



First Nations Market Housing Fund

Business Plan Summary 2018



The Fund's 2018 Plan at a Glance

Environmental Scan

In taking a leadership role in working to build capacity for home ownership within First Nations communities, the Fund is seeking new ways to shape capacity development opportunities to ensure that the expertise and capacities built through the delivery of our First Nation organization continues to contribute to its success. The process of achieving market housing is lengthy and requires significant time, focus and consistency to introduce, prepare for, and implement each phase. There are challenges with First Nation members qualifying for home loans in Fund-backed communities resulting in a lag in unlocking the credit the Fund has already approved for 6,300 home loans (as at June 30, 2017). Helping potential borrowers qualify for home loans within the available credit and sustain such homes will continue to be a key focus in 2018.

Priorities and Initiatives

The 2018 Business Plan Summary provides an overview of the work of the Fund's Board and staff 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 Nation 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.”***

2018 Planned Operational Results

Projected Activity	Actuals to end of 2016	2017 Plan	2017 Actuals to June 30	2018 Plan
Applications				
Received	223	20	7	20
Cumulative	223	246	230	266
Approved First Nations				
CE & CD*	97	11	6	11
CD Only*	74	9	1	9
CE after CD	3	11	2	13
New Qualified First Nations for Credit Enhancement				
# First Nations	100	22	8	24
Cumulative	100	128	108	152
Potential # of Units Approved Under the CE Program				
Potential Units**	6,045	1,320	254	1,440
Cumulative	6,045	7,365	6,299	8,805
Units Approved				
# New Units	199	495	17	821
Cumulative	199	873	216	1,694
Lenders				
# Qualified	16	16	16	16

*CE refers to Credit Enhancement and CD refers to Capacity Development.

** The average number of potential units that a CE-qualified First Nation anticipates being backed under the CE Program is 60.

Mandate

The First Nations Market Housing Fund (“the Fund”) is a unique tool developed with input from First Nations communities and organizations across Canada and 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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www.fnmhf.ca

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 2018 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 recognition that the On-reserve Housing Reform process was still underway, the Fund sought and received the Minister’s approval to develop a one-year plan for 2018. It is acknowledged that the Government of Canada’s direction, as a result of the ongoing consultations, is expected in early 2018 and same may alter the Fund’s directions. The Fund recognizes that it will need to be nimble and responsive to the Government of Canada’s directions and has prepared a plan limited to planned activities and the budget for 2018, 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 2019-2023 period, as the Minister will be in a position to provide the Government of Canada’s direction resulting from 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.

2018 is a momentous time for the Fund and will mark the Fund’s 10th year anniversary.



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Executive Summary

2018 marks the Fund's 10th year anniversary. Over this first decade, much focus has been on building the foundation to expand an emerging market-based housing system in First Nations communities. The Fund has served as the first experience for many First Nations communities in market housing 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. *Close to forty percent (40%) of First Nations have now chosen to pursue the option of Fund-backed market-housing* – with many making it a central component of their community development.

In the upcoming planning period, 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 National Housing Strategy and the On-reserve Housing Reform.

The Fund's Credit Enhancement Facility provides backing for on-reserve housing loans to build, buy or renovate individual homes and multi-suite rental units. As at June 30, 2017, approximately *\$925 million in credit has been approved* to borrow against – enough to *finance close to 6,300 home loans* in 108 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 the credit already approved. 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 within Fund partnering communities.

Capacity Development services offered by the Fund support First Nations governments and citizens to make use of the Credit Enhancement Facility on a sustained basis. Capacity Development efforts are funded by net income of the Fund. During 2017, a revised method of financing Capacity Development from the Fund's resources is being explored to ensure this vital element so critical to the success of the First Nations communities continues to be available at a reasonable level. Also, the Fund is undertaking 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.

In addition to the 108 First Nations approved to access the Credit Enhancement and Capacity Development Program, another 75 First Nations have been approved to use the Fund's Capacity Development Program (as at June 30, 2017). A concerted effort will be extended during the planning period to support those approved for capacity development progress towards qualifying for Credit Enhancement.

The Fund works carefully within a complex and competitive environment to establish the engagement approach, application processes, supportive programs and relationships needed to build the confidence of First Nations governments, individual community members and lenders. 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 – *building one house and home at a time.*

The table below outlines the revenue and expense budgets of the Fund for the year 2018.

Statement of Operations	\$M	2016 Actual	2017 Plan	2017 Actuals to June 30	2018 Plan
Revenue					
Investment Income		11.056	10.387	5.350	9.879
Total Revenue		11.056	10.387	5.350	9.879
Expenses					
Administration		3.787	4.905	1.714	5.274
Capacity Development		1.482	3.800	0.421	4.000
Credit Enhancement Guarantee		0.229	0.184	-	(0.070)
Evaluation		-	-	-	-
Total Expenses		5.498	8.889	2.135	9.204
Excess of Revenue over Expenses		5.558	1.498	3.215	0.675

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 the 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 Nation 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.

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 is appointed the Manager of the Fund. A Management Agreement between CMHC and the Fund describes the services CMHC has agreed to provide with respect to the management of the Fund. This Agreement expired March 31, 2015. While no extension has been entered into, CMHC continues to provide select services to the Fund pursuant to the terms of the Management Agreement, notwithstanding its expiry.

Board of Trustees

John Beaucage Chair of the Board <i>(member of Wasauksing First Nation)</i>		
Ruth Williams Vice-Chair <i>(member of Shuswap First Nation)</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	
George Jenkins Manager, Fund 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 Nation 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.

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 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.

Core Services

Credit Enhancement Facility

The Fund provides an alternative form of security for housing loans made on reserve and settlement lands where appropriate, through its Credit Enhancement Facility. The backing provided by the Fund, in addition to First Nation guarantees, attracts lenders by offsetting some security issues while preserving the communal nature of the land. This enables First Nations to achieve favourable financing terms and conditions: interest rate discounts; loan features; risk-sharing agreements; reduced loan program access fees; and favourable administrative arrangements.

Capacity Development Program

The Fund's Capacity Development Program focuses on developing and/or expanding market-based housing capacity through the provision of training and advice as well as codes, policies, by-laws, laws and systems and practice at the Leadership, administrative and membership level. Focusing on housing, lands and finance, examples include:

- Housing Policy
- Housing Committee Terms of Reference
- Housing Inventory Management
- Arrears Management
- Governance Workshops
- Law and Policy Development
- Financial Laws and Policies
- Land Management Systems

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

Strategic Analysis & Risk Management

Strategic Planning

In April 2017, the Fund convened its annual strategic planning session. The session included dialogues with representatives from six partnering First Nations' leadership and a partnering lender, helping the Trustees to take stock of the current environment and to discuss its implications for the Fund's 2018 Business Plan.

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 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:
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.
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.
An increase in the number of communities paying for housing that were not before.
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.

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 of 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. More recently, KPMG was retained to evaluate the Fund's Risk Management Policy and risk matrix 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. Best practices to mitigate risks have been developed and are in the process of being implemented. During 2017 and 2018, the Trustees are further refining their approach to risk management, 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 2017, 230 First Nations have chosen to pursue the option of Fund-backed market-housing. There is approximately \$925 million in credit that has been approved to borrow against – enough to finance close to 6,300 home loans in 108 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 the credit already approved. This includes continued concerted efforts to help develop and implement a loan program in these approved 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.

Comments made during the Fund's strategic planning session, confirm the focus needed at the individual level to understand obligations of being a home owner:

People don't understand what a mortgage is..

We need to get more people to understand the program. We need to get them while they are young...

Get into the schools, alongside of the banks to promote home ownership as a component of financial literacy..

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; others continue to evolve as the Fund gains 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. Working with our partnering communities, the Fund has developed more than 500 products to serve First Nations and their unique needs. This is one example of how our First Nation organization is able to take 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.

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. 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.

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'. For this reason, the Fund is exploring options during 2017 – while continuing to be self-sustaining and not seeking additional federal dollars – and will be seeking the Minister's approval to alter the manner in which capacity development funding is established for 2019 and beyond.

The Fund is undertaking 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.

Comments from the strategic planning session:

“Governance and decision-making systems have to be in place.”

“Each First Nation is unique.”

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 set; others continue to evolve as the Fund gains experience.

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

Objectives	Activities
<p>Support First Nation capacity development efforts so that they can access and sustain the Credit Enhancement Facility.</p> <p>Support First Nation capacity development. Specifically, support capacity development efforts for:</p> <ul style="list-style-type: none"> ○ Leadership ○ Administration ○ Citizens <p>Support First Nation capacity development to address non-performing loans.</p>	<p>Develop and providing marketing and communications tools to increase awareness and participation.</p> <p>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.</p> <p>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 safe 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. Should a substantive change be contemplated to the Statement of Investment Policy, the Trustees will seek the approval of the Funder in accordance with 8.2 of the Funding Agreement and the approval of the Minister of Finance before implementing a new policy and strategy.

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 2017, the functions provided by CMHC relate to Investment Management.

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 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, 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 compensations 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 \$162,500 based on the actual results of 216 units backed for \$35.1 million to June 30, 2017, and the Fund’s credit enhancement of 10 percent, is projected as follows:

Table 6 – Accumulated Credit Enhancement Coverage

ACCUMULATED CREDIT ENHANCEMENT COVERAGE	2016 Actual	2017 Plan	2017 Actuals to June 30	2018 Plan
Potential Approved Under the CE Program:				
Cumulative Units	6,045	7,365	6,299	8,805
Expected Lending Value (\$M)	894.68	1,109.18	923.89	1,343.18
Accumulated Coverage (\$M)	89.47	110.92	92.39	134.32
Net Worth of the Fund	349.35	347.51	352.57	348.18
Units Backed by the Fund:				
Cumulative Units	199	873	216	1,694
Expected Lending Value (\$M)	32.16	142.28	35.10	275.70
Accumulated Coverage (\$M)	3.22	14.23	3.51	27.57

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.

Revenues generated in 2017 and expected to be generated in 2018 are significantly lower than expected at the outset of the Fund which is creating a cashflow challenge. When the Fund was in its planning stage in 2007, investment returns were expected to be 5% for the foreseeable future. Investment returns, as provided by the Fund's Investment Manager, are forecasted at 3.01% in 2017 and 2.88% in 2018. These returns represent a decrease compared to the returns forecasted last year for 2017 and 2018 of 3.04% and 2.92% respectively. 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 to the following yields: 3.54% at the end of 2011; 3.47% in 2012; 3.46% in 2013; 3.41% in 2014; 3.28% in 2015 and 3.13% in 2016. Future yields are expected to remain relatively low as part of a long-term trend that can largely be explained by lower inflation and economic growth expectations.

This forecast takes into consideration current investments and projected rates of return. These investment returns will provide sufficient cashflow in 2017 and 2018 to cover all the Fund's operating expenses, which includes administrative, Capacity Development, Credit Enhancement guarantee and evaluation expenses. However, the Trustees have identified that beginning in 2019 a combination of a decrease in investment returns and an increase in administration expenses will result in an insufficient amount available for capacity development (the 2017 Plan contemplated that this lack of funds would arise beginning in 2018, however the actual results, which reflect a concerted effort on the Fund's part to reduce capacity development expenditures in 2016 and 2017, are showing that now it is not expected to start until 2019). This situation is expected to worsen on an annual basis going forward. The Fund proposed a solution to this issue in its 2017 Business Plan, which will be discussed later in this plan under the heading Operating Budget, sub-heading Capacity Development Budget.

The Fund's financial year is the calendar year. The Fund's financial statements for the 2017 Plan, which are the same as those presented in the 2017 Plan, the 2017 actuals to June 30, 2017 and the 2018 Plan are shown on the following pages.

Table 7 – Statements of Operations

STATEMENT OF OPERATIONS \$M	2016 Actual	2017 Plan	2017 Actuals to June 30	2018 Plan
Revenue				
Recognition of Deferred Contributions related to current year operations	5.498	8.889	2.135	9.204
Total Revenue	5.498	8.889	2.135	9.204
Expenses				
Administration	3.787	4.905	1.714	5.274
Capacity Development	1.482	3.800	0.421	4.000
Credit Enhancement Guarantee	0.229	0.184	-	(0.070)
Evaluation	-	-	-	-
Total Expenses	5.498	8.889	2.135	9.204
Excess of Revenue over Expenses	-	-	-	-

Table 8 – Statements of Changes in Deferred Contribution

STATEMENT OF CHANGES IN DEFERRED CONTRIBUTION \$M	2016 Actual	2017 Plan	2017 Actuals to June 30	2018 Plan
Balance, beginning of period	343.794	346.008	349.352	347.506
Investment Income	11.056	10.387	5.350	9.879
Recognized as Revenue to match Expenses	(5.498)	(8.889)	(2.135)	(9.204)
Total Deferred Contribution End of Period	349.352	347.506	352.567	348.181

Table 9 – Statements of Financial Position

STATEMENT OF FINANCIAL POSITION \$M	2016 Actual	2017 Plan	2017 Actuals to June 30	2018 Plan
Assets				
<u>Current</u>				
Cash and cash equivalents	8.854	10.431	16.692	10.447
Accrued interest receivable	1.234	2.608	1.084	2.611
Prepays	0.036	0.038	0.020	0.038
Accounts receivable	0.002	-	-	-
	10.126	13.077	17.796	13.096
Long- term investments	340.658	337.281	335.890	337.892
Capital assets	0.181	0.071	0.159	0.318
Total Assets	350.965	350.429	353.845	351.306
Liabilities				
<u>Current</u>				
Accounts payable and accrued liabilities	1.266	2.635	0.942	2.791
	1.266	2.635	0.942	2.791
Capital lease obligation	0.084	0.000	0.072	0.080
Deferred lease inducement	-	-	-	0.061
Credit enhancement guarantee liability	0.264	0.288	0.264	0.193
Deferred Contribution	349.352	347.506	352.567	348.181
Total Liabilities	350.965	350.429	353.845	351.306

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 2018.

Table 10 – Operating Budget

OPERATING BUDGET \$	2016 Actual	2017 Plan	2017 Actuals to June 30	2018 Plan
Administration Expenses	3.787	4.905	1.714	5.274
Capacity Development Expenses	1.482	3.800	0.421	4.000
Credit Enhancement Guarantee Expense	0.229	0.184	0.000	(0.070)
Evaluation Costs	-	-	-	-
Total Operating Budget	5.498	8.889	2.135	9.204

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.

The Fund's revenue from investment returns will provide sufficient cashflow in 2017 and 2018 to cover all the Fund's operating expenses, however beginning in 2019, operating shortfalls are expected to occur, and are expected to increase on an annual basis going forward.

Table 11 – Revenue in Excess of Administration Expenses

REVENUES IN EXCESS OF ADMIN EXPENSES \$M	2016 Actual	2017 Plan	2017 Actuals to June 30	2018 Plan
Revenue				
Investment Income	11.056	10.387	5.350	9.879
Total Revenue	11.056	10.387	5.350	9.879
Administration Expenses	3.787	4.905	1.714	5.274
Revenue in Excess of Administration Expenses	7.269	5.482	3.636	4.605

The following table provides a summary of the Administration Expense budget requirements for 2018:

Table 12 – Administration Expense Budget

ADMINISTRATION EXPENSE BUDGET \$	2016 Actual	2017 Plan	2017 Actuals to June 30	2018 Plan
Full-time Equivalents (FTEs)	11	11	16	17
\$				
Professional & technical services	2,544,543	2,840,313	1,128,136	3,210,220
Travel	251,257	582,112	121,264	503,049
Trustee governance	404,413	430,293	118,005	437,444
Business premises	177,347	240,541	90,917	244,251
Fund development *	-	153,000	16,628	153,300
Computer & telecommunications	170,716	159,787	84,967	195,043
Other	239,263	498,822	153,459	530,967
Total Admin Expense Budget	3,787,539	4,904,868	1,713,376	5,274,274

* Beginning in 2017, the budget for Fund Development has been removed from Trustee Governance and is shown separately.

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

Overall planned expenditures for 2018 will be greater than those planned for 2017 by approximately \$370,000 or 7.5%, mainly to position the Fund to more effectively execute its Credit Enhancement and Capacity Development programs in the future. To the end of June 2017, the Fund had approved approximately \$923.9 million in credit for housing loan guarantees (HLGs) to be supported by the 108 Credit Enhancement-qualified First Nations, representing an estimated 6,300 homes. To the end of June 2017, mortgages representing 216 units had been taken out. To close the gap between this figure and the estimated 6,300 units contemplated in the approved HLGs, the Fund needs to increase its administration budget, especially 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 mortgage loans.

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.

As a result of a combination of decreasing revenues from investments and increasing administration expenses, beginning in 2019, the Fund is expected to experience insufficient amounts available for capacity development going forward, which will worsen on an annual basis in the future. This situation is illustrated in the following table when at the end of 2018, the cumulative unexpended amount to be carried forward into 2019 for Capacity Development expenditures is virtually nil.

Table 13 – Capacity Development Budget

CD BUDGET \$	2016 Actual	2017 Plan **	2017 Actuals to June 30	2018 Plan
Planned Cumulative Unexpended Amount, Beginning of Year	5,884,702	7,181,428	7,181,428	4,137,948
Add: Planned Funding Available from Current Year *	2,778,898	756,520	756,520	337,745
sub-total	8,663,600	7,937,948	7,937,948	4,475,693
Less: Planned Expenditures during Current Year	1,482,172	3,800,000	421,242	4,000,000
Planned Cumulative Unexpended Amount, For Next Year	7,181,428	4,137,948	7,516,706	475,693

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

** Original beginning balance in the 2017 Plan was \$2,217,236, which was the figure per the 2016 Updated Plan. Revised beginning balance uses the actual balance at the end of 2016.

In its 2017 Plan, the Fund stated that it would examine alternatives to ensure a predictable and stable stream of funding for capacity building going forward. It is understood that any alternative capacity development funding mechanism may not be implemented without the express approval of the CMHC Minister. The discussion is provided herein for information as an integral part of the business planning process for 2018. It is contemplated that any approval of a change to capacity development that is communicated in 2018 by the Minister would require further work in 2018 to implement for 2019.

Credit Enhancement Guarantee Expense

Prior to 2013, the number of guarantees to third party lenders under the Credit Enhancement Facility had been immaterial (seven guarantees totaling \$67,649 in potential amounts payable by the Fund). Therefore, no amount had been accrued as a liability in the Fund's financial statements regarding these guarantees.

By the end of 2013, 55 guarantees were in place totaling a potential \$860,140 owing by the Fund. In the preparation of the 2013 financial statements, the Trustees engaged a Chartered Business Valuator to determine the appropriate methodology for valuing its backstop under the Credit Enhancement Facility. The Fund's auditors agreed with the proposed methodology and except for a minor adjustment, the same methodology was used in preparing the 2014 and 2015 audited financial statements. A further enhancement was made in preparing the 2016 financial statements. The 2018 Plan includes an allowance using this methodology for the Fund's backstop under the Credit Enhancement Facility. It is based on the minimum that must be expensed based upon the loan value expected to be in place at year-end. The level of default will be a snapshot at year-end and thus the Plan figure may be exceeded or not met. At the end of 2015, of the 130 loans outstanding, 11 were in arrears (the first year that had loans in arrears at year-end); at the end of 2016, of the 166 loans outstanding, 6 were in arrears. As the Fund cannot predict the number of loans that will be outstanding at the end of 2017, for purposes of the 2018 Business Plan, it has budgeted a year-end liability equal to the minimum default factor of 0.70% of the total credit enhancement guaranteed by the Fund as per the methodology. As this year-end liability is less than the liability at the end of 2016 by \$71,000 (\$193,000 as compared to \$264,000), the 2018 credit enhancement guarantee expense in the Statement of Operations is a negative number.

The methodology is reviewed with the 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 2017.

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. The relatively significant investment in 2018 is due to the planned expansion of the Fund's office space.

Table 14 – Capital Budget

CAPITAL BUDGET \$	2016 Actual	2017 Plan	2017 Actuals to June 30	2018 Plan
Furniture and Equipment	150,056	30,600	-	95,000
Leasehold Improvements	-	1,020	-	95,000
Total Capital Budget	150,056	31,620	-	190,000