Bank Financing

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Bank Financing Use

- Assisting with cash flow for operations, projects and investments

- Should not be viewed as funding – has to be repaid and incudes cost of borrowing – interest and bank fees

- Best to use for funded programs or for projects with sufficient profits to repay the loans

Bank Financing Types

- Short term financing for operations cash flow - line of credit
- Short-term interim financing for projects (until funding is received)
- Long term financing for equipment purchase and investments – term loans
- Long term financing for housing – mortgages
- FNFA financing – long term and interim

Bank Financing Elements

1. Loan purpose and risk – determines all the financing terms

2. Loan term/duration – should be aligned with the project purpose and duration

3. Repayment timing and amount – should be comfortable for our cash flow

4. Security/collateral – assets used to secure the loan

5. Interest rate – based on Bank of Canada Prime rate – set as a part of the government economic policy. Can be fixed for a loan term or variable based on Prime +%. Current prime rate is 6.7%

6. Bank fees – upon loan approval and annual

Line of Credit (LOC)

- Used to finance the gap between paying operational expenses and receiving funding
- LOC limit should be sufficient to cover at least two payrolls. Most banks would give a LOC in the amount of the average monthly ISC funding
- No set repayment terms – LOC revolves monthly through funding deposits and withdrawals needed for operations
- Interest rate is normally variable – up to Prime + 2%
- Security is normally a general security agreement (GSA) – no specific assets are used as a collateral
- LOC should not be used to finance losses or long-term projects
- If LOC balance isn't at 0 at least once a quarter, it was likely used to fund losses or long-term projects – consider approaching the bank to term out that portion of LOC (use a term loan with monthly repayments)

Term Loans

- Used to finance long term projects such as equipment purchases and business investments
- Normally requires equity contribution of 20% - 30% - loan amount is 70% - 80% of the project cost
- Repayment terms are based on the project nature – 3 to 20 years
- Interest rate can be fixed or variable – Prime to Prime + 3%
- Security is normally a general security agreement (GSA) and specific assets and revenues (project related and other own-source)
- Loan duration and monthly repayments should be comfortable for our cash flow
- Important to consider where loan repayment will come from

Mortgages

- Used to finance housing and buildings
- CMHC insurance and ministerial loan guarantee are used to reduce downpayment and to secure mortgages
- Repayment terms are around 25 years
- Interest rates are the lowest, can be fixed or variable – up to the Prime rate
- Buildings not on reserve land – bank will use the building as mortgage security
- CMHC tend to have the best mortgage rates for housing, check what's available through them
- Repayment – mortgage subsidies for CMHC houses, shelter allowance for IA tenants, rent, own source revenue

How to Manage Existing Financing

- Review and understand the current financing structure (bank agreement/s)

- Notice the reporting requirements (annual audit, interim statements, financial ratios). Banks charge fees for late reporting and can demand loan repayment

- Establish a relationship with the banker – they can assist with new financing, defer loan payments and reporting requirements

- Approach another bank and ask to review your current financing. Can they offer a better deal?

- Consider becoming an FNFA member

How to Apply for Financing

- Determine the need – LOC increase, new term loan or mortgage, new project financing
- Review and understand the current financing structure (bank agreement/s)
- For new projects may need a valuation, business plan and financial projections – funding is normally available to cover the costs
- Most recent audit and current internal financial statements will be required
- Approach the current bank and at least one more. Banks tend to offer better deals to new customers. Consider FNFA as an option
- Bankers will lead the financing process and will let you know what documents are needed
- Involve a finance/accounting professional and a lawyer to make sure your organization is protected
- Consider finance committee and/or community approval for large new loans
- Only borrow for solid projects that can repay the loans
- Repayment amount should not cause cash flow issues
- Understand loan security – aggressive collateral should not be used

Bank Agreement Review

- Focus on the information you understand:
  1. Loan amount and purpose
  2. Interest rates
  3. Repayment terms
  4. Security
  5. Reporting requirements
  6. Bank fees

- Ask the banker to explain anything that's not clear

- Legal provisions are normally standard. For new loans, good to ask the organization's lawyer to review

Sample Bank Agreement Review

Financing Opportunities for First Nations

1. First Nations Finance Authority (FNFA) – low-rate long term financing for member First Nations. Current long-term lending rate is 4.25%. Loan term is 10, 20 or 30 years, loans are based on own source revenue. https://www.fnfa.ca/en/fnfa/

2. Community Economic Development Fund – loans (including forgivable portions) for business projects. Interest rates are normally at the higher end and repayment terms may be aggressive. https://www.cedf.com/loans/

3. Ontario Financing Authority Aboriginal Loan Guarantee Program - provides a Provincial guarantee for a loan to finance a portion of its equity investment (typically about 75 per cent) in an eligible project. Eligible projects: electricity infrastructure projects, including renewable energy infrastructure in Ontario (e.g., wind, solar and hydroelectric generation projects) and transmission projects. https://www.ofina.on.ca/algp/

4. Indigenous Economic Development Fund – economic development and construction project grants and loans https://www.ontario.ca/page/funding-indigenous-economic-development

5. CMHC for mortgages

Practical Application for First Nations Finance

Thank you for your time

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