

# Alternative Financing for Indigenous Housing

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Research insights are summaries of our research reports.

These insights:

- identify a housing research issue, gap or need
- provide an overview of the research project undertaken to address it
- present major findings of the research

The research presented in this series explore the areas of Housing Need, Housing Finance, Housing Supply and Outcomes of the National Housing Strategy.

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## Introduction

The goal of Canada's National Housing Strategy (NHS) is to ensure Canadians across the country have access to affordable housing that meets their needs. However, there is a paucity of information regarding the challenges faced by Indigenous governments and members when they attempt to access housing finance to address housing on reserve or in other non-market regions. CMHC commissioned an environmental scan in order to understand systemic barriers experienced by Indigenous governments and peoples, locate small local solutions already successful in some areas, and identify opportunities for partnerships and collaboration with traditional and non-traditional financing providers.

## Project Overview

In order to understand the challenges faced by Indigenous governments and leaders, researchers conducted interviews with Indigenous leaders, Indigenous financial institutions, mainstream lenders, housing developers, and the public sector. The literature review focused on Canada, but also drew on international research to highlight leading practices from other regions. This research covers the following key elements:

- Identifying challenges and mainstream financing options that support homeownership and the development of multi-unit affordable housing in Indigenous and northern communities, with a key focus on First Nations on reserve and in non-market regions;
- Applying a Gender Based Analysis lens, exploring the unique intersectional challenges faced by Indigenous women and members of the two-spirited community in accessing housing finance;
- Exploring opportunities to improve access to housing financing tools across Federal programs and policies, as well as private-public partnerships.

## Key Findings

Due to the different treaty relationships that Indigenous governments have with the federal government, the researchers indicated that not all financing programs are appropriate or accessible for housing development. Key challenges involve A) land tenure, B) economic development, which in this research, is linked to C) bruised or no credit history. These three challenges can be bypassed using key innovative approaches identified and implemented by Indigenous leaders and governments in different parts of the country.

- A. Leveraging leasehold interest on Indigenous territory or other collateral that may be available to Indigenous borrowers, like A to A leasing to circumvent the complexity of land tenure restrictions.
- B. Developing additional insurance products that support economic development, like surety bonds, to enable Indigenous construction companies to compete for housing contracts.
- C. Establishing or improving credit ratings of Indigenous People and Indigenous governments will improve their ability to access alternative financing sources to develop housing with or without federal government aid.
- D. Providing a suite of culturally sensitive products and services that support homeownership responding to the unique needs of Indigenous women and 2 spirited individuals, or those along the gender spectrum.

## Challenges

Access to financing for Indigenous housing developments occurs within a complex ecosystem of factors.

### A. Due in part to complex treaties and land management regimes the challenge of expanding housing will differ in each community.

- The land tenure system categorizing Indigenous territory as crown land can make obtaining a mortgage difficult since the mortgage cannot be secured on title.
- Some communities may not be eligible for government funding due to their treaty agreement. Modern Land Claim agreements that include provisions for self-government are no longer eligible for Mortgage Loan Guarantees through Indigenous Services Canada. As a result, they must use alternative approaches to secure funding.
- Depending on geography, there may be additional hurdles to accessing federal funds. For example, Jason Snaggs, Chief Executive Officer of the Yellowknives Dene First Nation explained that many of the self-governing First Nations in the Northwest Territories do not receive direct funding from Federal Government. Much of the funding is funneled through Northwest Territory Housing Corporation, which then releases the funds to the First Nations.
- Key contacts working on Indigenous banking solutions in the top six national banks demonstrated confusion about land tenure and CMHC On-Reserve housing programs. Over the course of the interviews, researchers noted that contacts were using incorrect

terminology and referred to the Section 95 housing program as a form of land tenure. This created more challenges for partnerships and alternative solutions since the gap in knowledge prevented the identification of possible financial services and products that could be applied for financing on Indigenous territory.

- The identification of land parcels and the availability of land with the appropriate infrastructure in place (sewers, plumbing, and roads) is a significant issue for attracting and engaging private sector financing and developers. Only once the land has the appropriate infrastructure in place can investors from the private sector be engaged.

### B. Economic development and Housing supply.

- The current subsidized housing model is under pressure from all community members, regardless of income level. Increasing the housing supply to address the needs of middle- and high- income earners will reduce the demand for social and assisted housing in some communities where the opportunity exists.
- Lack of access to insurance and other tools like surety bonds prevent Indigenous led companies from participating in housing construction, even in their own communities. Access to tools like surety bonds is a key obstacle faced by Indigenous controlled companies that prevents them from competing with well-established non-Indigenous businesses.
- Surety Bonds are also a hurdle that prevent economic participation by community owned companies. Profits from these companies help to cover community infrastructure such as water and sewers as well as new housing, non-payment of housing and maintenance.
- Typically, surety bond requirements include minimum years of experience (e.g., 5 Years of work, multiple large sized projects); enough assets in the company; well experienced employees and previous work history as company directors, and lines of credit (not by the band but a financial institution).
- Without a bonding facility, Indigenous community-owned construction companies are at a disadvantage economically to other companies who have already obtained bonding facilities and/or a line of credit worth up to 10% of the value of the job.
- Surety bonds are one of the only ways Indigenous-owned companies can compete for large housing contracts at the provincial and federal level. The requirements for credit history creates a circular logic preventing inclusion.

### C. Credit History.

- There is significant stigma around the lending ability of Indigenous Peoples. In a research series examining the repayment of credit card debt in First Nations communities, Forrest Green found that credit card default rates of Indigenous Peoples on reserve are higher than in neighbouring non-Indigenous communities. For example, on one reserve in Alberta, the delinquency rate of credit card repayment was 68.8%, while the national average is 5.2%<sup>1</sup>.
- Repairing bruised credit is a challenge for Indigenous Peoples living on-reserve or on non-market regions. Mainstream lenders have small departments focusing on Indigenous financing products, and the level of knowledge about historical financial speculation and the unique challenges faced by Indigenous governments related to building and repairing credit is uneven across mainstream financial advisors. This is compounded by implicit bias or racial discrimination at the service level. Researchers heard how Indigenous People have experienced many challenges obtaining loans at reasonable rates from financial institutions.
- Credit bureaus currently do not accept on time payment history from band housing managers. Individuals living on reserve, who pay their rent on time, often have no credit or limited (thin) credit files, which impact their ratings. This has less impact on non-Indigenous individuals who have more historical transactions with financial institutions.
- Indigenous governments and community members have expressed financial distrust as well as, in some cases, limited financial literacy for lending products and services.
- Remote and lower income communities may not have access to online banking, credit cards, or loans. Most communities do not have a full-service bank on reserve.
- The curriculum offered by secondary schools currently does not offer courses addressing credit or financial literacy.

**D. These challenges are compounded when examined through an intersectional lens.** Individuals along the gender spectrum, or who face other challenges like disabilities or dependents, are restricted from accessing financing even further.

- Lack of access to affordable housing as being a significant contributor to the economic and physical insecurity faced by Indigenous women, girls, and 2SLGBTQQIA people in Canada. These groups, in particular, face the compounding obstacles of the issues articulated in this research, as well as racial and gender discrimination when attempting to access housing finance, precarious employment and housing, as well as bruised or no credit history.
- Indigenous women often face challenges when they attempt to obtain accommodation on reserves, which are a function of the limited housing stock and the long waitlists for placement. This is compounded by a lack of infrastructure and abhorrent housing conditions in urban areas. Many Indigenous women, who have been forced off reserve, face racial discrimination as they try to find shelter. This has been manifested in the racist attitudes of landlords, evictions without notice, denials of opportunity to rent, and unreasonable rent increases. It is a situation that is exacerbated by the difficulties that Indigenous women face when they attempt to acquire a loan to purchase a house. Few have a credit record and they often encounter bias from bankers and lenders.
- The problems of finding good housing are amplified for single mothers and for grandparents who are caring for grandchildren. Single Indigenous women face high rates of unemployment, lack of access to childcare, poor housing, racism, and sexual harassment by landlords. Elderly persons suffer higher illness and disability rates, they are vulnerable to acts of violence, which makes safety in housing an imperative, and they too have difficulties convincing landlords that they have the economic stability that makes them good candidates as renters.
- Disability, dependents, and overcrowding in subsidized housing make it difficult for Indigenous women to access the limited job opportunities, giving them access to only lower wages, leading to reduced access to market rental housing. The downstream effect is that it is even more difficult to access the financing required for home buying.

Combined, these elements raise challenges for Indigenous governments and organizations tasked with providing safe, adequate, suitable, and affordable housing.

<sup>1</sup> Forrest Green RMC. 2016. *Comparative Analysis of Consumer Credit Bureau Data*. Ottawa: Forrest Green RMC.

The structure of the application process and information available in order to access housing financing provided by the federal government also present some barriers. For example, many Indigenous leaders requested the transparent disclosure of funding allocated to Indigenous housing by CMHC in order to adequately plan housing development on their territories. They also indicated that they had trouble determining which CMHC programs were best suited for their community needs. Many of their housing managers struggled to submit applications to CMHC programs before the deadlines due to the complexity of the paperwork, and the high turnover within the housing manager position. The more successful communities have housing managers that have experience in the application program, and a higher rate of success.

## Solutions

### A. Indigenous governments can leverage leasehold interest to create innovative sources of passive income.

- A leasehold interest refers to a tenant's right to use the land as provided for in the lease. Once an Indigenous government has established a system of land codes on the territory through the First Nations' Land Management Act (FNLMA), the parcels can be developed by Indigenous tenants.
- Westbank First Nation provides community members with parcels of land in a 99- or 125-year lease. Community members then obtain a mortgage or build their own property on the leased land. The unique part about this model is that the renters in Westbank are commonly non-natives that have decided to move to Westbank and live on their land. This is a passive form of revenue in their community.
  - Researchers heard from mainstream lenders that providing financing for property development on land segmented by land codes through the FNLMA is preferable.

### B. The development of a construction-related surety bond product would support Indigenous economic development.

Indigenous-owned corporations supported by surety bonds would be able to compete for housing-related construction contracts. Awarding construction contracts to Indigenous-owned companies for builds on (and off-) reserve would support economic development in communities, build capacity for housing-related needs, and support growing governance in the housing sector for Indigenous governments.

- A surety bond product could assist companies that do not have the surety insurance to compete for the contract.
- There are opportunities to work with or support insurance brokers or companies to facilitate the surety bond process for Indigenous companies.

### C. Credit literacy and financial inclusion can assist Indigenous governments and individuals access credit products with mainstream lenders.

- A key solution would be to influence credit bureaus to recognize non-taxable income and on time payments to the band to enhance the credit history on an Indigenous person's credit report. Similarly, credit bureaus can work with CMHC in order to recognize on-time loan repayments and responsible fiscal management of housing related loans through CMHC's various Indigenous housing subsidy programs.
- If credit bureaus accepted the low default rates for housing payments, this could balance the ratings of those with bruised credit, and increase the appetite for lending. Credit and commercial credit file expansion is crucial for Indigenous community members and governments.
  - Many financial institutions, including the national credit bureaus, have created online solutions to provide financial literacy.
  - The research suggests creating partnerships between CMHC and Indigenous financial institutions to expand and support current financial literacy programs for Indigenous People and governments.
  - The research suggests creating partnerships between CMHC and Indigenous governments to implement and train housing managers on sound financial management and how to build solid credit portfolios with credit bureaus.

### D. Additional training and economic reconciliation efforts need to be undertaken

- to support Indigenous individuals who are doubly affected by the intersection of multiple challenges.
- It is critical to provide training to funders and lenders to help them understand the special financial needs of Indigenous women and to teach them ways they can support Indigenous women in their efforts to obtain access to safe shelter.
  - NWAC recommends an expansion of access to mortgage products tailored to the needs and situations of Indigenous women to increase Indigenous homeownership.



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## Fast Facts

- Out of the over six-hundred First Nations in Canada, the four major banks (RBC, BMO, CIBC and Scotiabank) have a collective total of less than fifty branches opened on reserve land across the country.
  - According to research conducted by CMHC in 2021 examining transitions into and out of core housing need, 18.7% of Indigenous households were in core housing need in year zero, compared to 9.6% of non-Indigenous households. After the intervals of five years, approximately 45% of Indigenous households remained in core housing need, while only 37% of non-Indigenous households remained in the same state (Transitions Into and Out of Core Housing Need, 2021<sup>2</sup>).
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## Implications for the Housing and Financial Industry

- Indigenous financial products and services is a huge untapped market in Canada. With population and wealth growth, the possibility of developing relationships with this segment is urgent. There is currently very little penetration in banking solutions and services on reserve and other Indigenous territories.
- Economic reconciliation will need to be approached carefully, considering the abuses of the past. Private sector training in reconciliation, and a lens towards the systemic biases faced by Indigenous People that prevent them from accessing financing tools, will need to be applied when building relationships.
- Indigenous Financial Services, Aboriginal Capital Corporations, and other Indigenous owned and operated financial institutions can be supported through creative collaborations, maintaining and supporting the controlling interest of the institution.
- Indigenous insurance instruments and underwriting services that reflect Indigenous values can be developed by Indigenous Financial Institutions and Aboriginal Capital Corporations, and subsequently recognized by municipal, provincial, territorial, and federal bodies. The move has the potential to support Indigenous economic development.

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<sup>2</sup> <https://www.cmhc-schl.gc.ca/en/professionals/housing-markets-data-and-research/housing-research/research-reports/housing-needs/research-insight-transitions-into-out-core-housing-need>

# Glossary of Key Terms

## 2SLGBTQQIA

An acronym for 2 Spirited, Lesbian, Gay, Bi-, Trans-, Queer, Questioning, intersex, and asexual/aromantic/agender.

## 2 Spirited (2S)

This term is culturally specific to the North American Indigenous community and refers to queer Indigenous People who identify with both a male and female spirit. This term is not exclusive to gender identity, and can also refer to sexual orientation.

## First Nations Land Management Act (S.C. 1999, c. 24<sup>3</sup>)

The First Nations Land Management Act (FNLMA) allows First Nations to enact and administer their own land codes. Until they enact a land code under the FNLMA, First Nations have to govern their reserve lands according to the Indian Act. When First Nations choose to enact a land code under the FNLMA, roughly one third of the Indian Act ceases to apply. Land codes include rules and procedures on land use and occupancy according to First Nations custom, transferring rights and reserve land through succession documents, how revenue generated from reserve land is managed, a community consultation process to address land division when a marriage is dissolved, dispute resolution, and exchanges of land (see JFK Law Corporation<sup>4</sup>)

## Indian Act (R.S., 1985, c. I-5, s. 89 (1)<sup>5</sup>)

This section of the Indian act refers to the restrictions placed on Indigenous land from seizure, levy, or distress in favour or at the instance of any person other than an Indigenous person or band.

## Leasehold Interest

A leasehold interest refers to the right the tenant has to use the land as provided for in the lease.

Mortgage Loan Guarantees: Ministerial Loan Guarantees are issued by Indigenous Services Canada to lenders to secure on-reserve housing loans and minimize risk if the First Nation defaults.

## Section 95 On Reserve Non Profit Housing Program

The On-Reserve Non Profit Housing Program administered by CMHC supporting housing on Indigenous reserve territory. CMHC supports First Nation communities by providing financial assistance to build affordable rental housing. The subsidies and loans help construct, purchase and rehabilitate, as well as manage non-profit housing. The program is available to self-governing, modern treaty and First Nations participating in the Income Assistance program through Crown-Indigenous Relations and Northern Affairs Canada or Indigenous Services Canada.

## Self-Governing (Modern) Treaty

The modern treaty era began in 1973 after the Supreme Court of Canada decision (Calder et al. v. Attorney-General of British Columbia), which recognized Aboriginal rights for the first time. This decision led to the development of the Comprehensive Land Claims Policy and the first modern treaty, the James Bay and Northern Québec Agreement signed in 1975. Since 1975, Canada has signed 25 additional treaties (called modern treaties or comprehensive land claim agreements) with Indigenous groups in Canada. Some of these treaties include self-government. (Crown-Indigenous Relations and Northern Affairs Canada<sup>6</sup>)

## Surety Bonds

A surety bond is an agreement between three parties, while a traditional insurance policy is an agreement between two. A surety agreement involves the principal, the surety, and the obligee. In this arrangement, the business (or Indigenous-owned Construction company) is the principal, the obligee is the client (the party wishing to pay for the housing build), and the Surety is a third-party company that provides the insurance (any insurance company willing to provide the Surety Insurance).

<sup>3</sup> <https://laws-lois.justice.gc.ca/eng/acts/F-11.8/>

<sup>4</sup> <https://jfklaw.ca/what-is-the-first-nations-land-management-act/>

<sup>5</sup> <https://laws-lois.justice.gc.ca/eng/acts/i-5/page-13.html#h-332823>

<sup>6</sup> <https://www.rcaanc-cirnac.gc.ca/eng/1100100028574/1529354437231#chp4>

## Further Reading

### Related Reading

#### Alternative Types of Security, 2021

<https://www.cmhc-schl.gc.ca/en/professionals/project-funding-and-mortgage-financing/funding-programs/indigenous/alternative-types-of-security>

#### Transitions In and Out of Core Housing Needs, 2021

<https://www.cmhc-schl.gc.ca/en/professionals/housing-markets-data-and-research/housing-research/research-reports/housing-needs/research-insight-transitions-into-out-core-housing-need>

#### Mortgage Loan Insurance: CMHC leasehold lending on-reserve, 2020

[https://cmhc.ent.sirsidynix.net/client/en\\_US/CMHCLibrary/search/results?qu=Indigenous+finance&te=ILS&lm=CMHC\\_DOCUMENTS](https://cmhc.ent.sirsidynix.net/client/en_US/CMHCLibrary/search/results?qu=Indigenous+finance&te=ILS&lm=CMHC_DOCUMENTS)

#### Developing socially inclusive affordable housing, 2020

[https://eppdscrmssa01.blob.core.windows.net/cmhcprodcontainer/sf/project/archive/publications\\_3/69693\\_w\\_acc.pdf](https://eppdscrmssa01.blob.core.windows.net/cmhcprodcontainer/sf/project/archive/publications_3/69693_w_acc.pdf)

#### The Role of housing in aboriginal student success: post-secondary institutions in Vancouver, 2008

<https://eppdscrmssa01.blob.core.windows.net/cmhcprodcontainer/sf/project/archive/publications/rhse-penrse/65935.pdf>

#### Housing discrimination in Canada: the state of knowledge, 2002

[https://eppdscrmssa01.blob.core.windows.net/cmhcprodcontainer/sf/project/archive/research\\_5/housing\\_discrimination\\_in\\_canada.pdf](https://eppdscrmssa01.blob.core.windows.net/cmhcprodcontainer/sf/project/archive/research_5/housing_discrimination_in_canada.pdf)

#### Literature Reviews on Housing Needs:

##### Racialized Individuals and Communities, 2019

<https://www.cmhc-schl.gc.ca/en/professionals/housing-markets-data-and-research/housing-research/research-reports/housing-needs/understanding-housing-needs-racialized-individuals-communities>

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