HOUSING PROGRAMS ENHANCEMENTS

Kahnawà:ke Housing Authority

- Recommendations -

TEAM WORKING PAPERS
Version 4.1

The Zarex Business Centre
April 25, 2013

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INTRODUCTION

The Kahnawà:ke Housing Authority is part of the Social Development Unit (SDU) within the Client Based Services Division of the Mohawk Council of Kahnawà:ke (MCK). The Kahnawà:ke Housing Authority (KHA) is responsible for providing housing services to community members by ensuring access to housing programs.

The Kahnawà:ke Housing Authority's programs currently include a Revolving Loan Fund (RLF) for loans for new home construction, guarantees for mortgages with Caisse Populaire and the Bank of Montreal through the On-Reserve Loan Guarantee Program (ORLP), loans to repair existing houses, home construction management, inspections for compliance to the building code and temporary housing through rentals or targeted programs.

As the principal housing service provider to the community, the KHA must continue to expand its programs and services in order to best serve members in today's housing marketplace.

In its Housing Program Financial Review report dated May 16,2012, BDO Canada LLP reported that the Mohawk Council of Kahnawake (MCK) RLF mortgage receivable was $15.9 million, 372 active revolving loan mortgages were held, of which 10% were in arrears, and 5.5 million guaranteed in the ORLP offered through the Caisse Populaire and Bank of Montreal.

BDO Canada LLP further reported (Housing Program Financial Review - May 16, 2012 - Page 16 Section 7.3)

> *"As of March 31, 2011, that mortgage receivables RLF are 15.9M and Housing Initiatives Receivable (HRLP) is $447K. Between 2009 and 2011the mortgage receivable (RLF) decreased by 11.7% (from 18M to 15.9M) due to the decrease of RLF loans granted"*

On average, in the past five years (2008-2012), KHA has made one (1) new housing loan per year. Three of these loans were in 2008.

The SDU has commissioned three Kahnawake housing studies in the past to review programs and make recommendations to enhance existing programs or establish new programs. Those three studies were:

- Tewatohni’saktha Consulting (2007)
- Turtle Island Consulting (2010)
- BDO Canada LLP (2012)

We have closely reviewed the recommendations made in those three studies. In this report we make a business case for each recommendation as warranted and present additional suggestions for enhancements to KHA programs and services.

Key at this stage is to get input from KHA, the financial subcommittee of the SDU and from the SDU itself. With guidance from the SDU, the community will also be asked by means of a survey to provide valuable input into the recommendations.

This information will be compiled and presented to the SDU for its final recommendations, which in turn will be presented to the Chiefs for final approval and implementation of the recommendations.

The anticipated deliverables for this part of the process are:

- Validating home financing options for community members as recommended by BDO and SDU (Social Development Unit) Housing;
- Identification of demand per segment;

Upon completion of the above process the next step will be to put in place an Operational Plan which addresses:

- Sustainability of Revolving Loan Program;
- Benchmarks for success;
- Requirements for subsidy programs and,
- Partnerships

Policy updates will be required including detailed multi-year implementation plans of selected programs and services.

Overview of Potential Housing Program Enhancements

Section	Housing Program Components	Program Existing Today	Potential Enhancement Recommendations
One	Interest Type	Simple Loan	Mortgage
Two	Maximum Loan Amount	$75,0000	$150,000
Three	Down Payment	10%	5%
Four	Amortization Period	25-29 years	5 Year Increments - 30 Year Maximum Amortization
Five	Repayment Options: Payment Frequency	Monthly	Weekly, Biweekly, Monthly
Six	Interest Rate	6%	Based on Prime Rate Review on Prime Movement Requires a Capped Rate
Seven	Loan Type(s)	Fixed	Open, Fixed, Hybrid Variable, Convertible
Eight	Use of Loan Capital	New Home Construction, Repair	Expansion, Renovations Maintenance/Repair Loans
Nine	On Line Banking (Payment)	Done	Enable
Ten	Maximum Number of Loans per Year	-	15 +/- (What the Budget Allows)
Eleven	Services - Infrastructure, Landscaping, Water, etc	Partial	Cost to Home Owner Establish Policies
Twelve	Other Loan Providers: CPK, BMO- (MCK) Guarantors	-	2% Guarantor Fee added to Loan (One Time)
Thirteen	Plan Review, Building Inspections Fee For Other Loan Providers CPK, BMO	$700.00	Increase
Fourteen	Plan Review, Building Inspections Fee For Private Home Owners	-	Fee For Service (Optional by Home Owner)
Fifteen	Housing Repair Loan Program.	$15,000 Max Term Five Years	Increase to$25,000 $10,000 or High Risk Require - Land Transfer Interest Rates Determination

	Housing Program Components	Program Existing Today	Potential Enhancement Recommendations
Sixteen	Elder/Disabled Home Repair Loan Program	$15,000 Max Term: 5 Years	Increase to$25,000 $10,000 or High Risk Require - Land Transfer Less of an Interest Rate Determination
Seventeen	Estate & Divorce Loan Re-write Policy	-	Guidelines
Additional Pending Programs			
Eighteen	Rent to Own Program(s)		Pilot 4 Units Establish Options Eligibility, Policies
Nineteen	Social Housing		CMHC Rental Regimes (CM) Disabled Tenants
Twenty	Housing For the Elderly		KSCS (Kahnawake Shakotiia'takehnhas Community Services)
Twenty One	Rental Units		Pilot CMHC
Going Forward			
Twenty Two	Community Consultation		Guidance Required
Twenty Three	Implementation Period		Six Month Lead
Twenty Four	Timelines		-
Twenty Five	Other		-

Section One - Interest Type

At present, the Kahnawake Housing Authority (KHA) charges "simple" interest on loans for the construction of a new home on the Nation.

Other financial institutions which also service the Kahnawake marketplace, such as the Bank of Montreal and Caisse Populaire Kahnawake, utilize a "mortgage" loan as an instrument for lending towards the construction of a new home on the Nation.

These simple interest loans are easy to calculate and comprehend since the interest is calculated with every payment. Therefore, a loan at 6% per year with monthly payments and calculations just requires using a rate of 0.5% per month (6%/12 = 0.5%).

Mortgage interest rates are more complex. With the exception of variable rate mortgages, all mortgages are compounded semi-annually, by law. Therefore, if you are quoted a rate of 6% per year on a mortgage, the mortgage will actually have an effective annual rate of 6.09%, based on 3% semi-annually. However, you make your interest payments monthly, so your mortgage lender needs to use a monthly rate based on an annual rate that is less than 6%. Why? Because this rate will be compounded monthly. The annual equivalent of this rate is slightly less than 6%, at 5.926% (0.493862 x 12 = 5.926%). In other words, 5.926% compounded monthly is 6.09% annually.

It is recommended that KHA adopt mortgage interest rate provisions for its new home construction loans. The rationale for KHA using mortgage interest calculations is two-fold. Firstly, it enables potential clients to compare various loan products in the marketplace, "apples to apples", without the need to calculate the relative costs and merits of simple loans versus mortgage calculations. Secondly, the cost to the borrower may be significantly lower. Listed below (Figure 1) is a comparison of the cost of repayment of a $75,000 loan using "Simple" interest versus a "Mortgage" calculation.

Figure 1.0 - Loan Types	Simple Loan A	Mortgage Loan B	KHA Existing Simple Loan
Capital Borrowed	$75,000	$75,000	$75,000
Interest Rate per year	(APR) 6%	6%	6%
Amortization Period (Years)	25	25	**29.94**
Monthly Payments	$483.23	$479.85	$450.00
Yearly Payments	$5,798.73	$5,758.20	$5,400
Total Interest Paid	$69,967.82	$68,958.47	$86,660.50
Principal Re-Paid	$75,000.00	$75,000.00	$75,000.00
Total Obligation Paid	$144,967.82	$143,958.47	$161,660.50
Difference	-	Less $	More $

Of note is the KHA loan calculation based on monthly payments of $450 a month which requires an amortization period of 29 years to pay off the loan. For mortgage definitions and detailed explanations of various terms please see the exhibits.

Section Two - Maximum Loan Amount

Housing building costs have increased continually over the last decade (BDO Housing Financial housing review - Page 12- New House Price Index 1981- 2012).

The Kahnawake Housing Authority policy is that a maximum loan of $75,000 is available for new home construction plus a minimum client equity contribution of $7,500, which allows for a total house cost of $82,500.

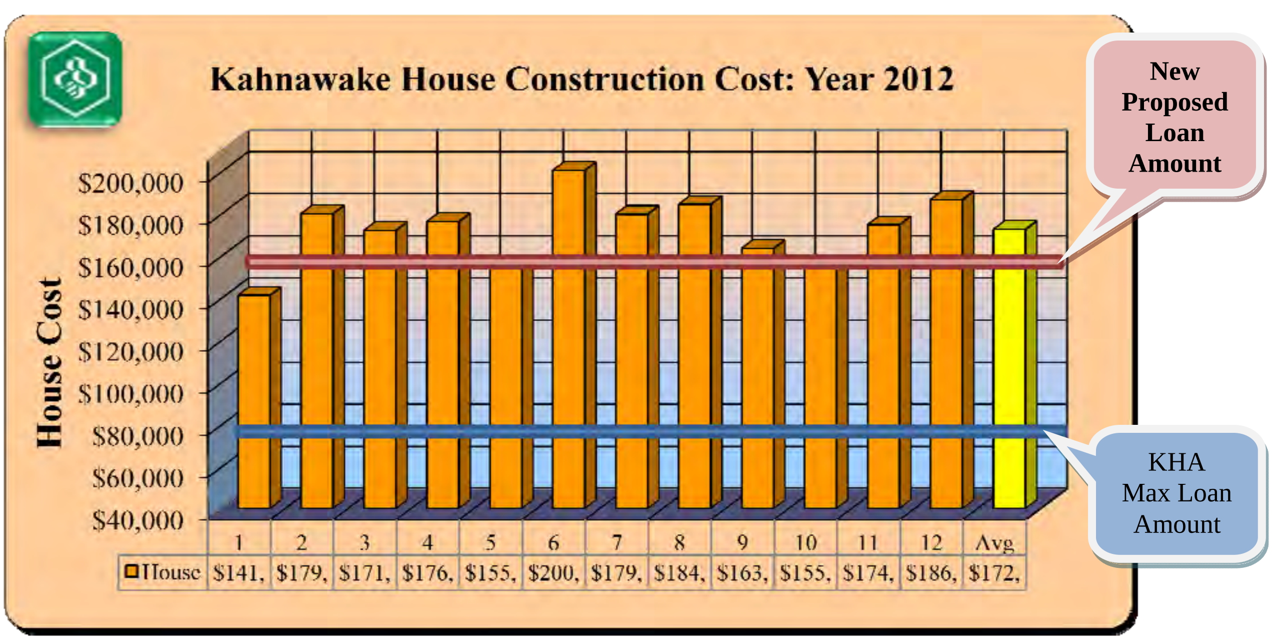
The Tewatohnhi'saktha Consulting group (November 2007) and BDO project that a 1,200 square foot home on Kahnawake would cost $133,004 to build, before infrastructure costs.

Since the maximum loan from KHA Revolving Loan Fund is $75,000, the member would require a $58,004 down payment (before additional costs of fees, infrastructure, insurance, legals, furnishings, etc.). This sizeable down payment, being equal to 44% of the building cost, may be prohibitive for a vast majority of members.

CMHC projected that in 2012 the average home construction cost in Canada is $144,072.00 for a 1,743 square feet home. (see exhibits for details)

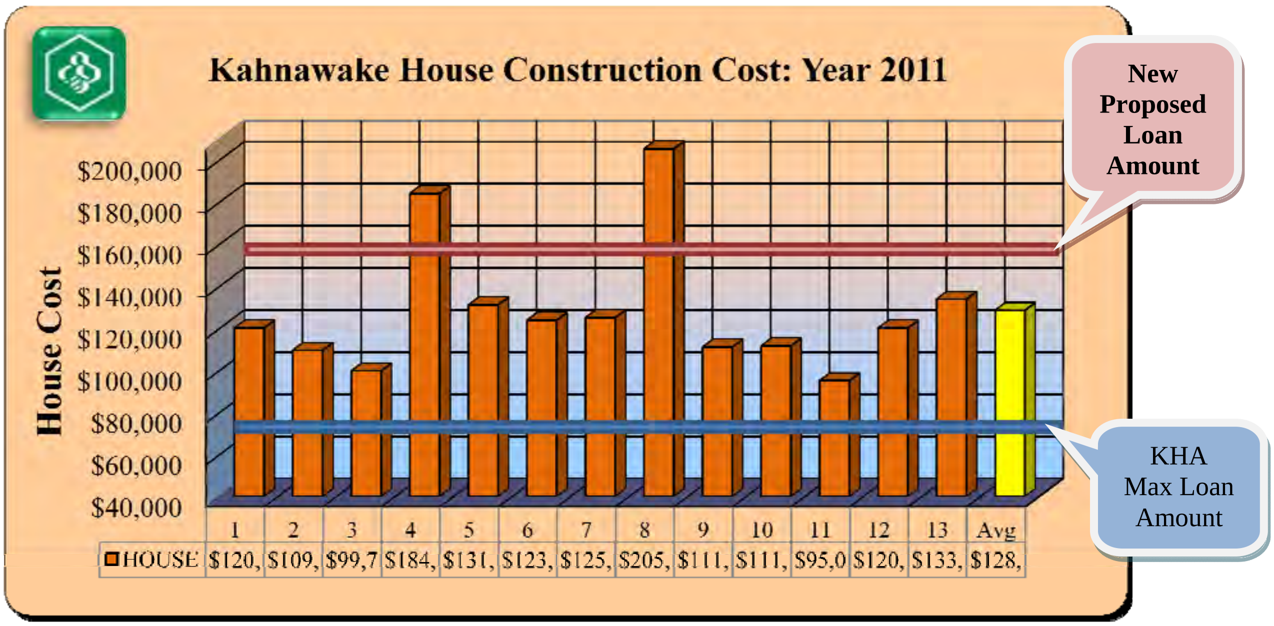
In 2012, based on Housing data from Caisse Populaire Kahnawake and the Bank of Montreal, the average cost of a home constructed on Kahnawake was $172,269 and the average mortgage amount was $157,081. The average equity contribution was therefore $15,188 or 11.3% of the total construction cost.

Figure 1.0 - Cost of 12 Different Homes Constructed On Kahnawake in 2012



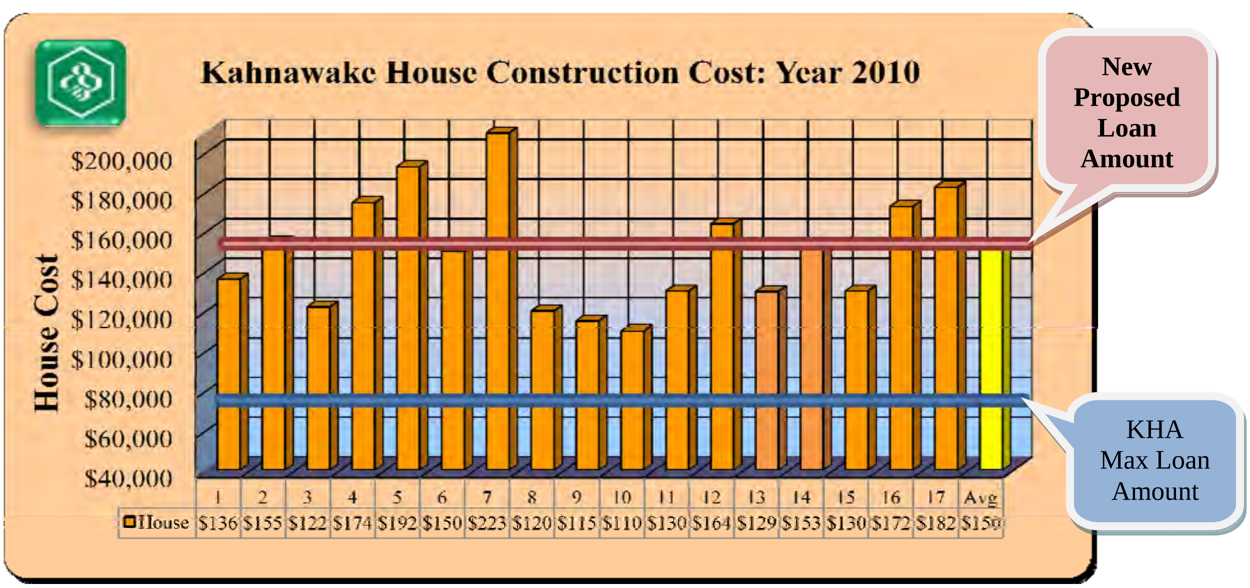
In 2011, based on Housing data from Caisse Populaire Kahnawake and the Bank of Montreal, the average cost of a home constructed on Kahnawake was $128,427 and the average mortgage amount was $116,352 The average equity contribution was therefore $12,074 or 9.4% of the total construction cost.

Figure 2.0 - Cost of 13 Homes Constructed On Kahnawake in 2011



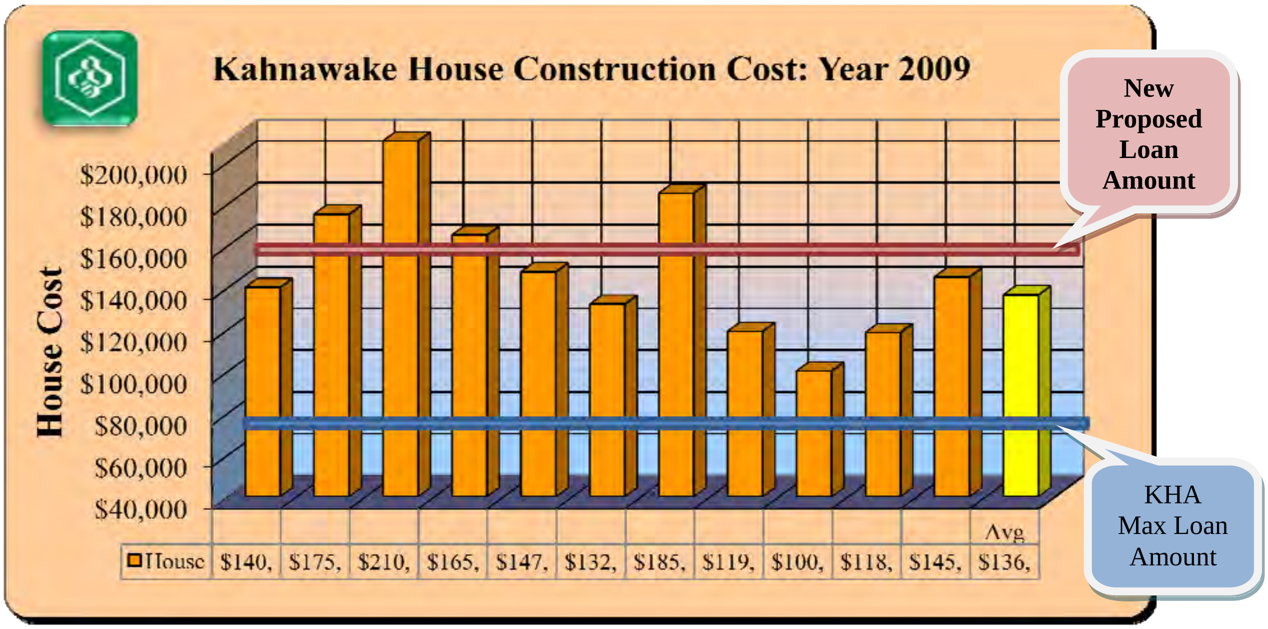
In 2010, based on Housing data from Caisse Populaire Kahnawake and the Bank of Montreal, the average cost of a home constructed on Kahnawake was $150,651 and the average mortgage amount was $139,147. The average equity contribution was therefore $11,504 or 7.6% of the total construction cost.

Figure 3.0 - Cost of 17 Homes Constructed On Kahnawake in 2010



In 2009, based on Housing data from Caisse Populaire Kahnawake and the Bank of Montreal, the average cost of a home constructed on Kahnawake was $148,802 and the average mortgage amount was $136,013 The average equity contribution was therefore $12,789 or 11.6% of the total construction cost.

Figure 4.0 - Cost of 11 Homes Constructed On Kahnawake in 2009



On the basis of the housing data from the past 4 years, the average home in Kahnawake costs just over $150,000 to construct. The average mortgage is approximately $137,000.

Figure 5.0 - Cost of Homes constructed On Kahnawake in 2009-2012

Year	Average House Construction Cost	Average Mortgage	Average Equity - Percent	Average Equity - Percent
2012	$172,269	$157,081	$15,188	11.3 %
2011	$128,427	$116,352	$12,074	9.4 %
2010	$150,651	$139,147	$11,504	7.6 %
2009	$148,802	$136,013	$12,789	11.6 %
Average	$150,037	$137,148	$12,889	9.98 %

It becomes apparent from a review of this recent housing data that the maximum loan of $75,000 under the KHA Revolving Loan Program is no longer sufficient to meet the steadily increasing costs of new home construction. It is recommended that the cap on loan amounts under the Program be increased to a minimum of $145,000 to $150,000 for new home construction based on the data above.

Section Three - Down Payment

At present, the Kahnawake Housing Authority (KHA) requires a $7,500 equity contribution as a condition of a loan for the construction of a new home on the Nation. This equates to10% of the maximum loan amount ($75,000) for a total contribution to housing costs of $82,500.

Other financial institutions which also service the Kahnawake marketplace, such as the Bank of Montreal and Caisse Populaire Kahnawake, require an equity contribution of 5% of the construction cost of the new home. The Caisse Populaire Kahnawake On-Reserve Loan Guarantee Program (ORLGP) requires a minimum 5% down payment ($9,210) with a maximum loan of $175,000 for a total housing cost of $184,200. The Mohawk Council of Kahnawake guarantees the loan for the financial institutions, thereby minimizing any risk for the lending institutions.

In order to be competitive in the marketplace, KHA should put in place a similar equity requirement policy for new home construction loans.

It is recommended that the Kahnawake Housing Authority (KHA) should require a 5% equity contribution on all new home construction.

Section Four - Amortization Period

The *amortization period* of a mortgage is the total length of time it will take a client to pay off the entire mortgage. Typically the longest amortization period allowed is 25 years.

In comparison, the *term* of a mortgage (which ranges from six months to several years) represents the length of time for which the mortgage agreement with a lender is valid. At the end of the term the borrower renegotiates their remaining principal. Prevailing rates will then apply by the lender.

Often homeowners choose a longer amortization period because it lowers their mortgage payments: the longer the amortization, the lower the mortgage payments. This can mean, for some, the difference between owning a home and not.

However, the longer it takes the borrower to pay back the mortgage principal to the lender, the more interest they will pay - which can affect their ability to save for other important things, such as retirement.

The table below from the Financial Consumer Agency of Canada shows how much interest a client would pay on a $200,000 mortgage, depending on the monthly payment and amortization period chosen:

	Amortization period	Monthly Payment	Total Interest Payments[1]
Shorter	10 years	$2,213.02	**$65,562**
	15 years	$1,679.77	**$102,358**
	20 years	$1,424.38	**$141,850**
Longer	25 years	$1,279.61	**$183,885**

Note 1. Over the amortization period, assuming blended monthly payments on a $200,000 mortgage with an interest rate of 6% per year.

Another way to look at it is to compare how much of the amount borrowed (the principal) would be paid off in the first few years, depending on the amortization period. Using the above mortgage as an example, the table below shows how much of the principal would be repaid in the first five years:

	Amortization period	Principal Paid Back to the Lender After 5 Years[1]	
		Monthly Payment	Percentage[2]
Shorter	10 years	$85,327	**43%**
	15 years	$48,192	**24%**
	20 years	$30,408	**15%**
Longer	25 years	$20,327	**10%**

Note 1. This example is based on a $200,000 mortgage with an interest rate of 6% per year, and assumes blended monthly payments.

Note 2. This figure represents the percentage of the original amount borrowed paid back to the lender. It is calculated by dividing the dollar amount of principal paid back to the lender after 5 years by the original amount borrowed (in this example $200,000) and multiplying the result by 100.

At present, the Kahnawake Housing Authority will permit repayment over a maximum 30 year amortization period. Although borrowers should be encouraged to shorten the amortization period and/or make additional payments whenever possible, such a long term amortization period is required for some client. The recommendation is to allow amortization periods from six months to 30 years.

Section Five - Repayment Options

Traditionally, mortgage payments are made every month. By paying more frequently, the client will pay their mortgage down faster and pay less interest over the long term.

The biggest savings are found where the client chooses accelerated payments. An Accelerated bi-weekly payment, for example, means that the client pays one-half of their monthly payment at a time, but pays every two weeks rather than two times a month. This means that the borrower makes 26 payments a year instead of 24 — and those two extra payments make a significant difference:

Courtesy of the Bank of Montreal Payment Frequency	Payment	Number of Payments a Year	The total Interest Paid	Interest saved
Monthly (one payment each month)	$1,599.52	12	$229,863.58	--
Semi-monthly (Pay half the monthly payment, twice each month)	$798.77	24	$229,168.39	$695.19
Bi-weekly (Make a payment every two weeks)	$734.73	26	$229,209.41	$654.17
Accelerated bi-weekly (Pay half the monthly payment, every two weeks)	$799.76	26	$185,837.13	$44,026.45
Weekly (Make a payment every week)	$367.16	52	$228,934.65	$928.93
Accelerated Weekly	$399.88	52	$185,351.00	$44,512.58

Based on a mortgage of $250,000 at 6% (APR) interest on a fixed term with different payment frequencies for a 25-year amortization.

In the analysis of 76 loans made by either the Caisse Populaire Kahnawake or the Bank of Montreal, 31 borrowers obtained a loan with a monthly payment. Three borrowers obtained a loan with a bi-weekly payment schedule and 43 borrowers obtained a loan with a weekly payment schedule.

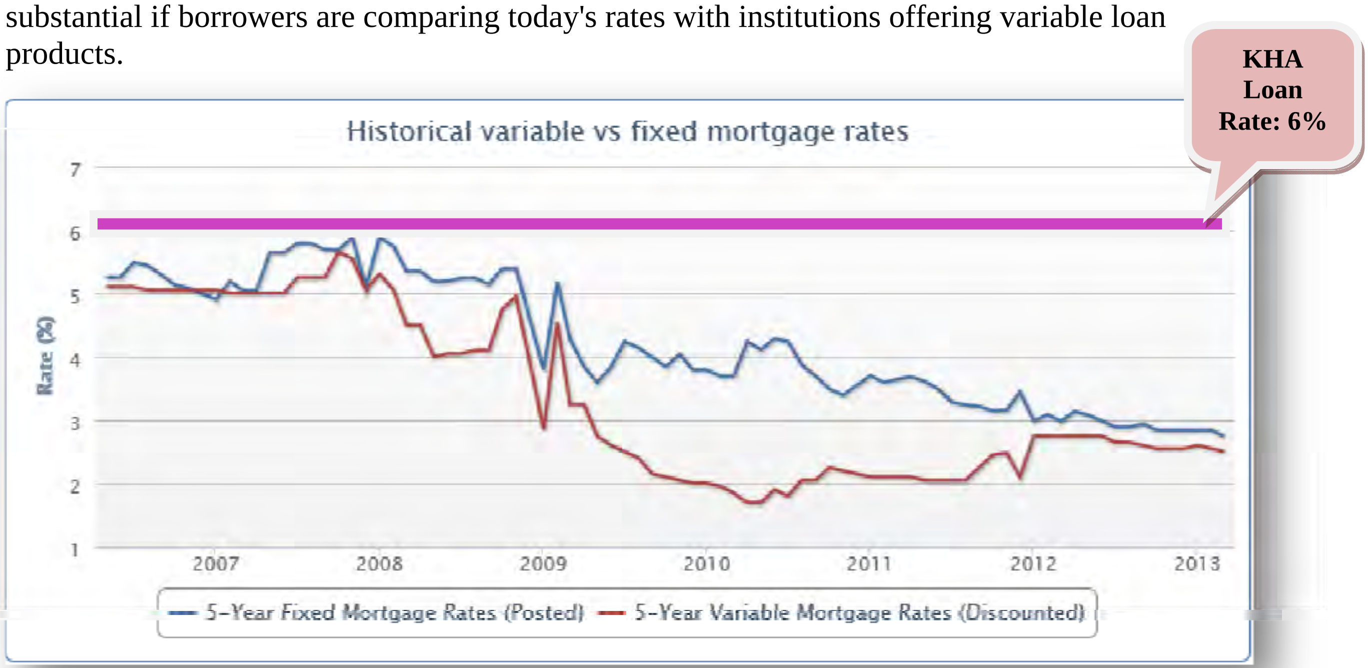
In order to provide affordable financing to its members with due consideration of the lowest long-term cost to the borrowers, it is recommended that the Kahnawake Housing Authority offer such flexible repayment schedule options to its long-term borrowers.

Recommendation is to have flexible repayment schedules as per client requests.

Section Six - Interest Rate - Percent

The Kahnawake Housing Authority charges a simple fixed interest rate of six percent (6%) (APR) / (EAPR) for amortization periods up to 30 years with matching terms. Current variable interest rates offered at financial institutions are approximately 2.89 % -2.99% for a 1 year term. The posted five year term is 3.55 percent at the Caisse Populaire Kahnawake (plus a discount - usually .05 %) - April 18, 2013.

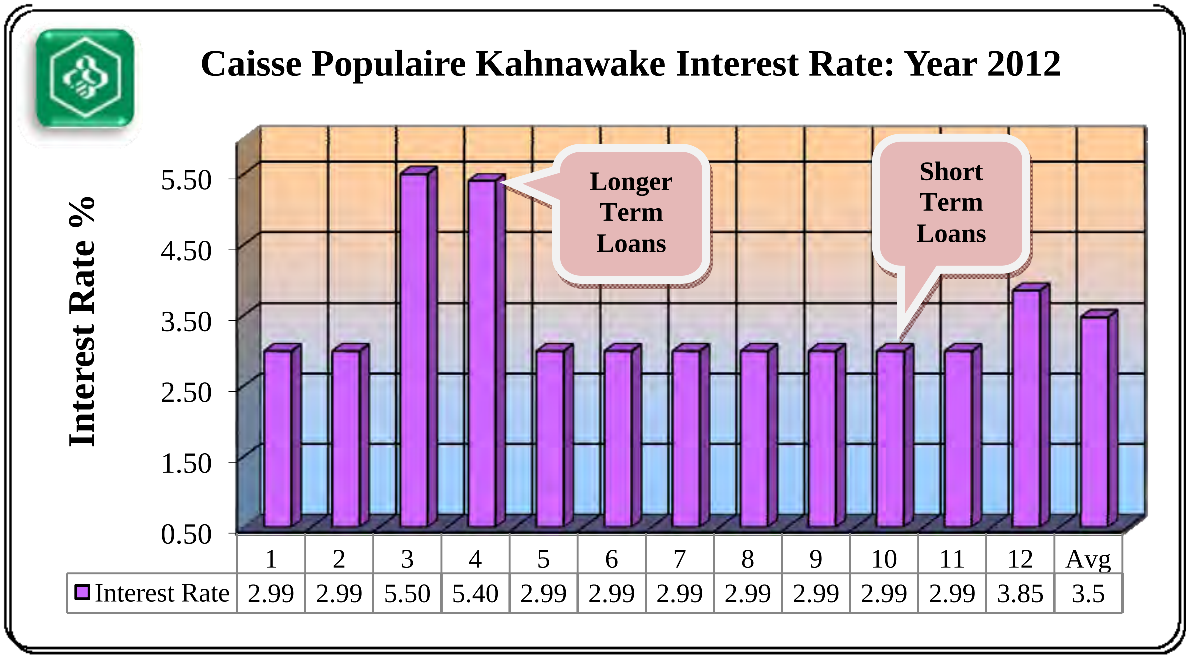
Below are the five year fixed and variable interest rates for mortgages which were charged by Canadian banks from 2007 to present day. The horizontal purple line represents the flat rate of 6% per year charged by KHA. The gap from the Kahnawake Housing Authority rate can be substantial if borrowers are comparing today's rates with institutions offering variable loan products.



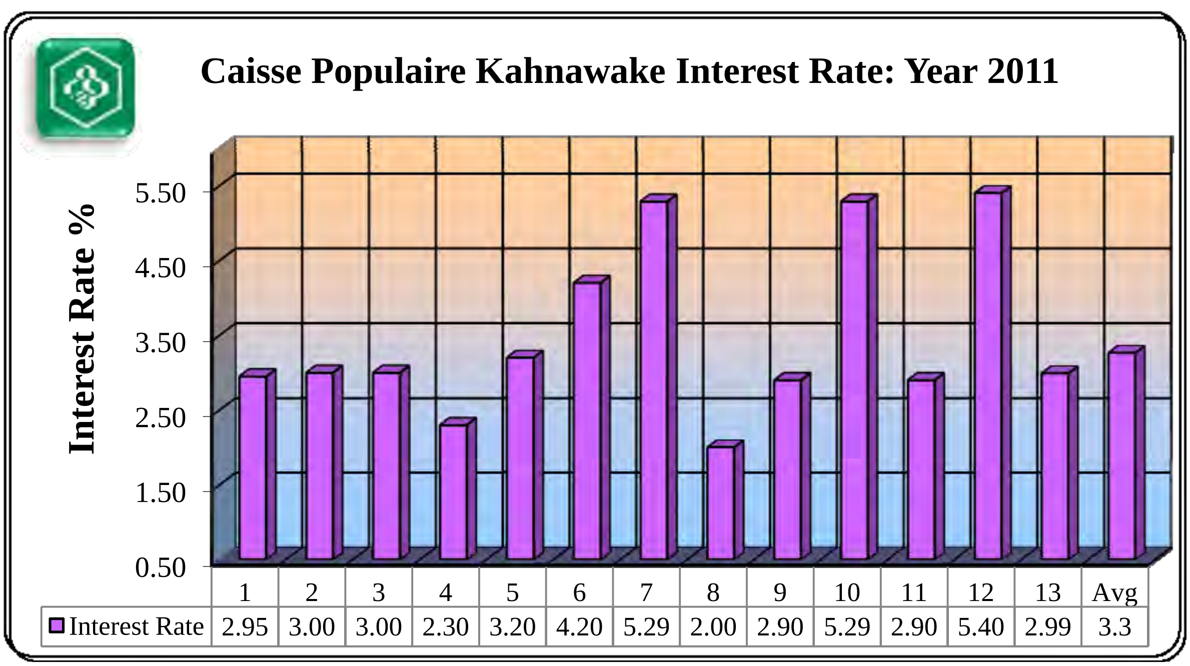
As an example only, if you compare a six percent fixed mortgage rate wth a variable rate of 3.5 percent, the savings could be as follows after five years (assuming no change in the variable rate over the term):

Figure - Mortgage Comparisons	Mortgage 6%	Variable Mortgage 3.5%	Difference
Capital Borrowed	$150,000	$150,000	$ -
Interest Rate	6%	3.5%	2.5%
Amortization Period (Years)	25	25	-
Monthly Payments	$959.71	$748.91	$210.80
Five Years Interest Paid	$8,816.97	$5,151.40	$3,665.56
Five Years of Principal Paid	$2,699.55	$3,835.51	$1,135.96
Remaining Loan (After 5 Years)	$147,300	$146,164	$1,135.96

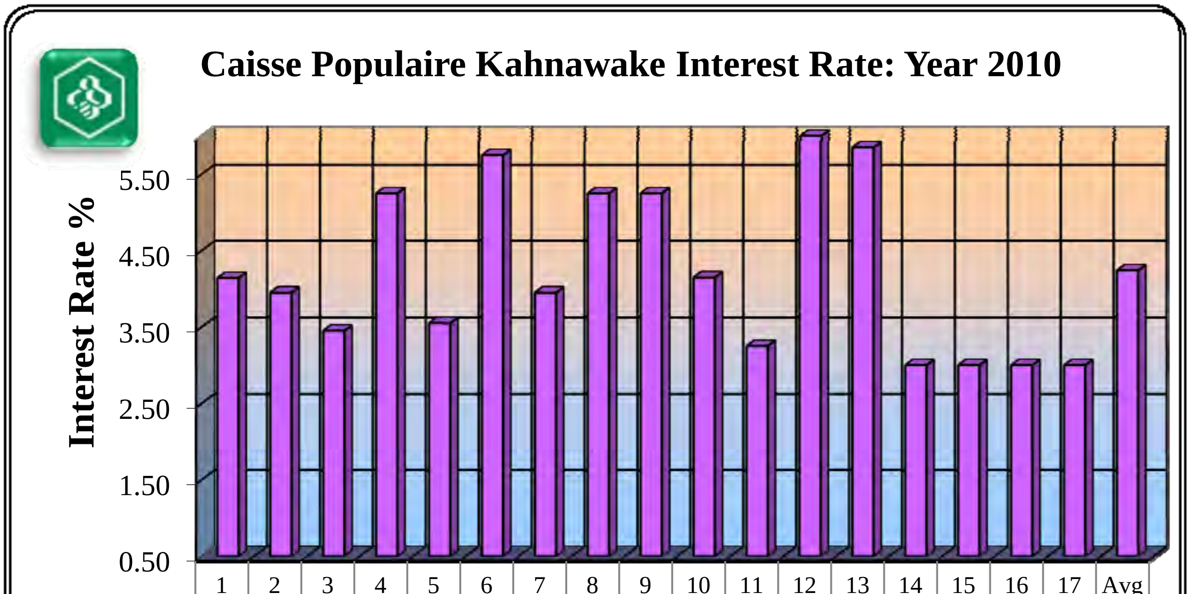
The following are the interest rates for twelve mortgage held by the Bank of Montreal or Caisse Populaire Kahnawake in 2012. Interest rates vary from a low of 2.99% to 5.50 percent depending on the loan particulars. Most borrowers have selected shorter term mortgages.



The following are the interest rates for thirteen mortgage held by the Bank of Montreal or Caisse Populaire Kahnawake in 2011. Interest rates vary from a low of 2.0% to 5.40 percent depending on the loan particulars. Most borrowers have selected shorter term mortgages.

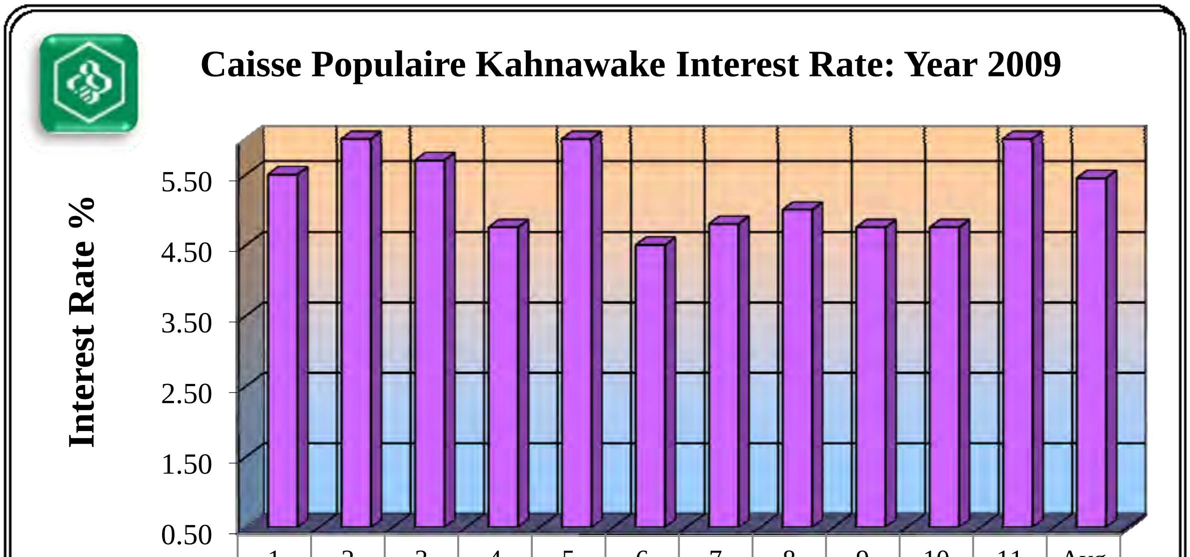


The following are the interest rates for each mortgage held by the Bank of Montreal or Caisse Populaire Kahnawake in 2010. Interest rates vary from a low of 3.0% to 5.80 percent depending on the loan particulars.



	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	Avg
Interest Rate	4.14	3.95	3.45	5.25	3.55	5.75	3.95	5.25	5.25	4.15	3.25	6.35	5.85	3.00	3.00	3.00	3.00	4.2

The following are the interest rates for 11 mortgages held by the Bank of Montreal or Caisse Populaire Kahnawake in 2009. Interest rates vary from a low of 4.5% to 6.85 percent depending on the loan particulars.



	1	2	3	4	5	6	7	8	9	10	11	Avg
Interest Rate	5.50	6.85	5.70	4.75	6.65	4.50	4.80	5.00	4.75	4.75	6.70	5.5

In order to be as competitive in the marketplace and to be more effective and relevant to the membership, Kahnawake Housing Authority needs to charge borrowers interest rates that are more in line with those charged by the Caisse, banks and other local financial institutions.

Competitive Residential Mortgages - Closed Fixed Rate on April 18, 2013.

Term	Caisse Populaire (Posted)	Bank of Montreal (Posted)	Scotia Bank (Posted)	Best Canada Rates	Most Common Canada Rates
6 Months	4.40 %	4.00 %	4.55 %	3.90 %	3.95 %
1 Year	3.09 %	3.00 %	3.75 %	2.29 %	2.74%
2 Year	3.14 %	3.04 %	2.68 %	2.45 %	2.59 %
3 Year	3.55 %	3.55 %	3.99 %	2.48 %	2.59 %
4 Year	4.54 %	4.54 %	2.97 %	2.69 %	2.99 %
5 Year	5.14 %	3.10 %	4.99 %	2.74 %	2.79 %
7 Year	5.95 %	5.95 %	3.46 %	3.46 %	3.59 %
10 Year	6.75 %	3.69 %	3.66 %	3.58 %	3.65 %

Review of Institutions offering Mortgages on April 18, 2013.

	Institution	Var.	6 Mth	1 Year	2 Year	3 Year	4 Year	5 Year
1	AGF Trust	-	4.65	3.04	3.20	3.24	3.34	3.49
2	Alterna Bank/Savings	3.00	4.00	3.05	3.09	3.09	2.99	3.09
3	ATB Financial	2.60	4.00	3.10	3.14	3.55	4.39	3.04
4	**Bank of Montreal**	3.10	4.00	3.00	3.04	3.55	4.54	3.10
5	Boomerang Credit Union	3.20	-	3.00	3.04	2.99	4.64	3.18
6	Bridgewater Bank	-	-	3.24	3.39	3.10	3.57	3.14
7	**Caisses Desjardins**	3.20	4.40	3.09	3.14	3.55	4.54	5.14
8	Canadian Western Bank/Trust	3.20	4.00	3.00	3.04	3.55	4.54	5.14
9	CanEquity Everyday Rate	2.60	3.95	2.74	2.59	2.59	2.99	2.79
10	CIBC	3.20	4.45	3.00	3.14	3.55	4.39	5.14
11	DUCA Financial Services	3.00	-	3.10	3.15	2.99	3.20	2.97

	Institution	Var.	6 Mth	1 Year	2 Year	3 Year	4 Year	5 Year
12	Effort Trust	-	4.45	3.25	3.60	3.90	4.50	4.95
13	Equitable Trust	-	-	3.00	3.04	3.55	4.54	5.14
14	First Calgary Financial	-	4.00	2.39	2.67	2.79	2.89	2.95
15	First National Financial	2.80	3.95	2.74	2.69	2.79	2.99	2.99
16	FirstOntario Credit Union	2.79	4.24	2.99	3.14	3.19	3.24	2.97
17	Home Trust Company	-	3.95	2.74	2.49	2.89	2.99	2.99
18	HSBC Bank Canada	3.10	4.45	3.60	3.95	4.45	4.99	5.24
19	ICICI Bank Canada	3.05	-	3.15	3.65	3.64	3.69	3.44
20	ING Direct	3.00	-	3.00	3.00	2.79	2.99	3.08
21	Investors Group Trust	3.00	4.00	3.00	3.14	3.55	4.54	5.14
22	Laurentian Bank of Canada	3.20	4.40	3.09	3.14	3.55	3.64	3.79
23	League Savings & Mortgage	-	4.00	2.89	2.89	2.99	3.09	2.99
24	Libro Financial Group	-	3.90	3.30	3.50	4.00	4.20	3.28
25	London Life	3.00	4.00	3.00	3.14	3.55	4.54	5.14
26	Manulife	3.00	4.45	3.00	3.05	3.10	3.10	3.09
27	MCAP	-	-	3.60	3.95	4.35	4.89	5.24
28	Meridian Credit Union	2.85	4.45	3.10	3.14	3.70	2.98	3.19
29	National Bank	3.20	4.00	3.10	3.14	3.55	4.54	3.39
30	Ontario Civil Service Credit Union	3.00	6.00	2.99	3.09	3.14	3.30	3.09
31	PACE Savings & Credit Union	-	4.00	3.00	3.04	3.55	4.54	5.14
32	Parama Credit Union	2.90	-	3.00	-	3.15	3.25	3.40
33	Peace Hills Trust	-	4.50	3.10	3.35	3.60	3.85	3.95
34	President's Choice Financial	3.20	6.04	3.14	3.10	3.14	3.25	3.34
35	RBC Royal Bank	3.00	4.00	3.00	3.04	3.55	4.54	5.14
36	RMG Mortgages	3.00	-	2.89	2.89	2.99	3.09	3.19
37	Scotiabank	3.10	4.55	3.75	2.68	3.99	2.97	4.99
38	Servus Credit Union	-	4.00	3.00	3.04	3.55	4.39	4.99
39	Special Lending Opportunities	-	-	2.29	2.45	2.48	2.69	2.74
40	Steinbach Credit Union	-	-	2.40	2.50	2.70	2.80	3.00
41	TD Canada Trust	3.20	4.00	3.00	3.04	3.55	2.99	5.14
42	Teachers Credit Union	-	-	2.99	3.04	3.49	3.89	4.09
43	Windsor Family C. Union	-	4.45	3.00	3.05	3.55	4.54	5.14
44	Your Neighbourhood CU	-	-	3.15	3.25	3.35	3.39	3.19
	Average	**3.02**	**4.30**	**3.02**	**3.02**	**3.36**	**3.75**	**3.86**

Section Seven - Loan Types

Courtesy of the Bank of Montreal, Caisse Populaire Kahnawake;

What is a Mortgage?

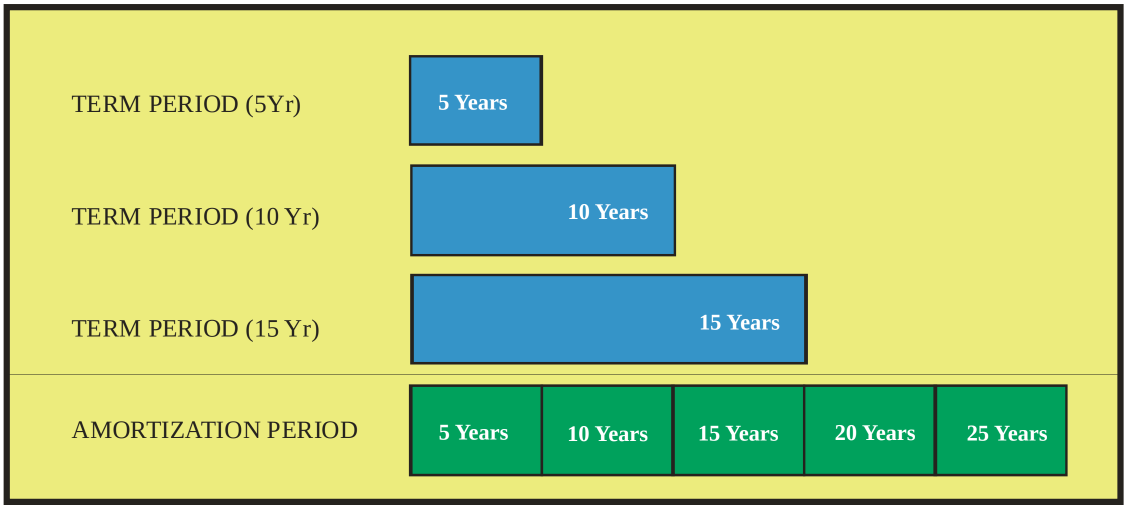
A mortgage is a loan used to purchase or refinance a property. A mortgage is also a term for a security for the repayment of the loan.

What is a Term on a Mortgage?

The length of time the interest rate is fixed. It also indicates when the principal balance becomes due and payable to the lender.

What is Amortization on a Mortgage?

The actual number of years it will take to pay back your mortgage loan. In Canada the amortization does not generally exceed 25 years.



What is a Variable Interest Rate Mortgage?

A variable interest rate mortgage is a mortgage loan with an interest rate that can change during the term. The interest rate varies with changes in market interest rates (typically the bank's prime lending rate). The mortgage payments can be fixed, or they could change if the interest rate changes — it depends on the lender and type of product.

What are the benefits?

If market interest rates are stable or go down during your term, you could pay less in interest than with a fixed interest rate mortgage. By the end of your term, it is possible that you could have paid more toward your principal than expected and less towards interest, which would reduce the balance owing and shorten the time needed to pay off your mortgage.

What are the risks?

If market interest rates go up during your term, your interest rate would increase and you would pay more in interest to the lender. As a result, by the end of the term, you might have paid more in interest than if you had chosen a fixed interest rate mortgage. It also means that by the end of your term, you might pay less of the principal than expected, which would lengthen the time needed to pay off the mortgage.

Depending on the lender and the terms of the variable rate mortgage, another risk is that your payment could increase if the interest rates increase. Consider how much of an increase in mortgage payments you could handle. If you don't think you can handle the risk of your mortgage payment increasing, or do not have enough cash flow, you may be better off with a fixed interest rate mortgage. Below, you can see an example of how interest rate changes can affect a mortgage.

What makes variable interest rate mortgages attractive?

The interest rates on variable rate mortgages are often lower than the fixed interest rate offered at the time you sign the contract. However, whether you are better off with a variable interest rate mortgage compared to a fixed interest rate mortgage depends on the movement of market interest rates during the life of your mortgage, called the "term". This movement is difficult to predict. For example, between 2000 and 2009, the Bank of Canada Bank Rate varied from 0.5% to 6.00%

Studies by Dr. Milevsky of York University have shown that between 1950 to 2007, one in seven Canadians who chose variable-rate mortgages saved an average $20,630 on interest payments per every $100,000 over a 15-year period due to lower interest rates offered on variable mortgages.

What happens to mortgage payments when interest rates change?

When interest rates change, depending on the lender and the terms of your mortgage, the following scenarios are possible:

1. Your payment goes up or down each time market interest rates change.

2. Your payment stays the same when market interest rates go down, but increases when market interest rates go up. In this scenario, more of your payment goes toward paying down the principal when the interest rate falls.

3. Your payment does not change unless market interest rates increase to a "trigger" point (shown in your mortgage agreement). Only at that point will the lender increase your payment.

What is a fixed interest rate?

Fixed mortgage interest rates are interest rates that stay fixed for the entire "Term" length of the mortgage. This means equal payments every month and any fluctuations in the interest rate will not affect you. Fixed-interest rates are usually recommended for first-time home buyers so that they can manage their household budgets easier without the worry of possible payment increases.

Variable vs Fixed Rate Mortgages

Variable and Fixed Mortgage Interest Rate Comparison:

- A variable mortgage has a lower interest rate than a fixed rate mortgage, but the rate may go up.
- A fixed rate mortgage gives you 100% certainty that payments will not change for the entire **mortgage term** length.

Whether the variable-rate mortgage or fixed-rate mortgage turns out better depends on what happens to interest rates in the future, which no one can predict with total accuracy.

The Kahnawake Housing Authority needs to be as competitive in the marketplace with loan types. Recommendations are that KHA carry the same products as other financial institutions.

Three Potential KHA Mortgage Product Lines

Three Potential KHA Product Lines:

1) FIXED RATE MORTGAGE:"First Rate Fixed Mortgage"
A mortgage in which the rate of interest has been fixed for a specific period of time. This specific period of time is generally known as the term.

2) VARIABLE-RATE MORTGAGE: "Variable Mortgage"
A mortgage with fixed payments, but fluctuates with interest rates. The changing interest rate determines how much of the payment goes towards the principal.

3) HYBRID-RATE MORTGAGE: The Best of Both Mortgages

A mortgage is split into a fixed and variable mortgages with various variables as selected by the client

Other Highlights

Repayment can be weekly, bi-weekly or monthly.
Continuous intake of applicants for Loans
Interest Cap (rate to be determined)

Sample Payment Schedules for $75,000 and $150,000 Loan Amounts

Fixed Rate Mortgage - "Sample Only" of Payments Based on Term and Amortization Periods. Loan Amount $75,000. Monthly Payments (For Discussion Purposes Only)

Term Years	Interest Rate	Amortization Period			
	(Sample)	15 Years	20 Years	25 Years	30 Years
		Payment Of	Payment Of	Payment Of	Payment Of
1 Year	3.00 %	$ 517.27	$ 425.25	$ 354.93	$ 315.45
5 Year	3.40 %	$ 531.61	$ 430.21	$ 370.51	$ 331.62
10 Year	5.00 %	$ 591.09	$ 492.84	$ 436.20	$ 400.27
15 Year	5.50 %	$ 610.35	$ 513.29	$ 457.79	$ 422.93
20 Year	6.00 %	$ 629.91	$ 534.14	$ 479.85	$ 446.12
25 Year	6.25 %	$ 639.81	$ 544.71	$ 491.06	$ 457.90

Fixed Rate Mortgage - Sample Only of Payments Based on Term and Amortization Periods. Loan Amount $150,000, Monthly Payments.

Term Years	Interest Rate	Amortization Period			
	(Sample)	15 Years	20 Years	25 Years	30 Years
		Payment Of	Payment Of	Payment Of	Payment Of
1 Year	3.00 %	$ 1,034.53	$ 830.50	$ 709.87	$ 630.90
5 Year	3.40 %	$ 1,063.23	$ 860.42	$ 741.01	$ 663.24
10 Year	5.00 %	$ 1,182.19	$ 985.89	$ 872.41	$ 800.54
15 Year	5.50 %	$ 1,220.70	$ 1,026.59	$ 915.59	$ 845.86
20 Year	6.00 %	$ 1,259.82	$ 1,068.28	$ 959.71	$ 892.24
25 Year	6.25 %	$ 1,279.61	$ 1,089.42	$ 982.11	$ 915.80

Section Eight - Use of Loan Capital

The Kahnawake Housing Authority mandate is the constructional of new homes and repairs to existing homes. Purchase of existing homes are left to the other financial institutions.

No change is recommended in this market area, but discussions are warranted

Potential Services

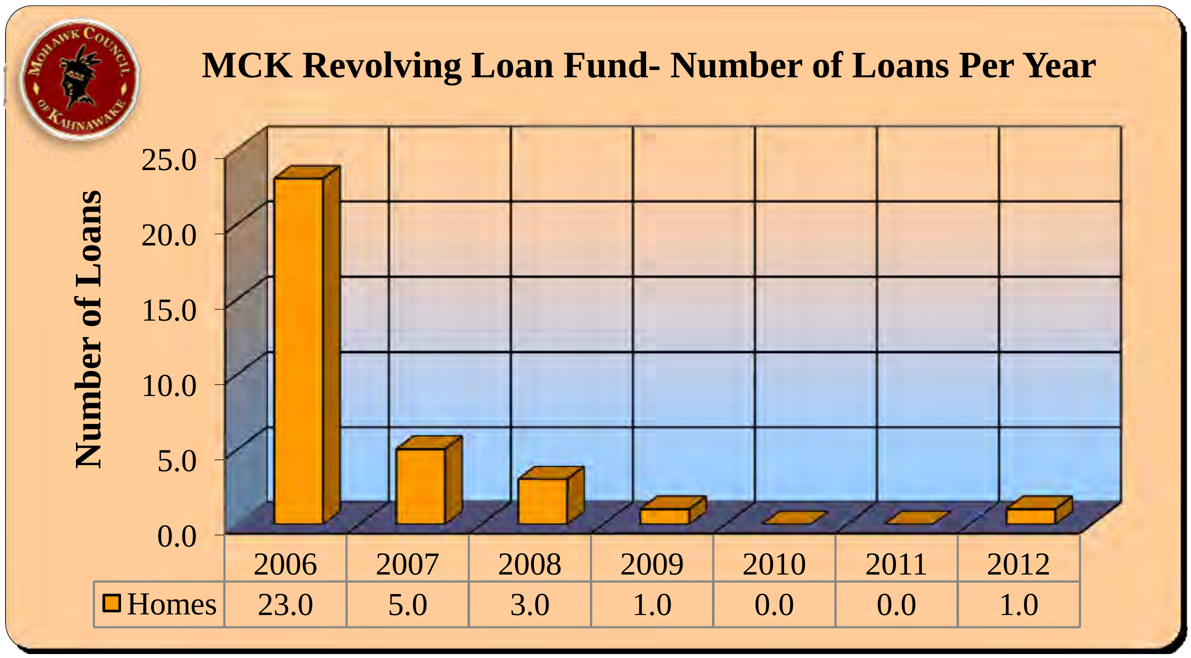
Service	Caisse or BMO	KHA
Variable Mortgage	Yes	Potential
Fixed Mortgage	Yes	Yes
Hybrid Mortgage	Yes	Potential
Flexible Repayment Schedule	Yes	Potential
Moderate Loans ($150K)	Yes	Potential
Home Repairs	Yes	Yes
Personal Loans	Yes	No
Purchase a Existing Home	Yes	No
Larger Loans ($175K)	Yes	No
Larger Loans (25% Down payment)	Yes	No
Banking Services	Yes	No
Major Renovations	Yes	No
Investments	Yes	No
Deposits	Yes	No
Loan Guarantor (MCK) (2% Fee)	Yes	No
Plan Review & Inspections Fees	Yes	No
Mortgage Arrears- Collection	No	Yes
Client Counselling (CM)	No	Yes
Social Housing & Rent to Own	No	Yes
Thirty Year Loan Amortization Period	No	Yes
Elder Housing	No	Yes
Work with CMHC (Section 95)	No	Yes

Section Nine - On Line Banking

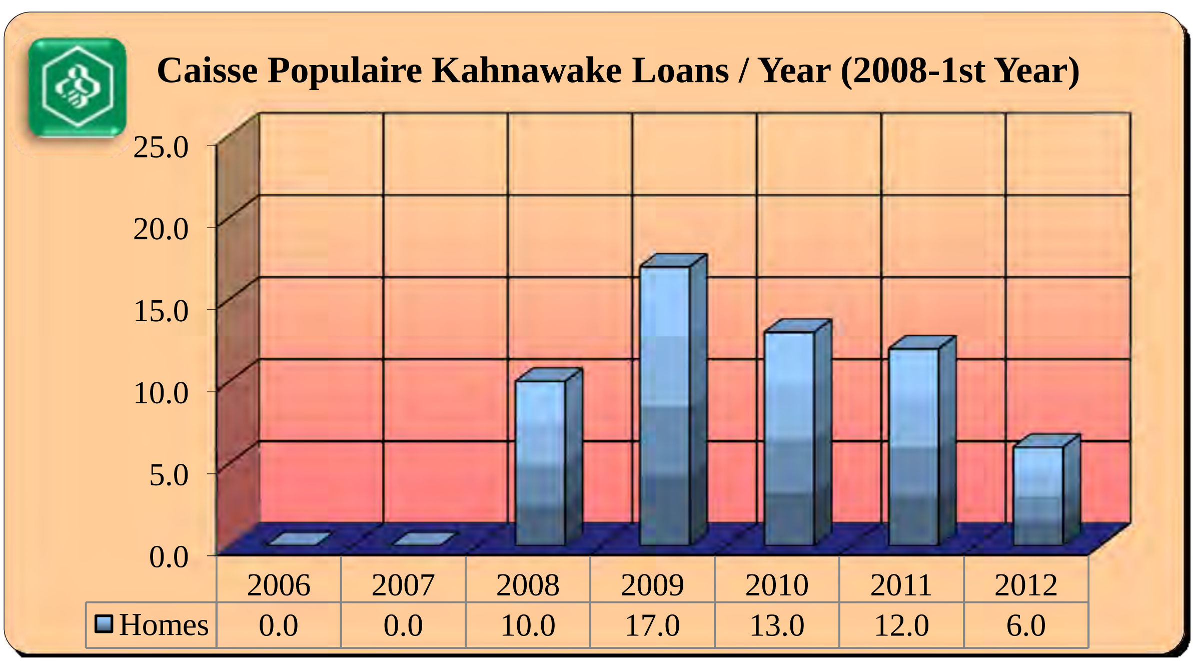
The need for the use of technology is required to adapt to the changing need of consumers. Provisions have been made by KHA with the Bank of Montreal and the Caisse Populaire Kahnawake to support KHA clients.

Section Ten - Maximum Number of Loans

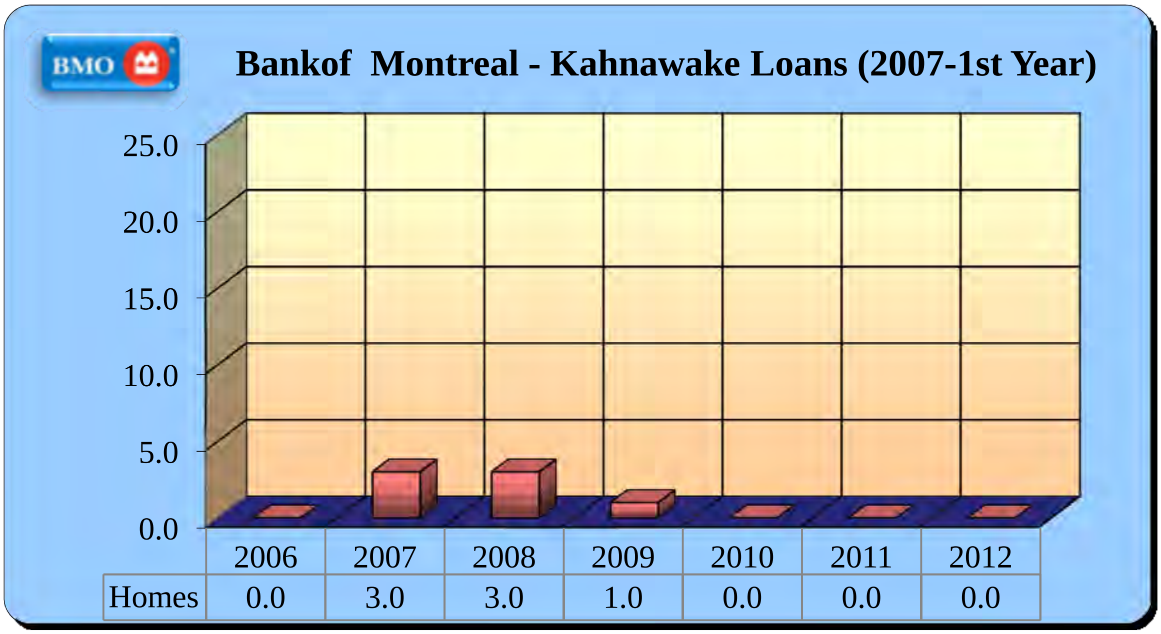
The Kahnawake Housing Authority has made only five new housing loans in the last five years combined. This is an average of one house per year.



The CPK started offering mortgages in 2008, with13 mortgages per year.

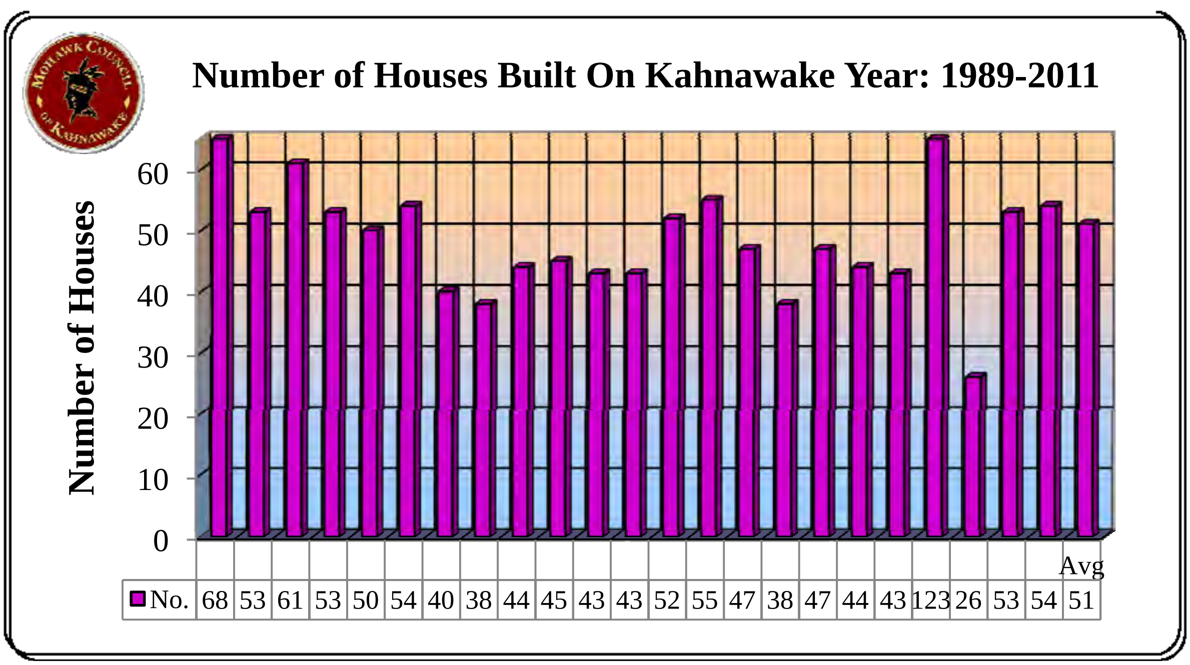


The BMO started offering mortgages in 2007, with 3 mortgages per year until 2009 which had one mortgage for new home construction.



BDO recommendations are that KHA offer 15 loans to community members per year or $2,000,000 mortgage dollars per year.

Historical data (1989-2011) suggests that on average, approximately 51 houses are built on Kahnawake each year. Numerous homes are believed to be built with self financing or financing from an unidentified source.



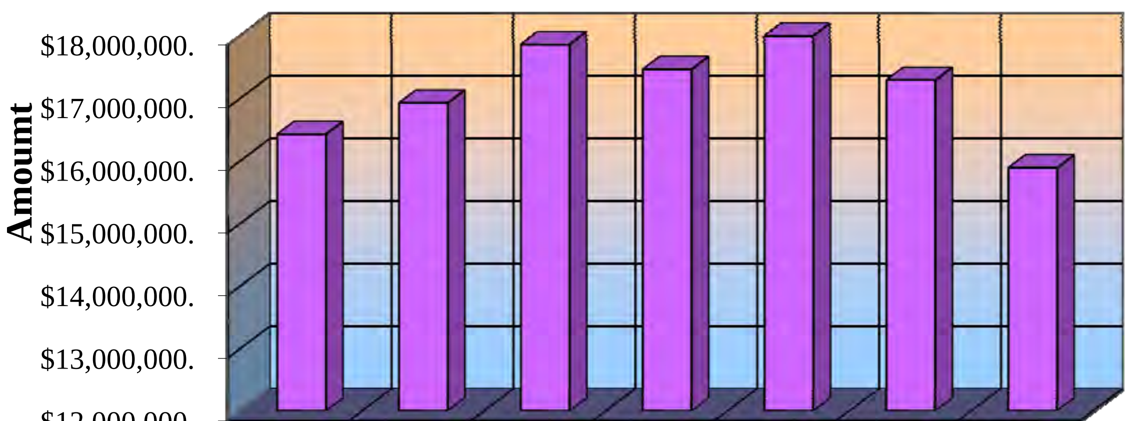
Sample of Projected Revenue from Mortgages for the Next Five Years
Using up to 15 Houses (Mortgages) per Year

Details				Revenue				
Year	Number Of Loans	Loan Amount	Rate %	**Year One**	**Year Two**	**Year Three**	**Year Four**	**Year Five**
One	2	$150,000	5	$14,705	$14,390	$14,059	$13,710	$13,344
	4	$ 145,000	5	$28,431	$27,821	$27,180	$26,507	$25,800
	3	$ 135,000	6	$23,805	$20,866	$22,891	$22,391	$19,350
Two	3	$150,000	5		$22,058	$21,585	$21,088	$20,566
	6	$ 145,000	5		$42,647	$41,732	$40,771	$39,761
	4	$ 135,000	6		$31,741	$31,149	$30,521	$29,855
Three	5	$150,000	3.4			$25,022	$24,355	$23,666
	5	$ 145,000	5			$35,539	$34,777	$33,976
	5	$ 135,000	3.4			$22,520	$21,920	$21,299
Four	5	$150,000	3.4				$25,022	$24,355
	5	$150,000	3.4				$25,022	$24,355
	5	$150,000					$25,022	$24,355
Five	5	$150,000	5					$25,022
	4	$150,000	4					$20,017
	6	$150,000	6					$30,026
Total	67							
Caisse Populaire Fees (5)				$5,000	$5,000	$5,000	$5,000	$5,000
BMO Fees (2)				$2,000	$2,000	$2,000	$2,000	$2,000
Private Sector Services				$2,000	$2,000	$2,000	$2,000	$2,000
Total Revenue				$75,943	$168,526	$250,680	$320,110	$384,754

* Amortization 25 Years, Terms Vary. Gross Revenue before staff, costs and overhead.

Revolving Loan Fund

The loan receivable from the revolving loan fund was $15,884,406 in 2011. Between 2009 and 2011, the mortgage receivables from the revolving loan fund decrease by 11.7% due to the decrease of RLF loans granted (BDO Report Section 7.3)



	2005	2006	2007	2008	2009	2010	2011
Amount	16,419,965	16,919,953	17,853,112	17,457,327	17,987,792	17,285,797	15,884,406

Data from 2012 shows only one house mortgage being added to the RLF, suggesting a continued decrease in mortgage receivables for the year 2012 and 2013.

Section Eleven - Services- Infrastructure, Landscaping, Water Etc

Policy recommendation is that infrastructure, hydro, water, landscaping can be part of the maximum loan amount.

Section Twelve - 2% Guarantor Fee Added To Loan

Presently MCK guarantees all financial institutional (Caisse and BMO) mortgage loans without any compensation for the added risk. The recommendation is that MCK charge a onetime 2% guarantor fee on the total loan amount on mortgages issued by the Caisse or BMO. For Example:

Sample Calculations on 2% Guarantor Fee			
Number Of Loans	Loan Amount	Rate %	One Time Guarantor Fee
1	$175,000	2 %	$3,500.00
1	$ 150,000	2 %	$3,000.00
1	$ 125,000	2 %	$2,500.00
1	$ 125,000	2%	$2,000.00
1	$ 95,000	2%	$1,900.00

It is anticipated that this fee will need to be negotiated with the Caisse and Bank of Montreal. Presently there are approximately $5,500,000 in mortgages insured by MCK. (BDO Report Page 5 Section 6)

Other Examples of Loan Insurance in the Marketplace: CMHC

How Much Does CMHC Mortgage Loan Insurance Cost? (Data from CMHC Website)

To obtain CMHC Mortgage Loan Insurance, lenders pay an insurance premium. Typically, the lender will pass these costs on to borrower.

The CMHC Mortgage Loan Insurance premium is calculated as a percentage of the loan and is based on the size of the down payment. The higher the percentage of the total house price/value that a client borrows, the higher percentage the client will pay in insurance premiums.

Note: without mortgage insurance clients may avoid the insurance premium but they will typically pay much higher interest rates and additional administrative fees. At the end of the day, for the vast majority of borrowers, the cost of CMHC Mortgage Loan Insurance is more than fully offset by the savings achieved.

Loan-to-Value	Premium on Total Loan		Premium on Increase to Loan Amount for Portability and Refinance	
	Standard Premium	Self-Employed without 3rd Party Income Validation	Standard Premium	Self-Employed without 3rd Party Income Validation**
Up to and including 65%	0.50%	0.80%	0.50%	1.50%
Up to and including 75%	0.65%	1.00%	2.25%	2.60%
Up to and including 80%	1.00%	1.64%	2.75%	3.85%
Up to and including 85%	1.75%	2.90%	3.50%*	5.50%*
Up to and including 90%	2.00%	4.75%	4.25%*	7.00%*
Up to and including 95%	2.75%	N/A	4.25%*	*
90.01% to 95% — Non-Traditional Down Payment* **	2.90%	N/A	*	N/A

Notes to Table can be found in Exhibit Two

Guarantor Risks by MCK (Sample only for discussion purposes)

Agreement between Mohawk Council of Kahnawake (Surety) and Tsi-iehwistaientahkwa Caisse Populaire Kahnawake (Lender), January 31,2008.

Section 10:
Where the loan remains in default for a period of sixty(60) days following transmission of the notice of default by the lender, the lender shall forward a Demand for Payment to the Surety requesting that the Surety pay to the lender, up to a maximum amount of one hundred percent (100%) of the total value of the principal owed at that time, along with all interest owned at the rate specified in the loan Agreement and any expenses relating to insurance premiums.

However, in the event that the Surety transfers the property for fair market value, as determined by an independent evaluator, and the fair market is less than the amount paid by the Surety to the Lender under this agreement, the Lender shall reimburse to the Surety twenty percent (20%) of the shortfall.

Sample Only for Discussion Purposes:

Lot Cost:	$ 0
Servicing	$ 500
House Construction	$ 185,000
Total Cost	$ 185,500

Mortgage Amount	$ 175,000
Member Equity	$ 10,000
Total Funds	$ 185,000

Mortgage Details

Variable: 2.99%
Amortization: 25 Years
Payment Frequency: Monthly
Payment $ 827.28

Default after 1.5 Years (18 months)
After 60 Days from Default

MCK owes Remaining Principal on Loan	$ 167,758.02
Interest for 60 Days (Two Payments)	$ 829.82
Interest on Interest (30 days on First Payment)	$ 1.07
Insurance Cost	$ 250.00
Total	$ 168,838.91

Two Hypothetical Scenarios

A- House sells for $150,000.00 or B- House sells for 175,000.00

Scenario A
A- Scenario Deficit: ($18,838.91) (Before selling costs, legal, etc)

20% Recovery of deficit From Caisse ($3,767.78)

Net MCK Deficit ($15,071.13)

Scenario B
B -Scenario Surplus**:** $6,162.16 (Before selling costs, legal, etc). MCK should be able to recover all their costs.

Section Thirteen - Plan Review, Building Inspections and Administration Fee Added To Loan For the Caisse Populaire and the Bank of Montreal

Presently MCK charges $700 per file, new recommended proposed fee of $1,025 per file.

Agreement between Mohawk Council of Kahnawake (Surety) and Tsi-iehwistaientahkwa Caisse Populaire Kahnawake (Lender), June 30, 2010. Ending March 31, 2011.

> *Section 1*
> *"To help offset the administration expenses incurred by the Surety under the Loan Guarantee Program, the Lender shall pay to the Surety the amount of three hundred dollars ($300.00) to reimburse the expenses incurred from plan evaluations and the amount of four hundred dollars ($400.00) to reimburse the expenses incurred from progress inspections which are undertaken in relation to each individual file ("Reimbursement Fees")"*
>
> *Section 2*
> *"For further clarity the total maximum amount of Reimbursement Fees that must be paid to the Surety by the Lender is therefore seven hundred dollar ($700.00) per individual applicant, regardless of the number of inspections undertaken by the Surety in relation to an individual file."*

KHA costs are $100 per inspection, with an average of 10 inspections per home built.

For discussion is a cap of$1,000.

Total Maximum Budget: Fee for Service $1,000 (Capped)

Section Fourteen - Plan Review, Building Inspections and Administration Fee For Private Builders (Optional by Home Owner - Fee For Service)

KHA is proposing to offer plan review and building inspection services to a private home owner who may not be using the mortgage services of Caisse Populaire or the Bank of Montreal. (mortgages guaranteed by MCK require a plan review and building inspections).

The service will be optional for the home owner. The service fee will be negotiated by the home owner and KHA based on the specific services required.

For Example:
Plan review: $300
Inspection Fee $100/ Inspection (Maximum Amount - $1,000)
Payment Release: $50 per draw
Client Meetings: $75

Total Maximum Budget: Fee for Service $1,500 (Capped)

Section Fifteen- Home Repair Loan Program

Increase from $15,000 to $25,000
$10,000 or High Risk Require - Land Transfer
Normal Interest Rates
Maximum Term: Five Years

Section Sixteen- Home Repair Loan Elder, Disabled Eligibility

Increase from $15,000 to $25,000
$10,000 or High Risk Require - Land Transfer
Reduced Interest Rates

Maximum Term: Five Years

Section Seventeen- Estate and Divorce Loan Rewrite Policy

Case by Case Policy

HOUSING PROGRAMS ENHANCEMENTS

Kahnawà:ke Housing Authority

- Longer Term Recommendations -

TEAM WORKING PAPERS

Section Eighteen - Rent to Own

Explore Rent to Own Programs
Need to Determine Maximum Building Costs
Develop a Program and Policy

Key Pillars to Rent-to-own Programs

Participants must meet a minimum criteria.
Rents must be affordable and paid every month.
There must be "Equity" from the tenant on purchasing the unit.
The tenant can participate in the design of the home.
Maximum construction cost.
Client Counselling should be available .
Tenants must transition from dependency to private home ownership, set of milestones.

What is a rent-to-own contract and how does it work? *(data from mortgage n*ews)

On top of the monthly rental amount agreed upon, the seller/owner will collect an additional amount to go towards the down payment when the client will "close" on the property. KHA may also request an initial deposit at the time a client enter into the rent-to-own contract.

Sometimes CMHC is utilized at the initial capitalization of the house under the Aboriginal Section 95 of CMHC programming. Since Section 95 is a subsidized "Rental" program arrangements need to be made when the house is converted to private ownership or the tenant can stay with the rental and purchase the home after the CMHC mortgage expires, typically with a fifteen year amortization.

Advantages of a rent-to-own agreement:

If a buyer who can't qualify for a mortgage today, Rent-to-own allows them to move into the house now and buy later. This gives time to either fix their credit, accumulate your down payment, or do whatever else you need to done with CM in order to qualify for a mortgage.

Promotes the "Private Home Ownership" concept that is so prevalent in Kahnawake.

Disadvantages of a rent-to-own agreement:

The purchase price is set at the beginning of the term. Even if other housing prices rise or fall during that time, the original agreed-upon sale price is final.

All of those repairs that used to be somebody else's problem in a rented property often become the responsibility of the new buyer, even during the rental period.

Some rent-to-own contracts are not suitable to a mortgage lender. The agreement must clearly outline the purchase price, initial deposit amount, monthly rental amount, and amount going towards the down payment. And again, it must specify whether or not any of those amounts are refundable should the contract not be honored for one reason or another.

First Nation examples of Rent-to-own:

Many successful examples of First Nation "Rent-to-own homes can be found on MBQ, Batchewana, Cree Nation of Mistissini, Moose Factory, Federation Saskatchewan Indian Nations, Carcross Tagish First Nation, Yukon, Georgina Island, AFN position paper, Pasqua, Musqueam, and Atikameksheng Anishnawbek First Nation.

Section Nineteen - Social Housing

Explore various CMHC options for Social Housing.
Costing on various models.
Prepare a detailed briefing paper on how to move forward on social housing.

Key Pillars to Social Housing Programs

Participants must meet a minimum criteria- real need will demonstrated.
Rents must be affordable and paid every month (potentially subsidized rents)
Maximum construction cost.
Client Counselling should be available .
Tenants must transition from dependency to private home ownership or Rent-to-own, establish goals and milestones.

Key will be a CMHC product that will allow social housing, but the overall social housing program design is not to trap members in poverty.

Section Twenty - Elderly Housing

Explore various CMHC options for Housing Elderly members
Costing on various models

Prepare a detailed briefing paper on how to move forward on housing for the elderly with Kahnawake Shakotiia'takehnhas Community Services (KSCS)

Review Other First Nation Elders' Complex
Make detailed recommendations on moving forward in elders centre, assisted living and for additional full care faculties on Kahnawake

Note:

In the next seven years the number of individuals that will be 65 years or more, will increase from 440 individuals to 694, an increase of 254 individuals

In the next seven years the number of individuals that will be 70 years or more, will increase from 274 individuals to 386, an increase of 112 individuals.

Section Twenty One - Rental Units

Suggestions
CMHC

HOUSING PROGRAMS ENHANCEMENTS

Kahnawà:ke Housing Authority

- Moving Forward -

TEAM WORKING PAPERS

Section Twenty Two - Community Consultation

Suggestions
Survey - Details, Number, Format, Timelines

Section Twenty Three - Implementation Plan

Suggestions

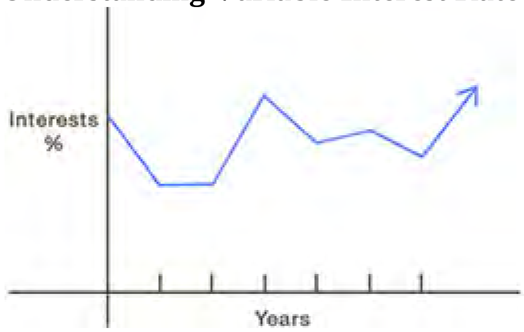
Section Twenty Two - Timelines

Suggestions

EXHIBIT ONE

Data from: Financial Consumer Agency of Canada

Understanding Variable Interest Rate Mortgages



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If market interest rates are stable or go down during your term, you could pay less in interest than with a fixed interest rate mortgage. By the end of your term, it is possible that you could have paid more toward your principal than expected and less towards interest, which would reduce the balance owing and shorten the time needed to pay off your mortgage.

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If market interest rates go up during your term, your interest rate would increase and you would pay more in interest to the lender. As a result, by the end of the term, you might have paid more in interest than if you had chosen a fixed interest rate mortgage. It also means that by the end of your term, you might pay less of the principal than expected, which would lengthen the time needed to pay off the mortgage.

Depending on the lender and the terms of the variable rate mortgage, another risk is that your payment could increase if the interest rates increase. Consider how much of an increase in mortgage payments you could handle. If you don't think you can handle the risk of your mortgage payment increasing, or do not have enough cash flow, you may be better off with a fixed interest rate mortgage. Below, you can see an example of how interest rate changes can affect a mortgage.

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What happens to mortgage payments when interest rates change?

When interest rates change, depending on the lender and the terms of your mortgage, the following scenarios are possible:

1. Your payment goes up or down each time market interest rates change.
2. Your payment stays the same when market interest rates go down, but increases when market interest rates go up. In this scenario, more of your payment goes toward paying down the principal when the interest rate falls.
3. Your payment does not change unless market interest rates increase to a "trigger" point (shown in your mortgage agreement). Only at that point will the lender increase your payment.

Example:

John takes a mortgage with variable interest rate and the following terms and conditions:

principal amount borrowed: $200,000
term (length of the mortgage agreement): 5 years
amortization period: 25 years
interest rate: variable, initially set at 3.00 %
monthly payment: variable.

The lender explains to John that his payments will go up and down with the interest rates. At first, John's interest rate is stable at 3.00 percent %. Starting in the second year, market interest rates begin to climb and so do his payments.

	Interest rate[1]	Monthly payment	Interest paid	Principal paid
(1) In this scenario, interest rate changes happen at the beginning of the year				
Year 1	Initial interest rate: 3.00%	$946	$5,889	$5,469
Year 2	rises to 3.50%	$997	$6,676	$5,285
Year 3	rises to 4.00%	$1,046	$7,415	$5,143
Year 4	rises to 4.50%	$1,096	$8,106	$5,041
Year 5	rises to 5.00%	$1,144	$8,749	$4,978
TOTAL	-	-	**$36,834**	**$25,916**

In this example, the interest rate goes up 2% over the five-year term. Keep in mind that interest rates could go up or down more or less than 2% over that period, and those changes would affect calculations.

John's alternative at the time was a five-year fixed-rate mortgage. In the example below, the bank offered him a fixed rate of 4.00 percent for five years.

	Interest rate	Monthly payment	Interest paid	Principal paid
Years 1 to 5	4.00%	$1,052	**$37,230**	**$25,892**

After five years the amount of interest and the amount of principal John paid with a fixed or variable rate mortgage would be almost the same. The main difference is that with a variable rate mortgage, John's monthly payments would change from year to year, but with a fixed interest rate John would know that his payments would stay the same for the full five-year term.

Protecting yourself against a rise in interest rates

Some lenders offer *interest rate caps* or *convertibility features* on their mortgages. These features can offer some protection if interest rates go up. You can only get these features when you sign a new mortgage agreement that includes them.

A *cap* is the maximum interest rate that can be charged on a mortgage, regardless of the rise in market interest rates. For these types of mortgages, usually the payment amount is based on the cap rate and will stay the same for the term.

If you have a mortgage with a *convertibility feature*, you can change it to a fixed interest rate mortgage during the term. Although the lender will usually not charge a penalty for doing this, conditions may apply—check with the lender.

Questions to ask a mortgage lender

- How often could my payments change — each time the interest changes, or on what other basis?
- If the interest rate goes up by 1.00% during the term of my mortgage, how much would my payments increase based on my current mortgage balance? If the rate increased by 2.00%, how much would my payments increase?
- If my interest rate increases, can I choose to increase my payment so that the length of time to pay off my mortgage stays the same?
- Are there any conditions under which the payments would stay the same? For example, is there a minimum interest rate increase required to trigger an increase in my mortgage payments?
- If there is a "trigger" interest rate, how would I be notified of the increase in mortgage payments?
- Do you offer mortgages with interest rate caps or convertibility features? What are the conditions of using these features?

For more information

For more information on variable interest rate mortgages, visit FCAC's website (www.fcac.gc.ca) or   institution.

1. Source: Bank of Canada, Bank Rate *(V122530).*

Bank of Montreal Explanation of Mortgage Terms

Amortization

The amortization period is the length of time it will take you to pay off your entire mortgage. The traditional amortization period is 25 years and in cases where you have less than a 20% down payment, that is the maximum amortization period allowed. You may choose a shorter amortization period or, if you have at least a 20% down payment, you can even choose greater (up to 30 years). The longer the amortization, the lower your monthly mortgage payments, but the more you will pay in interest over the life of the mortgage.

Term

The mortgage term is the amount of time your mortgage contract is in effect. At the end of each term, you need to renew your mortgage for another term. This is an opportunity to consider whether you'd like to make any changes to your mortgage. Most mortgage terms are five years, though shorter or longer terms may be offered. The agreed-upon interest rate is in effect for the term. At the end of the term, you can renegotiate the rate and other details of the contract for the next term.

Open or closed

An open mortgage provides the flexibility of being able to repay all or part of your mortgage at any time without a prepayment charge. A closed mortgage limits your prepayment options, but usually offers a lower interest rate than an open mortgage.

Payment schedule

Traditionally, mortgage payments are made every month. By paying more frequently, you'll pay your mortgage down faster and pay less interest over the long term.

You'll see the biggest savings if you choose accelerated payments. An accelerated bi-weekly payment, for example, means that you pay one-half of your monthly payment at a time, but pay every two weeks rather than two times a month. This means you make 26 payments a year instead of 24 — and those two extra payments make a significant difference:

Payment frequency	Your payment	Number of payments a year	The total interest you'll pay	Interest saved
Monthly (one payment each month)	$1599.52	12	$229,863.58	--
Semi-monthly (you pay half your monthly payment, twice each month)	$798.77	24	$229,168.39	$695.19
Bi-weekly (you make a payment	$734.73	26	$229,209.41	$654.17

every two weeks)				
Accelerated bi-weekly (you pay half your monthly payment, every two weeks)	$799.76	26	$185,837.13	$44,026.45
Weekly (You make a payment every week)	$367.16	52	$228,934.65	$928.93
Accelerated Weekly	$399.88	52	$185,351.00	$44,512.58

Based on a mortgage of $250,000 at 6% (APR) interest on a fixed term with different payment frequencies for a 25-year amortization.

Fixed rate or variable
With a fixed rate mortgage, you get the security of knowing that the interest rate on your mortgage won't rise during the term, even if interest rates increase. Because the principal and interest are predictable, you'll know exactly how much you will owe at the end of the term.

With a variable rate mortgage, the interest rate changes with BMO's prime rate. Because your monthly payments remain the same throughout the term, the amount applied to the principal versus interest may change with fluctuations in BMO's prime rate. Your amortization period (number of years to repay the mortgage) may vary and be longer if rates have risen or be shorter if rates have fallen since the start of the term. You can switch at any time and at no cost to a fixed rate mortgage, provided the new term is the same or longer than the remaining length of your current closed variable rate term.

A **closed term mortgage** may be ideal if you're not planning to pay off your mortgage in the short term. Interest rates for closed term mortgages are generally lower than for open term mortgages. Closed term mortgages offer you the ability to save on interest costs and pay off your mortgage faster. You will pay a prepayment charge if you wish to renegotiate your interest rate or pay off your mortgage balance prior to the end of its term.

A **convertible mortgage** gives you the same benefits as a closed mortgage, but can be converted to a longer, closed term at any time without prepayment charges.

Open term mortgages may be appealing if you are planning to pay off your mortgage in the near future. They can be repaid either in part or in full at any time without prepayment charges. Open mortgages can be converted to any other term, at any time, without a prepayment charge. Interest rates for open mortgages are generally higher than for closed mortgages because of the added pre-payment flexibility.

EXHIBIT TWO

CMHC Notes to Chart Page 32

For portability and refinance, the premium is the lesser of Premium on Increase to Loan Amount or the Premium on Total Loan Amount. In the case of portability, a premium credit may be available under certain conditions.

** Premiums shown with an "*" do not apply for refinance. For portability the maximum LTV ratio is 90%, but CMHC may consider higher LTV ratios when the new ratio is equal to or less than the original LTV. For portability, the premium is higher for non-traditional down payments on Increase to Loan Amount.*

*** For conversion from Self-Employed with traditional 3rd party income validation to Self Employed without traditional 3rd party income validation, the premium is the lesser of: a) the Premium on Total Loan Amount or; b) the outstanding balance multiplied by a 1.5% premium plus the Premium on Increase to Loan Amount.*

**** Down Payment Requirements — Traditional sources of down payment include: Applicant's savings, RRSP withdrawal, funds borrowed against proven assets, sweat equity (<50% of min. required equity), land unencumbered, proceeds from sale of another property, non-repayable gift from immediate relative, equity grant (non-repayable grant from federal, provincial or municipal agency). Non-traditional sources of down payment include: Any source that is arm's length to and not tied to the purchase or sale of the property, such as borrowed funds, gifts, 100% sweat equity, lender cash back incentives.*

Premiums in Manitoba (effective July 15, 2012), Ontario and Quebec are subject to provincial sales tax. The provincial sales tax cannot be added to the loan amount

A 10% premium refund, and a premium refund for a longer amortization period (if applicable) may be available when CMHC Mortgage Loan Insurance is used to finance an Energy-Efficient Homes.