A Guide to Home Ownership Using a First Nation Designed Revolving Loan Fund

Introduction

This booklet is an introduction to the concept of a revolving loan fund can be used by Council, Community Members, and Staff as an introduction to what may be possible on your First Nation.

Inside This Guide

Where there is a challenge there is opportunity

What is a Revolving Loan Fund?

A **Revolving Loan Fund** (RLF) is a pool of money from which loans are made. In the case of a RLF for housing, a First Nation uses the funds to make loans to Band members. These loans can be used to build, renovate and purchase houses on reserve. The loan repayments and interest are paid by the borrower and put back into the RLF to be used to make additional loans.

Band members become the owners of their homes, gaining pride of ownership and security for their families. There is also the possibility that the value of the home will increase. Chief and Council set the interest rate and the long-term goals and direction of the RLF.

As the fund grows, more loans can be offered, and more homes can be built, leading to less overcrowding and shorter waiting lists for housing.

Why Have a Revolving Loan Fund for Homeownership?

RLF's are a good option for your community, now or in the future

For off-reserve housing, banks provide a mortgage loan to cover the cost of housing construction, renovation or home purchase. However, Section 89.1 of the Federal Indian Act does not allow banks or other financial institutions to seize on-reserve property if the homeowner or builder is not able to pay back the loan. This makes it difficult for First Nation living on reserve to get a mortgage.

Where there is a challenge there is opportunity! A RLF is an opportunity which puts control into the hands of the First Nation. The next pages will help you decide if RLFs are a good option for your community, now or in the future.

A Revolving Loan Program WILL work on Your First Nation

- The First Nation funds the program
- The First Nation designs the program
- The First Nation administers the program
- The First Nation makes changes based on community needs
- The First Nation enjoys all the social & economic benefits


Digital Saskatchewan: Photographer: J.F. Bergeron

Living sustainably into the future

A Revolving Loan Fund supports the Three Pillars of Sustainability

Economic

- RLF programs make their money from interest on loans, which goes back into the community
- RLF programs increase band members' personal savings in the value of their home.
- RLF programs allow people to move into their own homes freeing up existing housing to reduce overcrowding.

Social

- Homeownership leads to an increased sense of pride and control
- Homeownership increases individual accountability leading to a healthier community and homes that are well maintained
- Homeownership frees up some of the Band's funds to assist people with the greatest need for social or Band owned housing support

Homeownership leads to increased sense of pride and control

Community Control

The Band sets the rules for their program, including:

- eligibility criteria for participation in the RLF program
- terms and criteria for lending funds and repayments
- deciding whether the RLF program can also be used for renovations and repairs of existing homes
- Setting construction standards. e.g. the National Building Code, the Band's equivalent or higher standards
- lot servicing (lot preparation/water & sewer/road access)
- setting housing policies and bylaws

The homeowner has the ability to choose the design and features of their home to meet their needs and budget. Not all houses will look exactly the same!

The Challenge

There are a number of barriers to on-reserve home ownership including the unique land tenure regime on-reserve and the remote location of many communities.

Section 89 of the Federal Indian Act, has made borrowing for on reserve First Nations peoples very difficult.

89. *(1) Subject to this Act, the real and personal property of an Indian or a band situated on a reserve is not subject to charge, pledge, mortgage, attachment, levy, seizure, distress or execution in favour or at the instance of any person other than an Indian or a band.*

This section becomes particularly problematic when dealing with housing construction and home ownership. A mortgage is just a large loan where the home is used as the security. However, Section 89 makes it difficult for First Nations People to obtain financing, and is a contributing factor to the housing shortfall in First Nations communities.

The Opportunity

With a Revolving Loan Fund is when the First Nation acts like a bank. A fund is established, mortgages are extended to Band Members, houses are built and the Members are the owners of the home, and the value of that home. An interest rate is established by Chief and Council and the fund grows as interest and loans are repaid. As the fund grows, more loans can be extended and more homes can be built, Chief and Council set the direction.

Operate your Revolving Loan Fund as a Business

Benefits to Chief & Council

- Band control
- More housing
- Profits can be used to expand the RLF or be taken out of the fund and used for community needs
- Improved social conditions
- Administrative Jobs – managing the RLF
- Construction and Renovation jobs – more housing
- Increased First Nation self sufficiency

Benefits to homeowners

- Financial
  - Loan payments are a form of savings
  - A financial legacy to children
- Social
  - Increased sense of pride & life satisfaction
  - Increased self esteem
  - Improved physical health
  - Increased social involvement and volunteerism
  - Increased positive youth behaviours
    - Higher school graduations
    - Reduced teen pregnancy
    - Reduced teen suicide


A Revolving Loan Fund? YES, THE IDEA WORKS

*The idea of a Revolving Loan Fund is **NOT** new. First Nations across Canada are running successful RLF programs; some for over 40 years. Many of these programs now also include loans for renovations and emergency repairs.*

What do Successful Revolving Loan Funds Have in Common?

RLFs are managed as a serious for-profit business

- Designed to make a profit by managing long term loans
- Potential homeowners provide proof that they are able to make regular loan payments.
- If a homeowner does not make their loan payments, there are serious impacts on the homeowner, such as the house being repossessed

Training is given to new homeowners before they get a RLF loan covering:

- Budgeting
- House maintenance and repairs
- Energy savings

Six Nations –Ontario – on reserve population approximately 12,000

- The Fund was worth approximately $19 million in 2010
- To learn more, call 519-445-2235
- Or visit: www.sixnations.ca

Namgis - British Columbia – on-reserve population approximately 900

- The Fund was worth approximately $3.5 Million in 2010
- To learn more, call 250-974-5556
- Or visit: www.namgis.bc.ca

Wendake - Quebec – on reserve population approximately 1,300

- To learn more, call 1-877-712-3767
- Or visit: www.wendake.com

Mohawks of the Bay of Quinte – Ontario – on reserve population approximately 2,200

- The Fund was worth approximately $18 Million in 2010
- To learn more, call 613-968-1122
- Or visit: www.mbq-tmt.org

Kahnawake - Quebec – on reserve population approximately 7,500

- To learn more, call; 450-638-0500
- Or visit: www.kahnawake.com

Kitigan Zibi – Quebec- on reserve population approximately 2,400

- To learn more, call; 819-449-5170
- Or visit: www.kzadmin.com

Nipissing - Ontario – on reserve population approximately 900

- To learn more, call 705-753-6973
- Or visit: www.nfn.ca

ARE YOU READY?

There are successful Revolving Loan Funds, but not every RLF has been a success. Before taking the step of starting a RLF make sure that your community is ready.

Does your community have good governance?

- ☐ Chief and Council are committed to setting up a Revolving Loan Funds
- ☐ Community members are committed and involved
- ☐ Legal & policy frameworks are in place
- ☐ Chief & Council act in a transparent and accountable fashion
- ☐ There is financial stability
- ☐ Long term vision for the community in place
- ☐ Community housing plan is in place

Does your community have a successful housing program?

- ☐ Long term vision and housing plans which support the vision
- Established land tenure – e.g., Certificates of Possession, traditional allotment
- ☐ Building codes for new housing and renovations are established
- ☐ Housing inspections enforced to ensure building to code
- ☐ An accurate assessment of the current housing conditions and needs
- ☐ Professional housing management and administration
- ☐ Clearly defined and enforced housing policies, including rental payments
- ☐ Established system of housing payments by individuals
- ☐ Low rental arrears
- ☐ Willingness to evict renters when absolutely necessary
- ☐ Sustainable financial solutions

Is your community financially ready to support home ownership?

- ☐ Steady economic conditions allowing Band members to participate
- ☐ The area's economy is stable or growing
- ☐ Income is enough to support RLF payments (e.g. wages, pensions, income from self-employment, etc.)
- ☐ Community based social services supports and wellness initiatives are in place
- ☐ Financial training support for new home owners exists

SHOW ME THE MONEY

An example of HOW a RLF Grows

The example – Part 1 – funding the RLF:

1. First Circle First Nation is well governed and managed and will use $450,000 of their funds to start their housing Revolving Loan Fund (RLF)
2. The RLF housing program will begin with an investment of $450,000 for three mortgage loans of $150,000.
3. The First Circle First Nation makes the decision about their RLF mortgage interest rate and the years to repay the mortgage loans.
4. The payments on each of the three loans, including interest, will go back into the RLF and be used to grow the RLF to finance more housing.

If the First Circle First Nation charged **4% interest on each of the $150,000 loans** and set the repayment period as **15 years**, then at the end of the 15 years, the three houses would be mortgage free, the $450,000 would be repaid into the RLF and because of the 4% interest, the RLF would grow by $147,780, minus the cost of operating the RLF. If the interest rate was 4% but the repayment period was increased to 20 years, the RLF would grow by $202,302, less the cost of operating the RLF.

First Circle First Nation – Mortgage Loan Options

Interest Rate	10 Year Mortgage	10 Year Mortgage	10 Year Mortgage	15 Year Mortgage	15 Year Mortgage	15 Year Mortgage	20 Year Mortgage	20 Year Mortgage	20 Year Mortgage	25 Year Mortgage	25 Year Mortgage	25 Year Mortgage
	Total Revenue per Year	*Total Revenue over 10*	*Total Profit after 10*	*Total Revenue per Year*	*Total Revenue over 15*	*Total Profit after 15*	*Total Revenue per Year*	*Total Revenue over 20*	*Total Profit after 20*	*Total Revenue per Year*	*Total Revenue over 25*	*Total Profit after 25*
3%	$52,092	$520,920	$70,920	$37,224	$558,360	$108,360	$29,916	$598,320	$148,320	$25,560	$639,000	$189,000
4%	$54,576	$545,760	$95,760	$39,852	$597,780	**$147,780**	$32,616	$652,320	**$202,320**	$28,404	$710,100	$260,100
5%	$57,132	$571,320	$121,320	$42,552	$638,280	$188,280	$35,496	$709,920	$259,920	$31,392	$784,800	$334,800
6%	$59,760	$597,600	$147,600	$45,360	$680,400	$230,400	$38,448	$768,960	$318,960	$34,560	$864,000	$414,000
7%	$62,424	$624,240	$174,240	$48,240	$723,600	$273,600	$41,544	$830,880	$380,880	$37,836	$945,900	$495,900
8%	$65,160	$651,600	$201,600	$51,192	$767,880	$317,880	$44,748	$894,960	$444,960	$41,220	$1,030,500	$580,500

The payments on each loan (principle plus interest) go back into the RLF to be used to fund further housing loans

SHOW ME THE MONEY

Making Loan Payments

The previous page showed how First Circle First Nation would be able to grow a profitable Revolving Loan Fund (RLF), but before deciding to move forward, the First Circle First Nation needs to make sure that the RLF will be successful in the long-term. This requires First Circle First Nation to make sure that there are community members who can afford to make the ongoing loan payments.

To see if the proposed RLF repayments can be supported, the Affordability Index (AI) is a useful tool. The AI in the chart below assumes that 25% of a households take home income (e.g. wages, disability pension, income from self-employment) can be used for loan payments without creating hardship.

Continuing with the example of the fifteen year loans at 4% interest to pay the $150,000 loan, the household would need a yearly income o $53,136 to support their payments of $1,107 per month. The second example from Part 1 (previous page) was based on twenty year mortgages at 4%, which would require a yearly household income of $43,488 to support monthly mortgage payments of $906. If the household would need to use more than 25% of their income to make the monthly payments, the down payment or the length of the loan repayment would need to be increased.

First Circle First Nation – Member Payments & Affordability

Interest Rate	10 Year Mortgage	10 Year Mortgage	10 Year Mortgage	15 Year Mortgage	15 Year Mortgage	15 Year Mortgage	20 Year Mortgage	20 Year Mortgage	20 Year Mortgage	25 Year Mortgage	25 Year Mortgage	25 Year Mortgage
	Monthly Payment	Total per Year	AI	Monthly Payment	Total per Year	AI	Monthly Payment	Total per Year	AI	Monthly Payment	Total per Year	AI
3%	$1,447	$17,364	$69,456	$1,034	$12,408	$49,632	$831	$9,972	$39,888	$710	$8,520	$34,080
4%	$1,516	$18,192	$72,768	$1,107	$13,284	**$53,136**	**$906**	$10,872	**$43,488**	$789	$9,468	$37,872
5%	$1,587	$19,044	$76,176	$1,182	$14,184	$56,736	$986	$11,832	$47,328	$872	$10,464	$41,856
6%	$1,660	$19,920	$79,680	$1,260	$15,120	$60,480	$1,068	$12,816	$51,264	$960	$11,520	$46,080
7%	$1,734	$20,808	$83,232	$1,340	$16,080	$64,320	$1,154	$13,848	$55,392	$1,051	$12,612	$50,448
8%	$1,810	$21,720	$86,880	$1,422	$17,064	$68,256	$1,243	$14,916	$59,664	$1,145	$13,740	$54,960

What the Charts Tells Us

The First Circle First Nation example shows us what would happen if a community invested $450,000 into a RLF and wanted to use the money as loans to three homebuilders who were each building houses worth $150,000.

Growing the RLF:

- The start-up RLF invested $450,000.
- Each year the RLF would get back $39, 852 which includes principle and interest payments from the original three home owners.
- After four years the RLF would have a $159,408 back which is enough for one more home.

The homeowners:

- Each homeowner makes monthly loan payments of $1,107
- At the end of the 15 year loan repayment, each of the three new homeowners would have paid off their loans and owned their homes
- The model could also require that the homeowners provide a down payment

Okay, We're Ready Now What?

A successful revolving Loan Fund is a business, and needs a plan:

Financial Resources

Where does the start-up money come from? Some possible funding sources:

- Own source revenues from casinos or natural resources
- Land Claim or other government settlements
- Using some of your Aboriginal Affairs and Northern Development Canada annual Minor Capital housing allocation, but make sure to consider your social housing needs
- Reducing the amount of loan required per home by requiring homeowner down payments.

How does the RLF grow

- Repayment of loans plus interest payments
- Adding funds, as was done at the time of start-up

Human Resources

- RLF Committee - this may include Chief and Council, financial and housing staff, elders, etc.
- Housing Manager and a well established rental housing program
- Loans Officer

Keep it Simple - *Tips to start small and controlling start-up costs:*

- Learn by sharing resources and successes with other First Nations
- Contact successful First Nations for advice
- Consider starting by offering RLF renovation loans
- When you start your RLF, see if it is possible to manage with current staff

Many good resources, including templates are available on the internet, but be sure you have all documents reviewed by your lawyer before putting them into practice.

Developing Your Policies

The Application Process – First Nation designed & controlled

- Residency, member and applicant information
- Ability to pay – credit checks, employment history
- Building lots & servicing –readiness to build, legal title to guarantee possession
- Environmental considerations are considered eg. drainage, environmental sensitivity

The Approvals Process– First Nation designed & controlled

- Council makes decisions on the recommendation of their authorized housing authority, e.g. finance staff, RLF or housing committee, housing manager

Homeowner Education and Support Program – home ownership commitment through education, before being approved for a RLF

  - Financing and budgeting
  - Planning for payments
  - Planning for home maintenance and repairs
  - Energy efficiency practices that will save on electricity, heating and water bills

Terms and Conditions – the legal framework

The Loan Agreement is a legal contract that describes the responsibilities of both the Band and Member. It is very similar to a rental agreement – the main difference is that a loan includes a security component

Some considerations

- Down payment - Up-front requirement as security
- Interest rate charged – The rate can change over time with Council approval
- Payment schedule– Monthly or biweekly
- Deductions at source – Payment is taken directly from the homeowners wages or other income source
- Income required to support homeowner making regular loan payments
- Housing design – Suitability of the design for the site, will the design lead to low operating cost and easy ongoing maintenance
- Other charges– Code compliance inspections, lot servicing
- Term of loan – Consider terms that will result in success for different target groups' ability to pay
- Security – In a mortgage situation off reserve, the security is normally the house
    - CP or other land tenure instruments can be assigned to the Band until the loan is fully paid
- Risk – The Band may want insurance protection so that neither the First Nation nor the home owner holds the liability in the event of fire or other major damages
- Dealing with non-payments– Steps must be taken to deal with non payment or the RLF will not be successful.
  - Options to consider
    - Penalties for late payments
    - Automatic payments from the homeowners wages or other income
    - Flexible payment plans to meet the needs of those in hardship
    - Foreclosure/Default – how to handle repossessions
- Construction– The building phase
    - Self build as general contractor – receipts and advances
    - Band built
    - Third party built
- Contractual arrangements
- Construction - Quality control
    - Plan for professional Inspections, including timing to ensure there are no slow downs
    - Follow the Bands building codes

Ongoing Monitoring Is Needed for a Sustainable RLF

Regular review of RLF policies ensure both the RLF and homeowners' needs are met

- Social support networks identified for homeowners experiencing hardship that may affect payments
- Regular review of the financial statements
- Economic conditions
- The resale market – is there opportunity, how can it be fostered?

Where there is Challenge there is Opportunity

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Author

- Steve Mercer, Partner, Mercer Business Support Services, Plainfield ON Phone: 877-477-2919

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