as well as to identify a variety of short-term tactical interventions.

The Fund remains focused on ensuring continued success in achieving its mandate to increase the opportunities for market-based home ownership on First Nations lands and is prepared to embrace an enriched mandate subject to new directions the Government of Canada may introduce as a result of the consultations on the Indigenous component of the National Housing Strategy and the On-reserve Housing Reform.

The expected outcomes of the Fund's strategic direction are detailed below:

Table 1 – Expected Outcomes

Strategic Direction # 1: Promote increased participation and commitment to market-based home ownership.
Outcome:
Confidence in all sectors including First Nations, financial institutions, federal/provincial governments and the public that on-reserve market-based homes are a secure and growing market.
An increase in the number of communities paying for housing that were not before.
A source of valuable information and insight into the creation of market-based home ownership in First Nations communities.
A demonstrable shift in attitudes and increase in acceptance of market-based homes in First Nations communities.
The Fund's successes and lessons learned are broadly disseminated, understood and utilized by others.
Increased awareness and support within each audience/target group about the Fund's value-added impact on First Nations housing issues.

Strategic Direction # 2: Support expertise for individual home ownership within First Nations communities.
Outcome:
Improved relationships with critical mass of sectors supporting First Nations communities.
A meaningful contribution to the policy dialogue on First Nations homes and how it contributes to a shared desired outcome.
Recognition of the Fund as a centre of excellence for on-reserve market-based housing.

Strategic Direction # 3: Continuously improve the Fund's processes to support intended market-based housing outcomes.
Outcome:
Sense of ownership and control of the organizational environment.
First Nations participation in a continually improving process that supports efficient application, loan guarantee, capacity development approval and home starts.
A robust organization meeting unique needs.

Strategic Direction # 4: Move towards increased autonomy and independence of the Fund.
Outcome:
A smooth transition toward, and the continued successful operation of a long-term, self-sustaining and standalone Trust Fund supporting market-based homes on First Nations lands.

Risk Management

The Trustees review and assess risks regularly at Audit Committee and Board meetings. The Fund's Risk Management Policy and risk matrix have been reviewed by KPMG to determine if they were in keeping with best practices and how they could be strengthened. The Trustees were looking to gauge the relative importance of issues to consider ways to quantify risk and to ensure their attention is focussed on those risks having the biggest impact on the Fund. This is a work in progress. All the Fund's policies and procedures were documented and reviewed through a risk lens. Best practices to mitigate risks have been developed and are in the process of being implemented. In 2018, the Trustees are refining their approach further, including taking steps to move toward certification by an independent third party to demonstrate the Fund's strength on a continuous basis.

Performance Planning & Reporting

Credit Enhancement Facility

To the end of June 2018, 240 First Nations have chosen to pursue the option of Fund-backed market-housing. There is approximately \$954 million in credit that has been approved to borrow against – enough to finance close to 6,600 home loans in 113 First Nation communities.

In the planning period, further concentration will be directed toward facilitating those First Nations already approved for credit enhancement in realizing upon and drawing down their credit. Unlocking the credit the Fund has approved to its full potential will have an incredible impact on closing the housing shortage gap for those citizens seeking and accessing financing for home ownership with Fund partnering communities. A significant focus will also be aimed at the individual level as potential applicants are identified and work on understanding the obligations of being a home owner, as well as preparing personally to qualify for and take on long-term financial obligations.

During the Fund's strategic planning session, leadership provided input on how to maximize the take-up of the available/unused loan guarantee space (individual applicants):

- *Work with the Chiefs and Councils to find creative ways to work more directly with the individuals and families that are seeking housing loans;*
- *Address the uncertainty that exists in First Nations communities about land title and the permanency of home ownership.*

Objectives, Activities, Key Performance Indicators

The table below identifies some objectives, activities and key performance indicators for the Credit Enhancement Facility. Some performance indicators have targets set which appear elsewhere in this Plan; others are continuing to evolve as the Fund gains more experience.

Table 2: Credit Enhancement Objectives, Activities and Key Performance Indicators

Objectives	Activities
Support First Nations establishing on-reserve housing loan programs.	Marketing and communications
Support First Nations achieving favourable terms and conditions in on-reserve housing loan programs.	Business development services
Identify lenders for on-reserve housing loans.	Selection of eligible lenders
Effectively administer the Fund including timely reporting, processing and payment of claims.	Qualification and selection of eligible First Nations
	Compliance monitoring and evaluation
	Creating and providing reports
	Processing and payment of claims
Key Performance Indicators	
Number of self-assessments	
Number of applications for Credit Enhancement Facility	
Number of assessments of applications within defined timeframe	
Number of First Nations approved for Credit Enhancement Facility	
Number of First Nations approved for Credit Enhancement Facility and then arrange on-reserve housing loan program with lenders	
Number of members that secure a housing loan	
Number of performing loans	
Percentage of total loans that are performing	
Dollar value of performing loans	
Number of housing loans repaid	
Number of First Nations no longer eligible	
Percentage of First Nations that were approved and are eligible	
Percentage of total loans that are non-performing	

Capacity Development

Capacity development is critical to establish and sustain a market-based housing system. Without an established governance framework that includes laws, policies, codes, and practices that are clear, well understood and implemented by qualified people, the system will flounder. In working with 124 partnering communities on capacity development in over 1,100 initiatives (to the end of June 2018), the Fund has developed more than 800 products to serve First Nations and their unique needs. This is a shining example of how our First Nations organization has taken a leadership role in working to build capacity for home ownership within First Nations communities.

This approach is also helping the Fund to stretch its capacity development funding, although it is not in itself enough. While using existing products may seem like a reasonable approach, these products will not always work for First Nations that may find themselves in a different circumstance than the First Nation for whom the initial product was developed. Products still need to be customized to meet the unique needs of each First Nation and training is vitally important at the leadership, administrative and citizen level to implement policy and procedural changes. Wherever feasible, the Fund seeks other partners to support capacity development initiatives with financial resources or in-kind.

In partnership with Deakin University, the Fund has undertaken research in the critical factors that support sustainable home ownership in First Nations communities and will use the results of this research to modify the approach to capacity development in 2018 and 2019.

The Fund is anticipating increased demand for capacity development services from those already approved as well as from more First Nations who decide to apply and participate. The need for the Fund's continued capacity development support has been heard at each regional engagement session held to date. Participants in the sessions note that leadership changes, demographics within a community change, changes of personnel in key staffing positions occur, and the housing stock profile within a community also changes. As First Nations evolve, increased demand is putting upward pressure on costs for capacity development services. This upward pressure is at odds with the downward pressure on investment income as a result of low interest rates and ultra conservative investments.

Since Capacity Development services are funded by investment income and given the declining return of investment income due to lower interest rates, there is pressure to 'do more with less'. The current projection is that there will be insufficient net income to permit capacity development to continue at a reasonable level. For this reason, in 2017 the Fund explored and created an alternative manner in which capacity development funding could be established for 2020 and beyond. The Fund is seeking to continue to be self-sustaining and is not seeking

additional federal dollars. The Fund is raising this matter again in 2018; it will form an integral part of the report to Government in the Fall, based upon the feedback at the regional sessions.

The message is clear – the Fund needs to continue to support capacity development over the long term.



Trustees/Leadership discuss findings of the regional engagement sessions – October 2018

Objectives, Activities, Key Performance Indicators

The table below outlines some objectives, activities and key performance indicators related to Capacity Development. Some performance indicators have targets elsewhere in this Plan; others continue to evolve as the Fund gains more experience.

Table 3 – Capacity Development Objectives, Activities and Key Performance Indicators

Objectives	Activities
<p>Support First Nations capacity development efforts so that they can access and sustain the Credit Enhancement Facility.</p> <p>Support First Nations capacity development. Specifically, support capacity development efforts for:</p> <ul style="list-style-type: none"> ○ Leadership ○ Administration ○ Citizens <p>Support First Nations capacity development to address non-performing loans.</p>	<p>Develop and provide marketing and communications tools to increase awareness and participation. Approving use of Capacity Development funding for First Nations.</p> <p>Working with eligible First Nations to create Capacity Development Plans.</p> <p>Identifying products and qualified consultants to meet capacity development needs.</p> <p>Prioritizing disbursement and use of Capacity Development funding in accordance with the Capacity Development Plans.</p> <p>Providing ongoing monitoring and evaluation to ensure compliance with terms and conditions. Creating and providing reports with respect to activities.</p> <p>Developing new capacity development tools that are consistent with First Nation needs.</p> <p>Expand existing relationships, partnerships and agreements.</p> <p>Establish a public policy oriented ‘think tank’ function to draw on and share lessons learned.</p>
Key Performance Indicators	
Number of meetings with First Nations to understand and complete self-assessment/application	
Trends in First Nation ratings “Strong, Satisfactory, Needs to Strengthen”	
Number of First Nations approved for capacity development	
Number of discrete capacity development initiatives: Policies; Procedures; Training Courses; Workshops	
Number of people trained	
Number of First Nations that commence or expand rent collection process	
Number of First Nations that complete capacity development and are then approved for Credit Enhancement	
Percentage of First Nations that use capacity development services and are then approved for Credit Enhancement	
Percentage of First Nations that use capacity development services, are then approved for Credit Enhancement and then establish an on-reserve housing loan program.	
Number of loans at First Nation that use capacity development to qualify for Credit Enhancement and then establish a housing loan program	
Number of times First Nation uses policy to have new member assume loan responsibilities	
Number of conferences attended	
Number of business development meetings with First Nations	

Investment

Investment guidelines from the Department of Finance define what can be done with upfront contributions from the Government of Canada, including the contribution received by the Fund. These guidelines require the development of a Statement of Investment Policy and Investment Strategy. The Statement of Investment Policy is to be approved by the Trustees and the Funder annually. It limits the scope of investments possible using the Fund's capital. Given the current interest rates, this means that the short-term outlook for investment income is more modest than in previous years.

The Fund will continue to take steps to examine all possible alternatives to increase revenues in a prudent way, compliant with the Minister of Finance framework. The Fund will work with its Investment Manager and other experts to explore the risks and opportunities associated with a higher yield. In order to meet their obligations, the Trustees do contemplate substantive change to the Statement of Investment Policy. The Trustees have sought the approval of the Funder in accordance with 8.2 of the Funding Agreement but it has not yet been forthcoming. The Trustees will continue to work toward an acceptable Statement of Investment Policy that meets industry standards. The Trustees will be seeking approval of the Minister of Finance before implementing a new policy and strategy during 2019.

These actions are seen as necessary in light of the fiduciary obligations of the Trustees.

Objectives, Activities, Key Performance Indicators

The table below outlines some objectives, activities and performance indicators related to Investment.

Table 4 – Investment Objectives, Activities and Key Performance Indicators

Objectives	Activities
Maintain sufficient liquidity in order to meet business requirements.	Invest assets in accordance with the Statement of Investment Policy and the annual Investment Strategy.
Preserve and grow capital to maintain and expand the capacity of the Fund to carry out its core activities.	Maintain a custodial account for the hold of securities. Monitor and provide regular performance and position reporting.
	Review the Statement of Investment Policy and Investment Strategy annually.
Key Performance Indicators	
Capital has been protected	
Investment income that is available to Capacity Development and Administration	

Administration

Pursuant to the Funding Agreement, the Fund has had a Management Agreement in place with CMHC since April 28, 2008. Though the Management Agreement has expired, CMHC has officially continued in the role of the manager of the Fund. Over the years, the functions performed by CMHC have curtailed to the point where at the middle of 2018, the functions provided by CMHC relate to Investment Management and authority over financial obligations.

The Trustees have been pursuing a new management arrangement with CMHC since 2015. It is anticipated that new management arrangements will be put in place once decisions have been taken pursuant to the consultations on the Indigenous component of the National Housing Strategy.

The Trustees contemplate that in the new management arrangement, they will be able to engage experts, including CMHC, on an ad hoc basis as they see fit. During 2018 and into 2019, the Trustees will continue pursuing governance enhancements including moving further along the path to certification, the establishment of a co-managed internal audit function and other initiatives aimed at strengthening their board structure and governance. These efforts are all aimed at protecting the Fund for the long-term.

Objectives, Activities, Key Performance Indicators

Table 5 – Administration Objectives, Activities and Key Performance Indicators

Objectives	Activities
Support Fund objectives by: <ul style="list-style-type: none"> ○ Sound financial and risk management; ○ Efficient and reliable information technology processes; and ○ Effective human resource management 	Manage the Fund's bank accounts, processing expenditures, preparing necessary reports and statements, filing required returns. Business Plan Annual Report Managing human resources Contracting for all goods and services necessary Maintaining the Fund's policies, procedures and guidelines Identify and enact process improvements
Key Performance Indicators	
Number of Board meetings	
Number of Committee meetings	
Business Plan prepared	
Annual Report prepared	
Financial statements prepared in timely manner	
Staff training	

Financial Plan & Budgets

The Fund commenced operations in May 2008 with the initial contribution of \$300 million from CMHC on behalf of the Government of Canada.

The \$300 million provides a partial financial backstop or “credit enhancement” to a First Nation’s housing loan guarantee made to financial institutions. In the event that a borrower defaults on an eligible housing loan, the lender/insurer will seek compensation from the First Nation in its capacity as guarantor of the loan. Should the First Nation not meet its obligations as guarantor, the lender/insurer will be able to turn to the Fund for compensation up to the amount of credit enhancement, which the financial institution has accumulated for loans in the community.

The Fund’s accumulated credit enhancement coverage cannot exceed the net worth of the Fund, with net worth being defined as the difference between what the Fund owns and what it owes. As long as the Fund is a going concern, the deferred contribution is not considered to be an amount owing by the Fund. The accumulated coverage over the planning period, based on the number of planned units, an average loan amount of \$165,000 based on the actual results of 283 units backed for \$47.06 million to June 30, 2018, and the Fund’s credit enhancement of 10 percent, is projected as follows:

Table 6 – Accumulated Credit Enhancement Coverage

ACCUMULATED CREDIT ENHANCMENT COVERAGE	2017 Actual	2018 Plan	2018 Forecast	2019 Plan
Potential Approved Under the CE Program:				
Cumulative Units	6,496	8,805	7,936	9,496
Expected Lending Value (\$M)	943.10	1,343.18	1,180.70	1,438.10
Accumulated Coverage (\$M)	94.31	134.32	118.07	143.81
Net Worth of the Fund	355.02	348.18	356.12	357.07
Units Backed by the Fund:				
Cumulative Units	255	1,694	855	1,527
Expected Lending Value (\$M)	42.52	275.70	141.52	252.40
Accumulated Coverage (\$M)	4.25	27.57	14.15	25.24

The Fund is expected to be self-sufficient, and it is not permitted to borrow as stipulated in the Indenture of Trust. The capital contribution provides for future claim expenses. Revenues for the Fund are generated from the investment of the initial \$300 million contribution. Cash in-flows from investment returns cover operating expenses for administration, the Credit Enhancement guarantee expense and evaluation costs. The in-flows also provide funding for capacity development. Earnings beyond these expenses provide for possible future claim expenses and grow capital to maintain and expand the capacity of the Fund to carry out its core activities.

To remain self-sufficient, in 2009, the Fund completed the implementation of its initial investment strategy, which provides for a laddered portfolio invested in bonds whose maturities were spread over 10 years, 2011-2020. Laddered strategies like this are typically used when the objective is to minimize the volatility of the expected investment results and provide stable returns in most interest rate environments. When the Fund was in its planning stage in 2007, investment returns were expected to be 5% for the foreseeable future. However, the year-end yields on the long-term bond portfolio never reached the 5% target primarily as a result of the financial crisis which occurred months after the Fund was established. The yields have steadily declined from 3.55% at the end of 2010 when the Fund's portfolio became fully invested (between the inception of the Fund and 2010, the Fund held diminishing cash balances as it continued to invest more in long-term bonds), to the following yields: 3.54% at the end of 2011; 3.47% in 2010; 3.46% in 2013; 3.41% in 2014; 3.28% in 2015; 3.13% in 2016; and 3.02% in 2017.

The continued decrease in investment returns have put pressure on the Fund's cash flow and its ability to fully carry on its core activities including Capacity Development. As a result, the Fund's Trustees engaged the services of an investment advisor in reviewing and updating the Fund's Statement of Investment Policy (SIP) in 2017 to allow for a more flexible investment policy that will provide greater investment returns. As the Trustees' proposed revised SIP was not approved in 2018, but a watered-down version that permits Corporate bonds to be introduced in the laddered portfolio is in the works and supported by the current Investment Manager, the 2019 Plan considers the shift in investments from only sovereign bonds to one-third Corporate bonds, which are actively managed and thus expected to yield higher returns for the portfolio, beginning mid-year 2019. It is understood that these returns will only be achieved if a modified SIP is approved by the Funder for 2019.

Projected investment returns, as calculated on the weighted average yield of the sovereign and Corporate bond portfolio, are forecasted at 2.81% in 2018 and increasing to 3.09% in 2019. The 2018 return is certainly much lower than the 2017 return of 3.02%. This is because the Fund has been holding onto shorter term securities for much of 2018, such as Banker's Acceptances, in anticipation of the revised SIP being approved at which point this reserve will be deployed

and invested in Corporate bonds. It is expected that the Fund will invest in Corporate bonds under the 10-year laddered portfolio beginning in the last quarter of 2018, and the actively managed Corporate bond portfolio will be fully deployed in the second quarter of 2019.

The administrative expense budget for 2018 will remain within the total budgeted figure as approved by the Minister. Some cost categories are expected to exceed their original budgets while others are expected to be below.

The Fund's financial year is the calendar year. The Fund's financial statements for the 2018 Plan, which are the same as those presented in the 2018 Plan, the 2018 Forecast, and the 2019 Plan are shown on the following pages.

Table 7 – Statements of Operations

STATEMENT OF OPERATIONS \$M	2017 Actual	2018 Plan	2018 Forecast	2019 Plan
Revenue				
Recognition of Deferred Contributions related to current year operations	4.983	9.204	9.070	10.227
Total Revenue	4.983	9.204	9.070	10.227
Expenses				
Administration	3.804	5.274	4.685	5.796
Capacity Development	1.277	4.000	4.000	4.000
Credit Enhancement Guarantee	(0.098)	(0.070)	0.385	0.431
Evaluation	-	-	-	-
Total Expenses	4.983	9.204	9.070	10.227
Excess of Revenue over Expenses	-	-	-	-

Table 8 – Statements of Changes in Deferred Contribution

STATEMENT OF CHANGES IN DEFERRED CONTRIBUTION \$M	2017 Actual	2018 Plan	2018 Forecast	2019 Plan
Balance, beginning of period	349.352	347.506	355.023	356.123
Investment Income	10.654	9.879	10.170	11.170
Recognized as Revenue to match Expenses	(4.983)	(9.204)	(9.070)	(10.227)
Total Deferred Contribution End of Period	355.023	348.181	356.123	357.066

Table 9 – Statements of Financial Position

STATEMENT OF FINANCIAL POSITION \$M	2017 Actual	2018 Plan	2018 Forecast	2019 Plan
Assets				
<u>Current</u>				
Cash and cash equivalents	26.296	10.447	40.949	8.290
Accrued interest receivable	1.129	2.611	1.293	1.433
Prepays	0.038	0.038	0.037	0.037
Accounts receivable	-	-	-	-
	27.463	13.096	42.279	9.760
Long- term investments	328.819	337.892	314.781	348.797
Capital assets	0.141	0.318	0.361	0.377
Total Assets	356.423	351.306	357.421	358.934
Liabilities				
<u>Current</u>				
Accounts payable and accrued liabilities	1.174	2.791	0.615	0.747
	1.174	2.791	0.615	0.747
Capital lease obligation	0.060	0.080	0.046	0.068
Deferred lease inducement	-	0.061	0.086	0.071
Credit enhancement guarantee liability	0.166	0.193	0.551	0.982
Deferred Contribution	355.023	348.181	356.123	357.066
Total Liabilities	356.423	351.306	357.421	358.934

Operating Budget

The Operating Budget provides for administration expenses and costs for the Credit Enhancement guarantee expense, as well as any evaluations, special reports, or audits. Capacity development is shown separately.

The following table summarizes the requirements for 2019.

Table 10 – Operating Budget

OPERATING BUDGET \$	2017 Actual	2018 Plan	2018 Forecast	2019 Plan
Administration Expenses	3.804	5.274	4.685	5.796
Capacity Development Expenses	1.277	4.000	4.000	4.000
Credit Enhancement Guarantee Expense	(0.098)	(0.070)	0.385	0.431
Evaluation Costs	-	-	-	-
Total Operating Budget	4.983	9.204	9.070	10.227

Operating expenses are covered by investment income. The Statement of Operations recognizes as revenue only that portion of investment income that is required to cover the current year's expenses. The full investment income is recorded in the Statement of Changes in Deferred Contributions.

Administration Expense Budget

Administration expenses are the expenses that an organization incurs on a day-to-day basis that are not directly tied to a specific function such as, in the Fund's case, Capacity Development. Administration expenses are incurred for the basic operation of the Fund and are related to the organization as a whole as opposed to an individual program.

The Administration Expense budget provides for such expenditures as:

- professional and technical services, which include staff salaries and benefits, investment management fees, legal and audit fees, banking charges, insurance costs, consulting fees and various other fees
- transportation, including staff travel and postage and courier
- Trustee governance
- business premises
- marketing and promotion
- computer/telecommunications services
- other charges

As provided for in the Indenture of Trust, Administration Expenses must not exceed the total amount set out in the approved budget.

As noted earlier, the Fund's strategic decision to allocate a portion of its portfolio into Corporate bonds will provide enough cash flow in 2018 and 2019 to cover all of the Fund's operating expenses; as illustrated in the table below:

Table 11 – Revenue in Excess of Administration Expenses

REVENUES IN EXCESS OF ADMIN EXPENSES \$M	2017 Actual	2018 Plan	2018 Forecast	2019 Plan
Revenue				
Investment Income	10.654	9.879	10.170	11.170
Total Revenue	10.654	9.879	10.170	11.170
Administration Expenses	3.804	5.274	4.685	5.796
Revenue in Excess of Administration Expenses	6.850	4.605	5.485	5.374

The following table provides a summary of the Administration Expense budget requirements for 2019:

Table 12 – Administration Expense Budget

ADMINISTRATION EXPENSE BUDGET	2017 Actual	2018 Plan	2018 Forecast	2019 Plan
Full-time Equivalents (FTEs)	17	17	17	18
\$				
Professional and Technical Services	2,584,656	3,210,220	2,756,006	3,383,841
Travel	281,790	503,049	407,560	496,504
Trustee Governance	304,113	437,444	365,050	596,181
Business Premises	180,476	244,251	233,581	298,948
Fund Development	16,628	153,300	198,043	315,000
Computer Services & Telecommunications	161,276	195,043	175,686	176,576
Other	274,839	530,967	548,699	528,686
Total Admin Expense Budget	3,803,778	5,274,274	4,684,625	5,795,736

The Fund has been operating for ten years and is in a better position to project its expenses in order to achieve its objectives. That said, some expenses remain subject to volatility given the unique geographic location of First Nations clients and the varying pace at which they are able to interact with the Fund.

Overall planned expenditures for 2019 will be greater than those planned for 2018 by approximately \$521,000 or 9.9%. While there are no fundamental changes to the Fund's operations, the Fund does expect to see significant increases and decreases in some cost categories due to specific changes to agreements or projects taking place between 2018 and 2019. The Fund expects to engage in various regional sessions to continue development of the Fund's core activities with the addition of new Trustees. Furthermore, as the Fund increases its portfolio of Credit Enhancement Facility, there is a need to increase its administration budget. In particular, in the areas of professional and technical services and transportation, in order to promote, educate and assist First Nations and their members in applying for loans to build, buy or renovate a home.

The Fund had anticipated in the 2018 Plan that the government's decision on the First Nations Housing Strategy would result in a need to engage in many meetings with First Nations and other stakeholders. As the decision was delayed, the Fund has engaged First Nations in a series of regional sessions in 2018, intended to gather the opinions of various First Nations representatives on how the Fund can do better to serve clients under the Credit Enhancement Facility and Capacity Development programs. The outcome will be a report to government as part of the On-Reserve Housing Reform discussions. The Fund expects to build on the direction coming out of the 2018 sessions and hold regional education sessions in 2019. It is expected that the Fund will incur increased costs to hold these sessions compared to the 2018 forecast.

Capacity Development Budget

The Capacity Development Program provides support for First Nations communities to assist them in qualifying under the Credit Enhancement Facility. It also helps to strengthen those who do qualify to ensure that they have the necessary foundation to implement and sustain market-based housing.

The Funding Agreement sets out the amount of resources available for Capacity Development and this amount is to be specified in the annual Business Plan. The total amount is not to exceed 50% of the immediately preceding year's net income (defined as investment and other income less any expenses incurred during the year). Where the Fund expends less than the total maximum amount available in a given year, the Fund can carry forward unexpended amounts to future years, subject to the Minister's approval of the budget in each subsequent Business Plan. Cumulative carried-forward amounts will be in addition to the maximum total amount otherwise permitted.

The current formula for calculating the available amount of Capacity Development funding has resulted in an insufficient and decreasing amount of funds being available, which is exacerbated by the decreasing revenues from investments while administration expenses have been increasing. The Fund will not have sufficient funding for Capacity Development in 2020 if it continues to spend \$4,000,000 per year as illustrated in the following table:

Table 13 – Capacity Development Budget

CD BUDGET \$	2017 Actual	2018 Plan	2018 Forecast	2019 Plan
Cumulative Unexpended Amount, Beginning of Year	4,402,530	4,137,948	5,903,864	4,739,328
Add: Current Year's Allocation *	2,778,898	337,745	2,835,465	550,196
sub-total	7,181,428	4,475,693	8,739,328	5,289,524
Less: Expenditures during Current Year	1,277,564	4,000,000	4,000,000	4,000,000
Cumulative Unexpended Amount, For Next Year	5,903,864	475,693	4,739,328	1,289,524

* One-half of planned net income for prior year.

To deal with this issue, the Fund has been conservative in its Capacity Development spending to date while examining alternatives in 2017 and 2018 to ensure a predictable and stable stream of funding is available for capacity building going forward.

It is understood that any alternative capacity development funding mechanism may not be implemented without the express approval communicated to the Trustees through CMHC. The discussion is provided herein for information as an integral part of the business planning process for 2019. It is contemplated that any approval of a change to capacity development that is communicated in 2019 by the Minister would require further work in 2019 to implement for 2020.

Credit Enhancement Guarantee Expense

The Fund continued its efforts to improve its methodology to estimate the potential liability under the Credit Enhancement Facility in 2017. The Fund's formula-driven methodology, which was first developed in 2013 in consultation with a Chartered Business Valuator, was further enhanced in subsequent years and underwent a fulsome review in preparing the 2017 audited financial statements.

As the Fund cannot predict the financial strength of the First Nations or the number of loans that will be in default at the end of 2019 or 2018, the 2019 Business Plan assumes that the financial strength of First Nations and rate of default observed in 2017 will still apply in 2018 and 2019. Thus, the Fund's budgeted year-end liabilities for 2018 and 2019 are based on the projected value of loans to be backed by the Fund at the end of each year and the allowance rate used in 2017 under the updated methodology. As the total value of the loans outstanding at year-end are projected to increase in 2018 and 2019, the 2019 year-end liability will total

\$982,425. This is an increase of \$431,582 from the 2018 forecasted year-end liability, which will be reflected as the credit enhancement guarantee expense in the 2019 Statement of Operations.

The methodology is reviewed with a Chartered Business Valuator on an annual basis to ensure that it reflects the current economic environment and any data that is relevant, including loans in arrears. That data will be used in the refinement of the methodology for 2018.

Capital Budget

The Capital Budget for furniture, equipment and business premises provides for the acquisition and replacement of assets and the fit-up of office space. Although actual costs of leasehold improvements are expected to be much greater than planned, the Fund negotiated with the landlord to subsidize some of the costs incurred. As a result, the Fund expects to be in line with the budgeted amounts in 2018 related to the planned expansion of its office space in the latter half of the year. As all the construction work will be completed in 2018, there will be no costs associated with leasehold improvements in 2019. The Fund does expect to incur some additional costs in furniture and equipment in early 2019 and to renew its lease for the majority of laptops, which will be accounted for as a capital lease, in the third quarter of 2019.

Table 14 – Capital Budget

CAPITAL BUDGET \$	2017 Actual	2018 Plan	2018 Forecast	2019 Plan
Furniture and Equipment	3,411	95,000	52,851	109,060
Leasehold Improvements	-	95,000	137,116	-
Total Capital Budget	3,411	190,000	189,967	109,060