Northwest Territories Mortgage And Loan Company - Business Plan
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Northwest Territories
Mortgage & Loan Company

Business Plan
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Preliminary
Stage II

Private and Confidential

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Executive Summary

The Government of the Northwest Territories is now in the process of implementing a mortgage and loan company for the specific purpose of providing residential mortgage financing in the Northwest Territories.

The Northwest Territories is currently experiencing a significant shortfall in residential housing for its occupants. A unit shortfall of approximately 3,000 exists within the territory. This shortfall is expected to grow as the territory's economy improves and grows over the next several years. The Northwest Territories conducted a comprehensive Housing Needs Survey in 1992. The purpose was to objectively measure the need for public housing and the need for new home ownership units in every community within the territory. The housing needs survey findings are summarized in Appendix VI. The survey identified a total of 2,149 households who had housing problems and had the family resources to afford better housing. An additional 3,584 households required better housing but were not currently in a financial position to upgrade.

The primary cause of this housing deficiency is the lack of adequate sources of financing to facilitate the construction of new housing units. To date the banks have been reluctant to provide residential mortgage financing in many areas of the territory and their participation in this market is on a very selective basis generally in the major urban centers of the territory.

As the territory continues to grow the need for new housing will increase. The opportunities presented by the diamond exploration activities and potential new mines plus the implementation of Nunavut are expected to increase the need for housing and provide new lending opportunities for the Northwest Territories Mortgage and Loan Company (NWT-M&LC).

The creation of the NWT-M&LC will stimulate new residential construction in the region by providing a new source of financing. This will enhance economic development in the north through new construction and provide spin off benefits to all sectors of the economy.

The NWT-M&LC is to be incorporated under a regulatory and legislative framework to be established by the Government of the Northwest Territories. The company will be licensed to carry on business as a loan company within the Northwest Territories. The NWT-M&LC will generate a secure stream of income by investing in a portfolio of residential mortgages and other qualified investments in the territory. The head office will be in a major centre in the Northwest Territories.

The NWT-M&LC will be capitalized with an initial investment by the Government of the Northwest Territories. Several private and institutional investors will be involved from the beginning. A total of $10,000,000 of equity capital will be invested within the first year. The NWT-M&LC will employ leverage, as permitted, by issuing debt obligations (term deposits) to a maximum of five times the book value of equity in the company. These term deposits will be matched to the term of the mortgage portfolio.

The NWT-M&LC plans to be a member institution in good standing with the Canadian Deposit Insurance Corporation (CDIC). All deposits subject to the CDIC maximum will be insured.

Sufficient deposits can likely be obtained within the Northwest Territories to provide the capital required to generate a $120,000,000 mortgage portfolio within 5 years. The NWT-M&LC intends to offer a premium of approximately ½% on five year deposits to stimulate investor interest. The northern residents have a very high savings rate and currently much of these finds are held in the form of deposits with the same banks that are reluctant to re-invest in the territory. This premium combined with a strong public relations and marketing campaign focusing on the benefits this company provides to the territory should make the company a positive deposit opportunity for the residents of the Northwest Territories.

The NWT-M&LC intends to qualify as a mortgage investment corporation under the Income Tax Act. This obliges the company to distribute all of its net income (for tax purposes) within 90 days of its year end to the shareholders of the company. This will allow the company to avoid paying corporate income taxes and thereby provide a larger income stream and return to its shareholders.

The NWT-M&LC will seek equity capital from the private sector which will leverage the equity investment made by the government. Based on the expected returns and risk we believe that northern investors will find this an attractive alternative for R.R.S.P. equity investments. Aboriginal groups, certain institutions, and other private investors are all potential equity participants.

The NWT-M&LC will develop investment policies which will be approved by the Board of Directors. These lending policies will be consistent with the CDIC operating guidelines and consistent with the Canadian Mortgage Housing Corporation (CMHC) regulations.

The NWT-M&LC's investment policy:

1. At least three quarters of the NWT-M&LC assets will be invested in Residential Mortgage Loans within the Northwest Territories or be held in cash or other permitted deposits.

2. The balance of the NWT-M&LC's assets will be invested in other permitted investments which may include real property, leases on real property and industrial and commercial mortgage loans within the Northwest Territories.

3. The NWT-M&LC will consider residential mortgage financing on public housing projects in the Northwest Territories provided government leases or guarantees are available.

Expertise will be retained to administer the loan portfolio in accordance with the NWT-M&LC's investment policies. Extensive knowledge of the north and residency in the north will be a prerequisite for the group selected.

This group will be experienced in operating and managing a residential mortgage portfolio. The group will originate mortgages, administer collections and generally manage the investment portfolio, subject to the direction of management and the Board of Directors.

Residential mortgages will be available to all areas of the territory. The company's activities will be confined to the Territory. The NWT-M&LC will establish lending guidelines and interest rate schedules based on the location of the asset and the risk of the individual mortgage investment. The company will charge a premium over the current conventional mortgage lender. This will ensure no displacement of existing lenders within the territory will take place and thus provide incremental mortgage financing to residents of the territory.

The company intends to cooperate with existing lenders and will organize lender consortiums to finance large projects and /or projects where risk can be minimized by the participation of several lenders. The company will be very sensitive to the characteristics of the north and will establish a Northwest Territories based Loan & Business Committee who can properly assess the risk of each investment from the northern perspective and still maintain a high standard of lending criteria.

The Government of the Northwest Territories, along with the Federal Government, sees this vehicle as an excellent method of leveraging government participation in the development of the north. In this regard, the governments will provide secondary security in the form of government lease guarantees and other secondary guarantees where appropriate. Specific guarantees will be established to accommodate projects in the area of public housing. Normal Canadian Mortgage and Housing Corporation guarantees will be used for lenders who qualify under its programs. The CMHC criteria will be expanded by the NWT-M&LC to ensure maximum guarantees are sought at all times.

The Government of the Northwest Territories will provide a total of $5,000,000 of equity financing and will limit its ownership to 25%. A total of $15,000,000 to $20,000,000 of equity is now being sought to provide a capital base for the new NWT-M&LC. CDIC insurable deposits will provide the primary source of debt financing.

An experienced team of professionals based in the Northwest Territories will be assembled to launch this new NWT-M&LC. The market need is clear. Government support, both territorial and federally, is now available. This company can be a viable business and will likely evolve to a full service trust company or similar financial institution.

This new company will provide significant benefits to the territory in the form of new construction jobs and additional economic development. This new financing source will help solve a portion of the housing shortage in the territory and provides significant private sector leverage on the use of public finds.

The Northwest Territories

The Northwest Territories encompass the lands north of the sixtieth parallel including the islands north to Ellesmere Island. It is bordered on the west by the Yukon and on the east by Hudson Bay and the Davis Strait.

The total area of the Northwest Territories is 3,376,698 square kilometres or about one third of the total area of Canada. Of the total area, land mass accounts for 3,244,608 square kilometres.

The population of the Northwest Territories in 1990 was estimated at 53,500. Approximately sixty per cent of the residents are aboriginal people the majority of which are Inuit.

The Northwest Territories Act of 1875 established the legal framework for governing the Northwest Territories which, with subsequent amendments, still stands as the legal authority for the Government of the Northwest Territories.

The Government of the Northwest Territories has evolved over the decades to the point where it is similar in many ways to a provincial government. The evolution has been marked by a steady transfer of power from the Federal Government to the Government of the Northwest Territories.

The Government of the Northwest Territories has substantially the same revenue raising powers and expenditure responsibilities as the provincial governments. However, the Northwest Territories has a relatively smaller and less stable revenue base than most of the provinces. The per capita cost of delivering essential public services in the Northwest Territories exceeds that of the provinces because of the large geographic area, low population density, lower level of infrastructure, and higher environmental costs.

Most of the goods produced in the Northwest Territories are sold elsewhere. Mineral mining is the largest goods producing industry and has historically accounted for ten per cent of the direct jobs available. Diamond exploration activity in the Northwest Territories has resulted in thirty million acres of claims during 1993. It is becoming increasingly probable that the Northwest Territories will host the first diamond-producing mine in North America. This would vastly increase the role of mining as a direct and indirect generator of employment and income.

The 1989 Northwest Territories Labour Force Survey revealed a total labour force of 24,250. The unemployment rate was calculated at sixteen per cent. The survey found that approximately 10,400 individuals over the age of fifteen were not in the labour force at that time resulting in a total participation rate of seventy per cent. As of 1988, the average income level in the Northwest Territories was $26,400 which is the highest per capita income in Canada.

Government at all levels provides over twenty-seven per cent of the jobs in the Northwest Territories. If employment in health, social services and education is included, this number is over fifty per cent. Other major areas of employment include mining, retail and wholesale trade and financial services.

More than seventy per cent of territorial revenues are provided in the form of a grant from Canada under the terms of the Formula Financing Agreement. Other federal transfers, including Established Programs Financing, account for an additional eleven per cent. The bulk of the remaining revenues are derived from taxation.

Residential Housing Market

The housing situation in the Northwest Territories is somewhat unique. The territory is comprised of many small towns and hamlets with the major population centered around the capital, Yellowknife, in the southwest quadrant of the territory. There are several regional centres in the east including Rankin Inlet, Iqaluit, and others.

Studies indicate there is a significant shortage of housing. The housing shortage is estimated to be over 3,000 units by the end of the year. This demand is expected to grow by over 500 units annually based on current population growth projections.

The economy and business conditions facing the region are positive. Stable government programs supplemented by aboriginal land claim money are expected to provide strong infrastructure development programs. The potential for diamond mining opportunities and associated private investment all combine to provide the region with strong growth and development opportunities.

The vast territory combined with a limited market has resulted in very few banks and conventional financial institutions providing residential mortgages to homeowners in the territory. This lack of conventional financing has contributed to the housing problem in the territory.

The Northwest Territory Housing Corporation conducted a very detailed Housing Needs Survey in 1992. This was the most comprehensive study of housing needs ever completed in the Northwest Territories. People in over 14,000 households answered questions about their current housing situation and future housing preferences. A summary of the results of the survey is contained in Appendix VI.

A total of 5,733 households identified the need for more adequate housing. A total of 3,584 were classified as “in core need”. This group represents those households who are currently occupying inadequate housing and who today are spending in excess of 3 0°/0 of their family income on housing. This group, with appropriate guarantees, could also benefit from the availability of NWT-M&LC mortgage financing. This survey is quite useful in identifying the location and concentration of the need for new public housing.

A second group totaling 2,149 households have been identified as having housing problems and appear to possess the resources to afford better housing. This group has been identified as the primary market for the NWT-M&LC.

A detailed analysis of this group is contained in Appendix VI. All the housing centres within the territory have been evaluated and classified as an “A”, “B”, or “C” centre depending on location and size of the centre. An “A” centre is considered the least risky, while the “C” centre is the most risky. The strategy of the company will be to develop a diversified portfolio of mortgages in all centres within the territory and implement an interest rate premium in the areas where more risk is evident.

Based on the housing needs survey there appears to be a clear market need with over 2,000 households currently requiring more effective housing and having the financial means to afford an upgrade in housing. This is the initial target for the company. The market for residential mortgages is strong and is expected to expand as the territory develops and the population grows. The significant incomes earned in the territory and the inability of conventional financial institutions to serve this market provides the company with excellent prospects.

The territorial government operates the Northwest Territories Housing Corporation (NWT HC) which provides a series of programs to provide housing to low income earners and the aboriginal people. NWT HC is exclusively funded by the Government of the Northwest Territories and will not compete with the NWT-M&LC.

The government would continue to operate the NWT HC. The NWT-M&LC may be able to provide mortgage financing to those borrowers that meet normal lending criteria who today are using the resources of the NWT HC because of the lack of adequate alternatives. Certain programs now offered by the NWT HC may be better served by the NWT-M&LC. Appendix VII contains an analysis of public policies areas which should be reviewed prior to the official launch of the NWT M&LC.

The NWT-M&LC will be funded by $20 million of equity of which $5 million will be provided by the Government of the Northwest Territories. The $20 million equity base allows the company to borrow up to five times that amount or $100 million providing a total capital pool of $120 million available for mortgage financing. Therefore, the governments $5 million participation could effectively produce 23 times leverage in the future.

The introduction of this new financing company will form part of the solution in addressing the housing shortage in the territory. Significant economic benefits will be created by the increase in new construction. New jobs will create spillover benefits to other sectors of the economy. This new company will be seen as a place that Northerners can invest their money knowing it will be invested in the north and provide maximum benefits to their region.

Business Opportunity

The business objective of the NWT-M&LC is to generate a secure stream of income by investing in a portfolio of residential, industrial and commercial mortgages and other qualified investments. The company will employ leverage, as permitted by the Income Tax Act, by issuing debt obligations up to a maximum of five times the book value of invested capital.

As a mortgage investment corporation under the Income Tax Act, the company will not be required to pay corporate income taxes on that portion of its taxable income which it pays to shareholders as dividends. Accordingly, the NWT-M&LC will distribute annually substantially all of its net income and net taxable capital gains as dividends and, as a result, the company anticipates that it will not be liable for any income tax.

The NWT-M&LC will derive its net investment income from the difference between amounts earned on its mortgage portfolio and other investments and the cost of the debt it issues. Under applicable laws, the company is permitted to borrow up to five times the excess of the book value of the assets of the company over its liabilities (the borrowing base). As the demand for lending increases the NWT-M&LC will borrow to the extent that the borrowing and additional investments will increase the overall profitability y of the company. In order not to exceed regulatory restrictions respecting leverage, the company intends to maintain an operating level of indebtedness ofjust under five times its borrowing base.

The company will not speculate on interest rate movements. The NWT-M&LC's policy will be to match the terms of its mortgage investments with the terms of the debt obligations that it issues to fund those investments. The company also endeavors to match its mortgage portfolio on the basis of cash flows and duration, taking into account such factors as anticipated pre-payments and accelerated amortization.

The objective of the NWT-M&LC will be to obtain profitable interest rate spreads rather than to attempt to capitalize on fluctuations in interest rates. By matching the maturity dates of its mortgage investments and its deposits and maintaining a positive spread in fixed interest rates between the investments it makes and the debt it issues to fund the investments, the leveraged portion of the mortgage portfolio will remain largely insensitive to swings in market interest rates. Appendix XI contains a detailed discussion of Asset/Liability management practices to be implemented by the NWT-M&LC.

The NWT-M&LC will seek to maximize the return on the mortgage portfolio but control the risk by seeking NHA insured mortgages. Territorial government lease guarantees will be instrumental in the provision of financing for public housing. Territorial and federal government guarantees will be sought and established when appropriate. This strategy will lower the risk of bad debts and the loan loss expense of the company.

There is an excellent business opportunity available in the Northwest Territories for a financial institution that is sensitive to the unique characteristics of the north and possess an understanding of the business conditions within the territory.

Banks and other financial institutions have failed to serve this market adequately. Banks are prepared to accept deposits from northerners but are unwilling to reinvest these deposits in the north in the form of business loans and residential mortgages. Banks have failed to provide an adequate level of service to many areas of the north and have been very ineffective when dealing with the Inuit and other aboriginal groups within the region. The lack of adequate residential mortgage financing within the market provides the opportunity for the NWT-M&LC to secure a significant share of the market. Appendix IX provides a discussion of the anticipated impact of the NWT-M&LC's on the banks and financial institutions currently operating in the Northwest Territories.

The enclosed financial projections demonstrate a very attractive rate of return and the risk involved in this business is reduced through the use of CMHC insurance and other government guarantees. This provides the company with the business fundamentals for a successful mortgage and loan company. As the company evolves it will be an excellent takeover candidate, should the Government so desire, for a trust company seeking direct participation in this market.

The initial support of the Government of the Northwest Territories combined with the support of private investors will provide the capital structure required to launch this firm. CDIC and CMHC support will reduce risk and provide institutional status from the outset.

The existence of a strong fiduciary board and a knowledgeable, northern based management will provide effective leadership and a strong business perspective. These features, combined with an effective marketing and public relations program, will provide an excellent private sector financing vehicle which should be well received by the general public.

Operations Structure

The NWT-M&LC will be incorporated and organized as a loan corporation under a legislative and regulatory framework established by the Government of the Northwest Territories. Operating as a financial institution, the NWT-M&LC will be governed by a Board of Directors. The board will be comprised of northerners who have extensive business experience as well as knowledge of and experience in the north. The board will provide general direction for the company and oversee its operations. The board will be comprised of members who have extensive experience in managing and operating a company which provides mortgage financing. It will be necessary to have at least one third of the board consist of independent outside directors who are not involved with day to day management of the company and who are not shareholders of the company or related to any shareholder.

A northern management team will be hired consisting of a President and CEO as well as a Chief Financial Officer who will have extensive experience in the north and in the trust, banking and mortgage lending business. An Organizational Structure has been included in the business plan.

The company will establish a Loan and Business Committee comprised of members of the management team and a group of independent individuals. This committee will have broad responsibility including approving all loans consistent with the investment policies of the company and the general supervision of the mortgage portfolio. The objective is to establish a committee consisting of individuals who are familiar with all regions of the territory and these members can provide advice and insight on specific borrowers and opportunities within the territory.

The committee will take an active role in managing and overseeing the investment portfolio in the regions that the members are familiar with. This group will provide the company a mechanism to personally evaluate each lending opportunity and provide an independent view of the borrower and his standing and experience in the community.

A small administration staff consisting of an assistant and a receptionist will complete the human resource requirements.

Expertise will be retained to administer the loan portfolio in accordance with the NWT-M&LC's investment policies. This group will have extensive experience in the mortgage business and in the Northwest Territories. This group will be responsible for managing the mortgage portfolio. Their duties will include originating the mortgages, collection, accounting and administering the mortgage portfolio. The mortgage advisor will have experience in the north and will be familiar with the operations of a mortgage and loan company.

The portfolio will be administered in strict compliance with the lending policies established by the Board of Directors. The Loan and Business Committee will review and approve all the mortgages and investments prior to placement.

Several sources will be utilized to originate new mortgage financing opportunities. Direct inquiries, mortgage brokers, agents, other financing institutions, developers and aboriginal organizations will all provide leads for the NWT-M&LC.

The company's draft lending policies are enclosed as an appendix. These policies will be approved by the Board and are in compliance with N.H.A. and CDIC regulations. Residential mortgages will be considered in hamlets and towns as well as the major urban areas of the territory. Mortgages and investments will be restricted to the Northwest Territories. The goal is to develop a broad portfolio of mortgages geographically diversified across the territory.

Mortgages will be provided to single family dwellings, duplexes, apartments, condominiums and other multi-unit developments. The NWT-M&LC will endeavour to secure N.H.A. insurable mortgages whenever possible. The company will be established as an approved CMHC lender. In cooperation with the CMHC, the company will endeavour to establish new guarantee and lending guidelines and a clear policy direction on CMHC mortgage guarantees within the territory.

The NWT-M&LC will provide five year mortgages with a 20 to 25 year amortization period. Given the location and marketability of the property, an interest premium of .75% to 3 .5% over current conventional rates will be charged. These higher rates will be justified by the increased risk factor associated with very remote locations.

The company will provide residential mortgage financing to a part of the market which is not currently being served by the private sector financial institutions. These institutions provide limited residential mortgage financing today. The company is not expected to disrupt the market since our target group is not currently being served by the institutions who participate in the Northwest Territories. Appendix IX provides a discussion of the anticipated impact of the NWT-M&LC's on the banks and financial institutions currently operating in the Northwest Territories.

Public housing mortgages will be considered where appropriate guarantees are provided.

The Northwest Territories Housing Corporation has provided direct funding to subsidized housing, government housing and aboriginal housing programs within the territory. Coordination between the two organizations will ensure there is no direct overlap for residential financing. The NWT-M&LC will focus its activities on residential mortgages that meet minimum eligibility requirements. Certain programs now offered by the NWT HC maybe better served by the NWT-M&LC. Appendix VII contains an analysis of public policies areas which should be reviewed prior to the official launch of the NWT M&LC.

The NWT-M&LC will be a member company of the Canadian Deposit Insurance Corporation (CDIC). As a member, deposits will be insured to a maximum of $60,000 per account and depositor. The company will accept term deposits of three to five years to match the mortgage investment portfolio. The depositors will be offered a small premium of %°/o to ½% over market rates to stimulate interest in this investment option.

The creation of this new financial institution will provide many spin off benefits to the north. The company will be part of the solution to the housing problem within the territory.

The NWT-M&LC will conduct extensive marketing and public relations campaigns to make the residents of the north and the investment community in the south aware of the company and promote the company's activities to potential depositors and the general public.

The NWT-M&LC will achieve special status as a Mortgage Investment Corporation under the Income Tax Act. A maximum of five times leverage is allowed under the Income Tax Act for Mortgage Investment Corporations. This means for every dollar of equity capital, the company can borrow up to five times this level and still maintain its status as a mortgage investment corporation.

The NWT-M&LC's dividend policy is to distribute all of its net income for tax purposes and all of its net taxable capital gains, if any, to its shareholders. Dividends will be declared and paid annually, within 90 days of each year end, in such amounts as maybe determined by the Board of Directors. This is a requirement in order to avoid the payment of corporate income tax.

The NWT-M&LC will establish a dividend reinvestment plan where shareholders may elect to reinvest all cash dividends payable to them in Common Shares in lieu of receiving payment of such dividends in cash. The company bears all costs associated with the issuance of shares under the plan.

This structure provides the investor the opportunity to extract all the profits of the corporation with no corporate tax.

Marketing Plan

The marketing plan will have several components and each component will be focused on a particular audience. There will be various stakeholders and investors required to establish, finance, maintain and support the company over the medium and long term. These audiences include investment dealers who may be asked to underwrite the initial equity issue, the various governments and their agencies which may be asked to provide director indirect financial or policy support and private and individual investors who will be expected to invest and deposit their funds in the company.

In order to provide marketing plans which will be uniquely appropriate to each of these distinct audiences, different approaches will be required at different times and perhaps with different organizations.

It will be necessary to develop and prepare a specific marketing plan to first obtain the deposits from the public and second to market the products and services offered by the NWT-M&LC.

Sufficient deposits can be obtained in the Northwest Territories to provide the capital required to generate a $100,000,000 mortgage portfolio within five years. All deposits will be insured by the CDIC to a maximum of $60,000 per account and depositor. The NWT-M&LC intends to offer a premium of approximately 0.5% on five year deposits to stimulate investor interest. This premium combined with a strong public relations and marketing campaign focusing on the benefits this company provides to the territory should make the company a positive deposit opportunity for the residents of the Northwest Territories.

The north is currently experiencing a shortage of adequate housing for its citizens. The current shortage has been estimated in the vicinity of 3,000 units. The Northwest Territories Housing Corporation conducted a very detailed Housing Needs Survey in 1992. A copy of the survey is included in Appendix VI and the results and conclusion of the survey are summarized in this document . It is clear from the survey that a total of 2,149 households have been identified that are in need of better housing and have the resources to afford same. This group forms the basic market for the NWT-M&LC. Currently banks are reluctant to provide residential mortgages to all areas of the territory, therefore, it is reasonable to assume that the company can charge a small premium over conventional rates and still be successful in securing this business.

The market for residential mortgages is expected to expand over the next several years as the territory continues to evolve and grow. The new diamond mining initiatives are expected to have a positive impact on growth as well as the creation of Nunavut and the associated infrastructure to establish this new territory will create the need for additional mortgage financing. Appendix X contains a discussion the anticipated impact of the division of the Territories on the NWT-M&LC.

A team will be assembled which will include the appropriate representatives of the NWT Government and Ministries, elected officials of the NWT, Chusid, Friedman, Financial Task Force Inc., and various other advisors listed or described below. This group will oversee the development of the marketing plans for the different audiences.

The company will be positioned as a government-sponsored vehicle which leverages public money with very significant amounts of private investment. The NWT-M&LC provides part of the solution to the housing shortage in the territory. The company also provides significant economic benefits by stimulating new construction. Jobs are created providing spill over benefits to other sectors of the economy. This will be communicated by specific press releases and communicated through the media by a comprehensive public relations program.

A prospectus must be developed which will form the marketing document to prospective investors. A financial firm will be retained to secure a private placement bringing in the first tranche of private sector moneys. The prospectus will meet all the requirements of the selected jurisdiction, but will also form the basis of broader marketing initiatives.

The prospectus will be prepared in cooperation with the investment dealer, and Chusid, Friedman in order to ensure compliance with securities legislation and other regulatory authorities. Extensive input will be provided by the Government of the Northwest Territories in order to insure full and complete disclosure and to assist in the completion of the investment dealers due diligence.

After the prospectus has been developed the team will meet with potential investors and with intermediaries in order to test the final package for marketability. At this stage, the team will be augmented to include an investor relations firm with expertise in packaging and marketing projects to the financial marketplace. As a result of these tests, some further alterations to the proposal will be made prior to going to the market with the final issue.

At this time a form of "road show" will be required by the investment dealer in order to market in person the proposal to the groups and institutions that will be asked to invest. This will require direct representation from the Government of the NWT and perhaps some people with private sector experience in the WT. Prospective builders and developers who have developed in the NWT previously would be good examples of the types of people that maybe asked to participate at this level.

There will be a need to acquire various marketing services including printing, design, and numerous others. The company will use suppliers in the territory for as many of these requirements as possible.

A marketing program will be needed to approach specifically the retail investor market particularly for RRSP money. This may entail a two prong program with a campaign specifically designed for the NWT investor and another for the "southern" investor. Since the RRSP market is very competitive with a plethora of advertising and promotion campaigns on behalf of the many firms bidding for finds it will be necessary to develop focused and unique campaigns in each of the markets.

A specific communication package will be developed to meet with and inform legislators, regulators, civil servants, and representatives of governments and government agencies including CMHC and CDIC as well as the government of the NWT and the Federal government. These will all need to appreciate the goals and opportunities as they may all be asked to participate. It is currently anticipated that this function will be handled by Chusid, Friedman and Financial Task

Force Inc., with the possible assistance of SAMCI, a public affairs firm that has worked peripherally on the initial stage of this project.

Overall, the marketing plan will be vital to the success of the project since we will be seeking to introduce a new concept to the market. Although it is financially sound and comprised entirely of proven and legislatively authorized vehicles this is the first time the market has had the opportunity to see it applied to the Northwest Territories, an area in which it has not traditionally invested.

Financial Assumptions

Income Statement

Revenue:

Mortgage Interest Income:

The revenue of the company will be generated primarily from interest on residential mortgages. The company will invest its funds primarily in first mortgages on residential properties. To a lesser extent the company will invest in second mortgages on these properties and will also become involved in syndicated mortgages on multi-unit residential buildings. Syndication of mortgages will be achieved by sharing investment and risk on large mortgages with other financial institutions active in the Northwest Territories. Other institutions include schedule "A" banks (Bank of Montreal, C.I.B.C., and the Royal Bank) and other financial institutions such as the Federal Business Development Bank.

The company will not compete directly with the Northwest Territories Housing Corporation but may participate in its housing developments and other programs currently offered by the NWT HC. This method will provide maximum leverage for government housing finds.

The expected characteristics of an average mortgage areas follows:

Principal	$150,000
Term	5 Years
Interest Rate	12.5%
Amortization Period	20 Years

The mortgage interest rate used in the Business Plan is based on the assumption that the company will maintain an interest rate spread of 4.0°/0 between interest earned on mortgage investments and interest paid on deposits.

Given the location of the portfolio a premium can be charged over normal Canadian mortgage rates. A premium of. 75°/0 to 3. 5°/0 over rates in the south could be earned depending on the risk factor associated with a given property. First mortgages on properties located in relatively populated areas with active resale housing markets will be assigned a low risk factor. Conversely, second mortgages and syndications or first mortgages on properties located in remote areas where there is little resale activity will be assigned a higher risk factor. Mortgage interest premiums will be charged by the company to compensate for the risk factor assigned to a mortgage.

Housing centres have been assigned a risk factor. The analyses in Appendix VI designates each housing centre within the Northwest Territories as either "A", "B", or "C" with "A" centres carrying the lowest risk and "C" centres the highest risk. Based on this analysis an estimate of the number and types of potential mortgages available has been made. This estimate is based on the number of households which reported some form of housing problem and reported incomes in excess of the Core Need Income

Threshold (CNIT - less than 30% of total income is dedicated to housing costs). Therefore, this group is able to afford to solve their housing problems without government support. A market analysis is included in Appendix VI.

The analysis shows there are 2,149 households in the Northwest Territory which fall into this category. The distribution of these households by Housing Centre Type is as follows:

Potential Mortgage Distribution by Housing Centre Type

	Total Mortgage Market	Housing Centre Type "A"	"B"	"C"
	2,149	1,113	427	609
Distribution %	**100.0%**	51.8940	19.9?"0	**28.3%**

Based on this data the mortgage portfolio is expected to have the following distribution:

Mortgage Risk Distribution

Housing Centre Type	Normal Market Rate	Average Risk Premium	Average Mortgage Rate	% of Portfolio	Weighted Average
"A	10.25%	1.1 25%	11 .375%	20.0%	2.275%
"B"	10.25%	2.250%	12.500%	35.0%	4.375%
"c"	10.25%	3,155?40	13.405%	36.5%	4.893%
*"C"-Govt.	10.25?4.	1.000%	11 .250%	8.5%	0.956%
Total				1 00.0%	**12.50%**

*Indicates high-risk mortgages financed by the Mortgage & Loan Company and guaranteed by the government.

The market rate for a standard five year mortgage from major financial institutions in Canada as at August 26,1994 was 10.25%. The average mortgage rate assumption built into the pro-forma financial statements is 12. **5?40.**

The company will charge rates of 11% to 13 .5% on its portfolio of mortgages.

Short-Term Investment Income:

Short-term investment income will be generated by investing excess finds in short-term government treasury bills. The interest rate assumption of 5 .38°A is based on the actual rates offered on three month treasury bills as at August 26, 1994.

Other Income:

Additional income will be generated from mortgage application fees of $400 per mortgage on all approved mortgages.

Expenses:

Administration Fees:

Mortgage Advisor Administration Fees:

A mortgage advisor will be hired to originate mortgages and administer the portfolio. The advisor will be paid a fee of 1°/0 of the book value of the portfolio of outstanding mortgages to perform this function. The fee is assumed to be charged on a quarterly basis and is calculated as 1% of the total residential mortgages outstanding at the end of each quarter.

Short-Term Investment Administration Fees:

The same institution will also manage the NWT-M&LC's short term investments and investments in real property. The administration fee will be 0.5°/0 of the book value of these investments and is calculated in the same manner as the mortgage administration fee.

Interest Expense:

The majority of the company's capital will be raised by taking deposits insured by the CDIC. In order to attract investment in term deposits it is assumed that the company will offer a small premium of 0.5% over and above the prevailing market rate for five year term deposits. This rate premium will ensure that these investment products will be attractive to investors. Term deposits will only be offered by the company to the extent there are qualified mortgagees available for the company to invest in.

The maximum level of debt will be five times equity. The interest rate used in the projections is 8.5%. This is based on the market rate for five year term deposits as at August 26, 1994 of 8. 0% plus the premium.

Salaries:

The initial employees of the company will include a President & Chief Executive Officer, Senior Financial Officer, Administrative Assistant and Receptionist. Total compensation expenses for this group are estimated to be as follows:

Employee	Annual Compensation
President & CEO	$125,000
Senior Financial Officer	$ 90,000
Administrative Assistant	$ 45,000
Receptionist	$ 35.000
Total	**$295,000**

Facility Expense:

The company will require office space to house its employees and business operations suitable for a financial institution. A head office and several regional post office boxes will be maintained. Total expenses are estimated at $100,000 annually.

Marketing & Promotion:

The company will conduct extensive promotion and marketing activities throughout the NWT in order to attract term deposits and mortgagees. The cost of these activities are projected to be $100,000 in year one, $125,000 in year two, and $150,000 in years three, four and five.

CDIC Insurance:

The company will carry Canadian Deposit Insurance Corporation (CDIC) insurance which will provide depositors up to $60,000 of insurance per account. The cost of CDIC insurance is O.167% of the principal value of the term deposits.

Other Insurance:

In addition to CDIC insurance the company will require several other types of insurance. Financial Bond insurance will provide protection from officer or employee theft, fraud, or other criminal activities. Mortgage impairment insurance will be required for the mortgage portfolio in order to provide secondary insurance on mortgaged properties. In the event that a mortgagee fails to maintain the primary property insurance required by the mortgage agreement the secondary insurance would provide coverage for the company. Directors and officers liability insurance will be required for the Board and the company's senior staff and finally Office Contents/General Liability insurance will also be necessary. The cost of these additional insurance areas is projected in the following table:

Insurance Type	Cost
Financial Bond	O.1% of book value of assets
Mortgage Impairment	.06% of book value of mortgage investments
Director's & Officer's Liability	$21,000 Annually
Office Contents/General Liability	$5,000 Annually

Loan Loss Provision:

The mortgages written by the company will be CMHC insured. It is expected that the underlying value of the properties mortgaged combined with this insurance coverage should protect the company from material loan losses. A loan loss provision of 10/0 of the book value of the mortgage portfolio has been included.

Inflation Assumptions:

Salaries and facilities expense have been increased by a factor of 10?4o per year.

Balance Sheet:

Assets:

The company's primary assets will be residential mortgages. The following chart projects the number and timing of mortgage investments.

Mortgages Originated

	Year 1	Year 2	Year 3	Year 4	Year 5
Q - 1	10	35	50	50	33
Q - 2	35	35	50	50	33
Q - 3	45	40	50	50	33
Q - 4	60	40	50	50	32
Total Mortgages	150	150	200	200	131
Cumulative Total Mortgages	150	300	500	700	831

Average Mortgage Size

Mortgage Type	Average Amount	% of Portfolio
First Mortgages	$155,000	85.0%
Second Mortgages	$55,000	5.0%
Syndicated Mortgages	$500,000	10,0'?40
		100.0%

Average Mortgage Assumptions:

Principal	$150,000
Term	5 Years
Interest Rate	11.875%
Amortization Period	20 Years

The company may make direct investments in real property. No investments of this type are included in the projections at this time.

The company's excess funds will be invested in short-term government treasury bills. The interest rate assumption in the projections is based on the actual three month treasury bill rate in effect August 26, 1994 of 5 .38%

Liabilities:

The company's debt will be comprised primarily of Term Deposits with maturates matched to the mortgage portfolio. Initially the company's equity base will be invested in residential mortgages. Term Deposit debt will be raised and matched to mortgage investments to the extent qualified mortgagees are available. The company will not take term deposits unless mortgages are available for investment of the finds. Appendix XI contains a detailed discussion of Asset/Liability management practices to be implemented by the NWT-M&LC. The balance of the debt will be a minimal amount of short-term accounts payable and accrued liabilities.

Leverage Assumptions

Timing	Leverage Assumption	Total Deposits ($000's)
Year One	1.72 X Equity	16,684.7
Year Two	1.47 X Equity	28,851.2
Year Three	2.81 X Equity	55,630.7
Year Four	4.29 X Equity	85,255.6
Year Five	4.90 X Equity	97,570.1

Equity Capital:

The opening capital base will be invested by the Government of the Northwest Territories with the balance invested by northern investors. It is expected that investment capital will also be available from southern private and institutional investors once the viability of the company has been established.

The following table represents the amount and timing of the equity investments included in the projections:

Equity Projections ($000)

	Opening	Year 1	Year 2	Year 3	Year 4	Year 5
NWT Investment	$ 5,000	$ 5,000	$ 5,000	$ 5,000	$ 5,000	$ 5,000
Private Funds		1,000	4,500	4,500	4,500	4,500
RRSP Investments		1,000	4,500	4,500	4,500	4,500
Aboriginal Groups	1,000	**3.000**	**6.000**	**6.000**	**6.000**	**6.000**
Total	$ 6.000	$10,000	$20.000	$20,000	$20.000	$20.000

Sensitivity Analyses:

Several sensitivity analyses have been prepared under the assumption that the NWT-M&LC's operating environment could change from the Business Plan’s base assumptions. For perspective the following table contains the summary financial results expected to be generated by the company under the base assumptions:

($000’s)

	Year 1	**Year** 2	**Year** 3	**Year** 4	**Year** 5
Total Revenue	1,802.7	4,784.0	8,281.7	11,599.9	14,341.5
Net Profit/(Loss)	293.2	1,428.1	2,229.2	2,655.6	3,104.9
Dividends Declared	293.2	1,428.1	2,229.2	2,655.6	3,104.9
Annual Return on Equity	2.9%	7.1’?40	11.1%	13.3’?40	15.5%
Cumulative Return on Equity	2.9%	5.7’%	7.9’?40	9.4%	10.8’%0

The following are summary financial results the company would achieve under various departures from the base assumptions:

Operating Assumption (1): Operating Expenses are 20% Higher than Base Assumptions

The operating expense budget is based on what is believed to be the most up to date and accurate information available. However, given the inherent risks associated with new enterprises the following sensitivity analysis has been prepared assuming operating expenses are 20% higher than budget:

($000’s)

	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Total Revenue	1,802.7	4,757.2	8,256.5	11,554.2	14,269.8
Net Profit/(Loss)	141.3	1,140.9	1,824.3	2,128.9	2,476.2
Dividends Declared	141.3	1,140.9	1,824.3	2,128.9	2,476.2
Annual Return on Equity	1.4%	5.7%	9.1%	10.6%	12.4%
Cumulative Return on Equity	1.4’%	4.3?40	6.2%	7.5’%	8.6%

Operating Assumption (2): Interest Rates are Higher or Lower than Base Assumptions

The average market interest rates on five year term deposits and five year mortgages used in the Business Plan are based on current interest rate levels. It is clear that interest rates will move higher and lower throughout the course of business cycles and that these movements will increase and decrease the revenues and expenses of the NWT-M&LC. However, it is assumed the company will maintain a consistent spread (4.0°/0) between what is charged on mortgages and paid out on term deposits. This operating philosophy provides an effective hedge against inevitable interest rate movements and will render a large part of the company's mortgage portfolio immune to the effects of changing interest rates. Nevertheless a portion of the company's mortgage portfolio will be financed by equity funds that will not be hedged against swings in interest rates. For this purpose the following sensitivity analyses assume interest rates swing by **2°/0** and 4°/0 both higher and lower than the base assumptions:

(2) a) Interest Rates Decrease by 2%:

($000's)

	Year 1	Year 2	Year 3	Year 4	Year 5
Total Revenue	1,581.0	4,042.7	6,989.9	9,689.6	11,954.4
Net Profit/(Loss)	240.5	1,159.0	1,893.2	2,244.6	2,641.1
Dividends Declared	240.5	1,159.0	1,893.2	2,244.6	2,641.1
Annual Return on Equity	2.4%	5.8'%	9.5%	11.2%	13.2%
Cumulative Return on Equity	2.4%	4.7%	6.6'?40	7.9%	9.1%

(2) b) Interest Rates Decrease by 4%:

($000's)

	Year 1	Year 2	Year 3	Year 4	Year 5
Total Revenue	1,359.5	3,317.5	5,706.1	7,801.9	9,604.3
Net Profit/(Loss)	187.6	898.0	1,553.9	1,832.9	2,184.9
Dividends Declared	187.6	898.0	1,553.9	1,832.9	2,184.9
Annual Return on Equity	1.9'%	4.5?40	7.8%	9.2%	10.9'?40
Cumulative Return on Equity	1.9%	3.6%	5.3%	6.4%	7.4%

(2) c) Interest Rates Increase by 2%:

($000's)

	Year 1	Year 2	Year 3	Year 4	Year 5
Total Revenue	2,024.5	5,499.9	9,576.7	13,524.5	16,752.5
Net Profit/(Loss)	345.5	1,674.6	2,557.5	3,057.4	3,562.9
Dividends Declared	345.5	1,674.6	2,557.5	3,057.4	3,562.9
Annual Return on Equity	3.5?40	8.4%	12.8°A	15.3'%0	17.8%
Cumulative Return on Equity	3.5%	6.7%	9.2%	10.9%	12.4%

(2) d)Interest Rates Increase by 4%:

($000's)

	Year	Year 2	Year 3	Year 4	Year 5
Total Revenue	2,246.3	6,230.3	10,875.3	15,457.6	19,177.9
Net Profit/(Loss)	397.4	1,927.5	2,878.2	3,444.9	4,006.5
Dividends Declared	397.4	1,927.5	2,878.2	3,444.9	4,006.5
Annual Return on Equity	4.0%	9.6%	14.4?40	17.2°A	20.0%
Cumulative Return on Equity	4.0%	7.7%	10.4%	12.4%	14.0%

Operating Assumption (3): Interest Rate Spread is Higher or Lower than Base Assumptions

The mortgage interest rate used in the Business Plan is based on the assumption that the company will maintain an interest rate spread of 4°/0 between interest earned on mortgage investments and interest paid on deposits. It is assumed that given the degree of risk inherent in mortgage investments in the Northwest Territories the market will bear a premium in excess of the 2°/0 to 3% rate spread generally experienced in the south. The following sensitivity analyses have been prepared assuming the NWT-M&LC is able to achieve a slightly higher interest rate spread (5%) or a slightly lower spread (3%).

(3) a) Interest Rate Spread= 5%:

($000's)

	Year 1	Year 2	Year 3	Year 4	Year 5
Total Revenue	1,913.6	5,143.8	8,952.1	12,614.7	15,641.2
Net Profit/(Loss)	401.2	1,775.1	2,848.0	3,553.0	4,221.3
Dividends Declared	401.2	1,775.1	2,848.0	3,553.0	4,221.3
Annual Return on Equity	4.0%	8.9%	14.2%	17.8%	21.1?40
Cumulative Return on Equity	4.0%	7.3'?40	10.0'?40	12.3%	14.2%

(3) b) Interest Rate Spread= 3%:

($000's)

	Year 1	Year 2	Year 3	Year 4	Year 5
Total Revenue	1,691.8	4,397.7	7,611.1	10,588.7	13,047.9
Net Profit/(Loss)	185.2	1,061.8	1,610.5	1,761.7	1,994.4
Dividends Declared	185.2	1,061.8	1,610.5	1,761.7	1,994.4
Annual Return on Equity	1 .9?40	5.3%	8.1%	8.8'?40	10. 0'?ZO
Cumulative Return on Equity	1.9%	4.2'%	5. 7?40	6.6?40	7.3%

Operating Assumption (4): The Timing of Mortgage Investments is Faster or Slower

The NWT-M&LC is expected to write a total of approximately 830 mortgages during the first five years of operation. Based on the information available we believe that this number is well within the market scope of the Northwest Territories. However, the financial results of the company are sensitive to the timing of these investments. The following sensitivity analyses present two additional scenarios regarding timing of mortgages investments. For perspective the following table represents the base timing assumptions:

Mortgages Originated (Base Assumptions)

	Year 1	Year 2	Year 3	Year 4	Year 5
Q - 1	10	35	50	50	33
Q - 2	35	35	50	50	33
Q - 3	45	40	50	50	33
Q - 4	60	40	50	50	32
Total Mortgages	150	150	200	200	131
Cumulative Total Mortgages	150	300	500	700	831

(4) a) Mortgage Investments are Made Faster than Base Assumptions:

Mortgages Originated

	Year 1	Year 2	Year 3	Year 4	Year 5
Q - 1	25	50	50	50	35
Q-2	40	50	50	50	30
Q - 3	50	50	50	50	0
Q - 4	50	50	50	50	0
Total Mortgages	165	200	200	200	6 5
Cumulative Total Mortgages	165	365	565	765	830

($000's)

	Year 1	**Year** 2	**Year** 3	**Year** 4	**Year** 5
Total Revenue	2,159.4	5,447.1	9,008.7	12,326.6	14,671.6
Net Profit./(Loss)	589.0	1,944.6	2,749.9	3,156.6	3,279.2
Dividends Declared	589.0	1,944.6	2,749.9	3,156.6	3,279.2
Annual Return on Equity	5.9%	9.7'?40	13.7%	15.8%	16.4%
Cumulative Return on Equity	5.9%	8.4%	10.6'XO	12.1?40	13.0%

(4) b) Mortgage Investments are Made Slower than Base Assumptions:

Mortgages Originated

	Year 1	Year 2	Year 3	Year 4	Year 5
Q - 1		10)	50	50	50
Q-2		20	30	50	50 50
Q - 3	30	35	50	50	50
Q - 4	35	35	50	50	46
Total Mortgages	105	130	200	200	196
Cumulative Total Mortgages	105	235	435	635	831

($000's)

	Year 1	Year 2	Year 3	Year 4	Year 5
Total Revenue	1,364.2	4,092.2	7,550.5	10,871.8	14,199.6
Net Profit/(Loss)	(76.3)	914.8	1,704.6	2,153.0	3,038.8
Dividends Declared	(76.3)	914.8	1,704.6	2,153.0	3,038.8
Annual Return on Equity	0.0?40	4.6%	8.5%	10.8?40	15.2%
Cumulative Return on Equity	0.0%	2.8%	5.1%	6.7%	8.6%

The Investment Opportunity

The Northwest Territories Mortgage & Loan Company will provide investors and the Government of the Northwest Territories with significant financial and economic benefits.

The market demand for housing in the north is evident. Currently, the Northwest Territories has a 3,000 unit deficiency in adequate housing and this deficiency is expected to increase by over 500 units per year.

The demand for housing is expected to grow in the Northwest Territories. The new diamond exploration initiatives and the creation and implementation of Nunavut are expected to have a positive impact on the housing market. The company plans to place approximately 830 mortgages in the first five years, which is approximately one third of the current identified housing need.

The company will invest in a portfolio of mortgages spread throughout the territory maximizing the use of CMHC guarantees and will consider public housing projects when government guarantees are available. The company will seek a rate premium on mortgages based on the location of the property.

The company will develop a stream of mortgage income secured by residential property, The loan and business committee will approve all mortgages based on their local knowledge of the asset and debtor.

The company will provide significant economic benefits to the Northwest Territories. Construction will be stimulated creating new jobs and the need for many new durable products and services will be evident providing an economic stimulus to the economy in general.

The attached financial projections indicate that the company would provide a cumulative after tax return of over 10°/0, with an annual return of approximately 15°/0 in year five, to the investor This is a very attractive return considering the limited risk. This investment vehicle is expected to appeal to those investors who desire tax sheltered returns.

The company is expected to be very attractive to Northern investors and, once established, will be a very attractive investment vehicle for institutional and southern investors.

Appendix I

Legislative Summary

Incorporation of the company will be provided for under existing or newly enacted legislation and/or regulations pursuant to the Northwest Territories Act (NWT Act). The company's jurisdiction of incorporation will be the Northwest Territories.

The Northwest Territories incorporating legislation will also contain extensive provisions regarding the following:

- corporate matters such as manner and incidents of incorporation, organization and commencement of incorporation, principal place of business and records of the corporation, matters of corporate governance, share capital and rights of shareholders, directors and officers, restricted party transactions.

- matters relating to audit, inspection and disclosure.

- matters relating to the investments of the loan company.

- general authorization for the loan company to borrow money and issue securities for monies borrowed.

- specific authorization to receive money on deposit upon such terms as to interest, security, time and mode of repayment an otherwise as maybe agreed upon.

- liquidity requirements applicable to the loan company in respect of deposits treated as bank savings or chequing accounts.

- such other matters that may be required in order to implement the loan company's business plan and are substantially similar to those provisions applicable under the Trust and Loan Companies Act and/or corresponding provincial legislation.

In order to raise equity capital the securities laws of the Northwest Territories (jurisdiction of the issuer) as well as those other jurisdictions where it is intended to raise financing by trading in securities, must be complied with. The requirement of securities laws generally include registration of the securities issuer and the filing of a prospectus.

Appendix II

Detailed Financial Model

Northwest Territories
Mortgage & Loan Company - Year 1
Projected Income Statement
($ 000's)

	Q - 1	Q - 2	Q - 3	Q - 4	Total
Revenue:					
Mortgage Interest Income	46.8	210.5	421.1	699.7	1,378.1
Short-Term Investment Income	80.7	104.9	99.4	79.5	364.5
Other Income	4.0	14.0	18.0	24.0	60.0
Total Revenue	131.5	329.4	538.5	803.3	1,802.7
Expenses:					
Administration Fees	3.7	26.1	42.2	64.0	136.1
Interest Expense	31.9	107.8	219.0	354.6	713.2
Salaries	73.7	73.8	73.7	73.8	295.0
Facility Expense	25.0	25.0	25.0	25.0	100.0
Promotion/Marketing	25.0	25.0	25.0	25.0	100.0
CDIC Insurance	0.6	2.1	4.3	7.0	14.0
Other Insurance	7.9	9.0	10.8	13.5	41.2
Loan Loss Provision	3.7	16.8	33.6	55.9	110.1
One Time Organization Expenses	0.0	0.0	0.0	0.0	0.0
Total Expenses	171.6	285.6	433.5	618.8	1,509.5
Net Profit/(Loss)	-40.1	43.8	105.0	184.5	293.2
Retained Earnings, Beginning of Period	0.0	-40.1	3.7	108.7	0.0
	-40.1	3.7	108.7	293.2	293.2
Dividends Declared	0.0	0.0	0.0	293.2	293.2
Retained Earnings, End of Period	-40.1	3.7	108.7	0.0	0.0

Northwest Territories
Mortgage & Loan Company - Year 1
Projected Balance Sheet
($ 000's)

	Opening	Q - 1	Q - 2	Q - 3	Q - 4
Assets					
Cash & Short-Term Investments	6,000.0	7,464.2	6,849.5	6,476.0	5,108.0
Residential Mortgages	0.0	1,495.7	6,726.1	13,437.1	22,369.9
Real Property					
Total Assets	6,000.0	8,959.9	1 3,575.6	19,913.1	27,477.9
Liabilities					
Bank Overdraft	0.0	0.0	0.0	0.0	0.0
Accounts Payable	0.0	500.0	500.0	500.0	500.0
Dividends Payable	0.0	0.0	0.0	0.0	293.2
Term Deposits	0.0	1,500.0	5,071.9	[illegible]	16,684.7
Total Liabilities	0.0	2,000.0	5,571.9	10,804.4	17,477.9
Equity					
N.W.T. Government Injection	5,000.0	5,000.0	5,000.0	5,000.0	5,000.0
Other Investors	1,000.0	2,000.0	3,000.0	4,000.0	5,000.0
Retained Earnings	0.0	-40.1	3.7	108.7	0.0
Total Equity	6,000.0	6,959.9	8,003.7	9,108.7	10,000.0
Total Liabilities & Equity	6,000.0	8,959.9	13,575.6	19,91 3.1	27,477.9

Northwest Territories
Mortgage & Loan Company - Year 1
Projected Cash-Flow Statement
($ 000's)

	Q - 1	Q - 2	Q - 3	Q - 4	Total
Net Profit/(Loss)	-40.1	43.8	105.0	184.5	293.2
Amortization	0.0	0.0	0.0	0.0	0.0
Cash From Operations	-40.1	43.8	105.0	184.5	293.2
Residential Mortgages Funded	-1,500.0	-5,[illegible]50.0	-6,750.0	-9,000.0	-22,500.0
Principal Re-Payments of Mortgages	4.3	19.5	39.1	67.2	130.1
Increase (Decrease) in Accounts Payable	500.0	0.0	0.0	0.0	500.0
Increase (Decrease) in Term Deposits	1,500.0	3,571.9	5,232.5	6,380.3	16,684.7
Increase (Decrease) in Equity Funding	1,000.0	1,000.0	1,000.0	1,000.0	4,000.0
Dividend Distribution	0.0	0.0	0.0	0.0	0.0
Total Cash-Flow	1,464.2	-614.7	-373.5	-1,368.0	-892.0
Cummulative Cash-Flow	1,464.2	849.5	476.0	-892.0	-892.0
Beginning Cash Balance	6,000.0	7,464.2	6,849.5	6,476.0	6,000.0
Ending Cash Balance	7,464.2	6,849.5	6,476.0	5,108.0	5,108.0

Q - 1	Q - 2	Q - 3	Q - 4	Total
12.500%	12.500%	12.500%	12.500%	
5.38%	5.38%	5.38%	5.38%	
$400	$400	$400	$400	
1.0%	1.0%	1.0%	1.0%	
0.50%	0.50%	0.5%	0.50%	
31.3	31.2	31.3	31.2	125.0
22.5	22.5	22.5	22.5	90.0
11.2	11.3	11.2	11.3	45.0
8.7	8.8	8.7	8.8	35.0
73.7	73.8	73.7	73.8	295.0
1.0%	1.0%	1.0%	1.0%	
0.167%	0.167%	0.167%	0.167%	
0.100%	0.100%	0.10%	0.100%	
0.060%	0.060%	0.060%	0.060%	
5.2	5.2	5.2	5.2	
1.2	1.3	1.2	1.3	
10	35	45	60	
10	45	90	150	

Northwest Territories
Mortgage & Loan Company - Year 1
Financial Model Assumptions (Cont.)

	Opening	Q - 1	Q - 2	Q - 3	Q - 4
Mortgage Characteristics:					
Average Principal Amount		150.0	150.0	150.0	150.0
Average Term (Years)		5	5	5	5
Average Amortization Period (Years)		20	20	20	20
No. of Payments per Year		12	12	12	12
Average age of Mortgages (Years)		0.25	0.25	0.25	0.50
Mortgage Payments Received (Principal & Interest)		1.15	230.1	460.1	766.9
Liabilities					
Term Deposits:Equity		0.3	0.7	1.2	1.7
Term Deposit Interest Rate		8.500%	8.500%	8.500%	8.500%
Equity					
NWT Government Injection	5,000.0	5,000.0	5,000.0	5,000.0	5,000.0
Private Funds	0.0	500.0	1,000.0	1,000.0	1,000.0
RRSP Investments	0.0	500.0	1,000.0	1,000.0	1,000.0
Aboriginal Groups	1,000.0	1,000.0	1,000.0	2,000.0	3,000.0
Total	6,000.0	7,000.0	8,000.0	9,000.0	10,000.0

8/29/94

Northwest Territories
Mortgage & Loan Company - Year 2
Projected Income Statement
($ 000's)

	Q - 1	Q - 2	Q - 3	(
Revenue:				
Mortgage Interest Income	863.0	1,023.2	1,209.2	1,3
Short-Term Investment Income	68.7	36.9	57.7	
Other Income	14.0	14.0	16.0	
Total Revenue	945.7	1,074.1	1,282.9	1,4
Expenses:				
Administration Fees	68.8	85.1	101.8	1
Interest Expense	361.3	444.0	527.2	6
Salaries	81.1	81.2	81.1	
Facility Expense	27.5	27.5	27.5	
Promotion/Marketing	31.0	31.0	31.0	
CDIC Insurance	7.1	8.7	10.4	
Other Insurance	17.3	18.9	21.2	
Loan Loss Provision	68.8	81.7	96.4	1
One Time Organization Expenses	0.0	0.0	0.0	
Total Expenses	662.9	778.2	896.5	1,0
Net Profit/(Loss)	282.8	295.9	386.4	4
Retained Earnings, Beginning o Period	0.0	282.8	578.8	9
	282.8	578.8	965.1	1,4
Dividends Declared	0.0	0.0	0.0	1,4
Retained Earnings, End of Period				

Northwest Territories
Mortgage & Loan Company - Year 2
Projected Balance Sheet
($ 000's)

	Opening	Q - 1	Q - 2	Q - 3	Q - 4
Assets					
Cash & Short-Term Investments	5,108.0	2,745.8	4,789.3	5,210.1	6,352.5
Residential Mortgages	22,369.9	27,537.1	32,685.5	38,565.4	44,426.8
Real Property					
Total Assets	27,477.9	30,282.8	36,974.8	43,775.4	50,779.3
Liabilities					
Bank Overdraft	0.0	0.0	0.0	0.0	0.0
Accounts Payable	500.0	500.0	500.0	500.0	500.0
Dividends Payable	293.2	0.0	0.0	0.0	1,428.1
Term Deposits	16,684.7	17 000.0	20,896.0	24,810.3	28,851.2
Total Liabilities	17,477.9	17,500.0	2 ,396.0	25,3 0.3	30,779.3
Equity					
N.W.T. Government Injection	5,000.0	5,000.0	5 000.0	5 000.0	5 000.0
Other Investors	5 000.0	7,500.0	.0 000.0	.2,500.0	-5 000.0
Retained Earnings	0.0	282.3	5 8.8	965.1	0.0
Total Equity	10,000.0	12,782.8	15,578.8	18,465.1	20,000.0
Total Liabilities & Equity					

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Q - 1	Q - 2	Q - 3	Q - 4	Total
282.8	295.9	386.4	463.0	1,428.1
0„0	0„0	0„0	0„0	0„0
282.8	295.9	386.4	463.0	1,428.1
-5,250.0	-5,250.0	-6,000.0	-6,000.0	-22,500.0
82.8	101.6	120.1	1 38.6	443.1
0„0	0.0	0„0	0„0	0.0
31 5.3	S,896„0	3,914.3	4,040.9	12,166.5
2,500.0	2,500.0	2,500.0	2,500.0	10,000.0
-293.2	0„0	0„0	0„0	.Z9S„Z
-2,362.2	Ɪ,SM„S	920.8	1,142.4	Ɪ,ZM„S
-2,362.2	-818.7	102.1	Ɪ,Z+Ɪ„S	1 ,244.5
S,Ɪ08„0	2,745.8	4,289.3	5,210.1	S,Ɪ08„0
2,745.8	4,289.3	5,210.1	6,352.5	6,352.5

Northwest Territories
Mortgage & Loan Company - Year 2
Financial Model Assumptions

	Opening	Q - 1	Q - 2	Q - 3	Q - 4	Total
Income Statement						
Revenue:						
Mortgage Interest Rate		12.500%	12.500%	12.500%	12.500%	
Short-Term Investment Rate		5.38%	5.38%	5.38%	5.38%	
Mortgage Application Charge/Approved Mortgage		$400	$400	$400	$400	
Expenses:						
Mortgage Administration Fee - Variable						
% of Mortgage Portfolio		1.0%	1.0%	1.0%	1.0%	
% of Other Assets		0.5%	0.5%	0.5%	0.5%	
Salaries:						
President & CEO		34.4	34.3	34.4	34.3	137.5
Senior Financial Officer		24.8	24.8	24.8	24.8	99.0
Compliance & Administration		12.3	12.4	12.3	12.4	49.5
Receptionist		9.6	9.7	9.6	9.7	38.5
Total		81.1	81.2	81.1	81.2	324.5
Loan Loss Provision (% of Mortgage Portfolio)		1.0%	1.0%	1.0%	1.0%	
CDIC Insurance (% of Total Term Deposits)		0.167%	0.167%	0.167%	0.167%	
Financial Bond Insurance (% of Mortgage Portfolio)		0.10%	0.10%	0.10%	0.10%	
Mortgage Impairment Insurance (% of Total Assets)		0.060%	0.060%	0.060%	0.060%	
Directors & Officers Liability Insurance		5.7	5.7	5.7	5.7	
Office Contents/General Liability		1.3	1.4	1.3	1.4	
Balance Sheet						
Assets						
Mortgages Funded		35	35	40	40	
Cummulative Mortages Funded		185	220	260	300	

Northwest Territories
Mortgage & Loan Company - Year 2
Financial Model Assumptions (Cont.)

	Opening	Q - 1	Q - 2	Q - 3	Q - 4
Mortgage Characteristics:					
Average Principal Amount		150.0	150.0	150.0	150.0
Average Term (Years)		5	5	5	5
Average Amortization Period (Years)		20	20	20	20
No. of Payments per Year		12	12	12	12
Average age of Mortgages (Years)		0.50	0.75	0.75	0.75
Mortgage Payments Received (Principal & Interest)		945.8	1,124.8	1,329.3	1,533.8
Liabilities					
Term Deposits:Equity		1.4	1.4	1.4	1.4
Term Deposit Interest Rate		8.500%	8.500%	8.500%	8.500%
Equity					
NWT Government Injection	5,000.0	5,000.0	5,000.0	5,000.0	5,000.0
Private Funds	1,000.0	1,775.0	2,750.0	3,625.0	4,500.0
RRSP Investments	1,000.0	1,[illegible]75.0	2,750.0	3,625.0	4,500.0
Aboriginal Groups	3,000.0	3,750.0	4,500.0	5,250.0	6,000.0
Total	10,000.0	12,500.0	15,000.0	17,500.0	20,000.0

Northwest Territories
Mortgage & Loan Company - Year 3
Projected Income Statement
($ 000's)

	Q - 1	Q - 2	Q - 3	Q - 4	Total
Revenue:					
Mortgage Interest Income	1,622.7	1,854.5	2,086.5	2,318.1	7,881 .5
Short-Term Investment Income	85.4	64.0	95.0	75.7	320.2
Other Income	20.0	20.0	20.0	20.0	80.0
Total Revenue	1,728.1	1,938.5	2,201 .3	2,413.8	8,281.7
Expenses:					
Administration Fees	129.4	1 53.6	174.7	191.1	648.8
Interest Expense	754.4	948.5	1,060.5	1 ,182.2	3,945.4
Salaries	89.2	89.3	89.2	89.3	357.0
Facility Expense	30.3	30.3	30.3	30.3	121.0
Promotion/Marketing	37.5	37.5	37.5	37.5	150.0
CDIC Insurance	14.8	18.6	20.8	23.2	77.5
Other Insurance	27.1	29.8	33.1	35.8	125.8
Loan Loss Provision	129.4	147.7	165.9	184.0	627.0
One Time Organization Expenses	0.0	0.0	0.0	0.0	0.0
Total Expenses	1,212.0	1 ,455.2	1,611.8	1,773.3	6,052.5
Net Profit/(Loss)	516.1	483.2	589.5	640.5	2,229.2
Retained Earnings, Beginning of Period	0.0	516.1	999.3	1,588.7	0.0
	516.1	999.3	1 ,588.7	2,229.2	2,229.2
Dividends Declared	0.0	0.0	0.0	2,229.2	2,229.2
Retained Earnin gs, End of Period	516.1	999.3	1,588.7	0.0	0.0

Northwest Territories
Mortgage & Loan Company - Year 3
Projected Balance Sheet
($ 000's)

	Opening	Q - 1	Q - 2	Q - 3	Q - 4
Assets					
Cash & Short-Term Investments	6,352.5	4,756.0	7,065.2	5,631.9	4,743.1
Residential Mortgages	44,426.8	51,760.0	59,069.5	66,355.0	73,616.8
Real Property					
Total Assets	50,779.3	56,516.1	66,134.6	71,987.0	78,359.9
Liabilities					
Bank Overdraft	0.0	0.0	0.0	0.0	0.0
Accounts Payable	500.0	500.0	500.0	500.0	500.0
Dividends Payable	1,428.1	0.0	0.0	0.0	2,229.2
Term Deposits	28,851.2	55,500.0	44,635.4	49,898.3	55,630.7
Total Liabilities	30,779.3	56,000.0	45,135.4	50,398.3	58,559.9
Equity					
N.W.T. Government Injection	5,000.0	5,000.0	5,000.0	5,000.0	5,000.0
Other Investors	15,000.0	15,000.0	15,000.0	15,000.0	15,000.0
Retained Earnings	0.0	516.1	999.3	1,588.7	0.0
Total Equity	20,000.0	20,516.1	20,999.3	21,588.7	20,000.0
Total Liabilities & Equity	50,779.3	56,516.1	66,134.6	71,987.0	78,359.9

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Northwest Territories
Mortgage & Loan Company - Year 3
Projected Cash-Flow Statement
($ 000's)

	Q - 1	Q - 2	Q - 3	Q - 4	Total
Net Profit/(Loss)	516.1	483.2	589.5	640.5	2,229.2
Amortization	0.0	0.0	0.0	0.0	0.0
Cash From Operations	516.1	483.2	589.5	640.5	2,229.2
Residential Mortgages Funded	-7,500.0	-7,500.0	-7,500.0	-7,500.0	-30,000.0
Principal Re-Payments of Mortgages	166.8	190.6	214.4	238.2	810.0
Increase (Decrease) in Accounts Payable	0.0	0.0	0.0	0.0	0.0
Increase (Decrease) in Term Deposits	6,648.8	9,135.4	5,262.9	5,732.5	26,779.5
Increase (Decrease) in Equity Funding	0.0	0.0	0.0	0.0	0.0
Dividend Distribution	-1,428.1	0.0	0.0	0.0	-1,428.1
Total Cash-Flow	-1,596.4	2,309.1	-1,433.2	-888.8	-1,609.4
Cummulative Cash-Flow	-1,596.4	712.7	-720.6	-1,609.4	-1,609.4
Beginning Cash Balance	6,352.5	4,756.0	7,065.2	5,631.9	6,352.5
Ending Cash Balance	4,756.0	7,065.2	5,631.9	4,743.1	4,743.1

Northwest Territories
Mortgage & Loan Company - Year 3
Financial Model Assumptions

	Opening	Q - 1	Q - 2	Q - 3	Q - 4	Total
Income Statement						
Revenue:						
Mortgage Interest Rate		12.500%	12.500%	12.500%	12.500%	
Short-Term Investment Rate		5.38%	5.38%	5.38%	5.38%	
Mortgage Application Charge/Approved Mortgage		$400	$400	$400	$400	
Expenses:						
Mortgage Administration Fee - Variable						
% of Mortgage Portfolio		1.0%	1.0%	1.0%	1.0%	
% of Other Assets		0.5%	0.5%	0.5%	0.5%	
Salaries:						
President & CEO		37.9	37.8	37.9	37.8	151.3
Senior Financial Officer		27.2	27.2	27.2	27.2	108.9
Compliance & Administration		13.6	13.7	13.6	13.7	54.5
Receptionist		10.5	10.6	10.5	10.6	42.4
Total		89.2	89.3	89.2	89.3	357.0
Loan Loss Provision (% of Mortgage Portfolio)		1.0%	1.0%	1.0%	1.0%	
CDIC Insurance (% of Total Term Deposits)		0.167%	0.167%	0.167%	0.167%	
Financial Bond Insurance (% of Mortgage Portfolio)		0.10%	0.10%	0.10%	0.10%	
Mortgage Impairment Insurance (% of Total Assets)		0.060%	0.060%	0.060%	0.060%	
Directors & Officers Liability Insurance		6.3	6.3	6.3	6.3	
Office Contents/General Liability		1.5	1.6	1.5	1.6	
Balance Sheet						
Assets						
Mortgages Funded		50	50	50	50	
Cummulative Mortages Funded		350	400	450	500	

Northwest Territories
Mortgage & Loan Company - Year 3
Financial Model Assumptions (Cont.)

	Opening	Q - 1	Q - 2	Q - 3	Q - 4
Mortgage Charactaristics:					
Average Principal Amount		150.0	150.0	150.0	150.0
Average Term (Years)		5	5	5	5
Average Amortization Period (Years)		20	20	20	20
No. of Payments per Year		12	12	12	12
Average age of Mortgages (Years)		1.00	1.00	1.00	1.00
Mortgage Payments Received (Principal & Interest)		1,789.4	2,045.1	2,300.7	2,556.3
Liabilities					
Term Deposits:Equity		1.8	2.2	2.4	2.6
Term Deposit Interest Rate		8.500%	8.500%	8.500%	8.500%
Equity					
NWT Government Injection	5,000.0	5,000.0	5,000.0	5,000.0	5,000.0
Private Funds	4,500.0	4,500.0	4,500.0	4,500.0	4,500.0
RRSP Investments	4,500.0	4,500.0	4,500.0	4,500.0	4,500.0
Aboriginal Groups	6,000.0	6,000.0	6,000.0	6,000.0	6,000.0
Total	20,000.0	20,000.0	20,000.0	20,000.0	20,000.0

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Northwest Territories
Mortgage & Loan Company - Year 4
Projected Income Statement
($ 000's)

	Q - 1	Q - 2	Q - 3	
Revenue:				
Mortgage Interest Income	2,515.2	2,743.8	2,950.0	3,
Short-Term Investment Income	63.8	-1.6	22.2	
Other Income	20.0	20.0	20.0	
Total Revenue	2,599.0	2,762.2	2,992.2	3,
Expenses:				
Administration Fees	202.1	219.8	239.9	
Interest Expense	1,264.4	1,440.8	1,622.0	1,
Salaries	98.1	98.2	98.1	
Facility Expense	33.3	33.3	33.3	
Promotion/Marketing	37.5	37.5	37.5	
CDIC Insurance	24.8	28.3	31.9	
Other Insurance	39.2	40.9	44.1	
Loan Loss Provision	202.1	220.0	237.8	
One Time Organization Expenses	0.0	0.0	0.0	
Total Expenses	1,901.3	2,118.9	2,344.5	2,
Net Profit/(Loss)	69	6		
Retained Earnings, Beginning of Period	0.0	697.7	1,341.0	1,
	697.7	1,341.0	1,988.6	2,
Dividends Declared	0.0	0.0	0.0	2,
Retained Earnings, End of Period	697.7	1,341.0	1,988.6	

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Northwest Territories
Mortgage & Loan Company - Year 4
Projected Balance Sheet
($ 000's)

	Opening	Q - 1	Q - 2	Q - 3	Q - 4
Assets					
Cash & Short-Term Investments	4,743.1	-122.4	1,646.9	3,693.0	6,190.0
Residential Mortgages	73,616.8	80,820.1	87,996.3	95,123.1	102,221.2
Real Property					
Total Assets	78,359.9	80,697.7	89,643.2	98,816.1	108,411.2
Liabilities					
Bank Overdraft	0.0	0.0	0.0	0.0	0.0
Accounts Payable	500.0	500.0	500.0	500.0	500.0
Dividends Payable	2,229.2	0.0	0.0	0.0	2,655.6
Term Deposits	55,630.7	59,500.0	67,802.2	76,327.5	85,255.6
Total Liabilities	58,359.9	60,000.0	68,302.2	76,827.5	88,411.2
Equity					
N.W.T. Government Injection	5,000.0	5,000.0	5,000.0	5,000.0	5,000.0
Other Investors	15,000.0	15,000.0	15,000.0	15,000.0	15,000.0
Retained Earnings	0.0	697.7	1,341.0	1,988.6	0.0
Total Equity	20,000.0	20,697.7	21,341.0	21,988.6	20,000.0
Total Liabilities & Equity	78,359.9	80,697.7	89,643.2	98,816.1	108,411.2

Northwest Territories
Mortgage & Loan Company - Year 4
Projected Cash-Flow Statement
($ 000's)

	Q - 1	Q - 2	Q - 3	Q - 4	Total
Net Profit/(Loss)	697.7	643.3	647.7	667.0	2,655.6
Amortization	0.0	0.0	0.0	0.0	0.0
Cash From Operations	697.7	643.3	647.7	667.0	2,655.6
Residential Mortgages Funded	-7,500.0	-7,500.0	-7,500.0	-7,500.0	-30,000.0
Principal Re-Paymen ts of Mortgages	296.8	323.7	373.2	401.9	1,595.6
Increase (Decrease) in Accounts Payable	0.0	0.0	0.0	0.0	0.0
Increase (Decrease) in Term Deposits	3,869.3	8,302.2	8,525.2	8,928.1	29,624.9
Increase (Decrease) in Equity Funding	0.0	0.0	0.0	0.0	0.0
Dividend Distribution	-2,229.2	0.0	0.0	0.0	-2,229.2
Total Cash-Flow	-4,865.5	1,769.3	2,046.1	2,497.0	1,446.9
Cummulative Cash-Flow	-4,865.5	-3,096.2	-1,050.1	1,446.9	1,446.9
Beginning Cash Balance	4,743.1	-122.4	1,646.9	3,693.0	4,743.1
Ending Cash Balance	-122.4	1,646.9	3,693.0	6,190.0	6,190.0

Northwest Territories
Mortgage & Loan Company - Year 4
Financial Model Assumptions

	Opening	Q - 1	Q - 2	Q - 3	Q - 4	Total
Income Statement						
Revenue:						
Mortgage Interest Rate		12.500%	12.500%	12.500%	12.500%	
Short-Term Investment Rate		5.38%	5.38%	5.38%	5.38%	
Mortgage Application Charge/Approved Mortgage		$400	$400	$400	$400	
Expenses:						
Mortgage Administration Fee - Variable						
% of Mortgage Portfolio		1.00%	1.0%	1.00%	1.0%	
% of Other Assets		0.50%	0.5%	0.5%	0.5%	
Salaries:						
President & CEO		41.7	41.5	41.7	41.5	166.71
Senior Financial Officer		29.9	29.9	29.9	29.9	119.8
Compliance & Administration		14.9	15.0	14.9	15.0	59.6
Receptionist		11.6	11.7	11.6	11.7	46.6
Total		98.1	98.2	98.1	98.2	392.6
Loan Loss Provision (% of Mortgage Portfolio)		1.0%	1.0%	1.0%	1.0%	
CDIC Insurance (% of Total Term Deposits)		0.167%	0.167%	0.167%	0.167%	
Financial Bond Insurance (% of Mortgage Portfolio)		0.10%	0.10%	0.100%	0.10%	
Mortgage Impairment Insurance (% of Total Assets)		0.060%	0.060%	0.0600%	0.060%	
Directors & Officers Liability Insurance		6.9	6.9	6.9	6.9	
Office Contents/General Liability		1.6	1.7	1.6	1.7	
Balance Sheet						
Assets						
Mortgages Funded		50	50	50	50	
Cummulative Mortages Funded		550	600	650	700	

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Northwest Territories
Mortgage & Loan Company - Year 4
Financial Model Assumptions (Cont.)

	Opening	Q - 1	Q - 2	Q - 3	Q - 4	
Mortgage Charactaristics:						
Average Principal Amount		150.0	150.0	150.0	150.0	
Average Term (Years)		5	5	5	5	
Average Amortization Period (Years)		20	20	20	20	
No. of Payments per Year		12	12	12	12	
Average age of Mortgages (Years)		2.00	2.00	2.50	2.50	
Mortgage Payments Received (Principal & Interest)		2,811.9	3,067.6	3,323.2	3,578.8	12,781.6
Liabilities						
Term Deposits:Equity		3.0	3.3	3.6	3.9	
Term Deposit Interest Rate		8.500%	8.500%	8.500%	8.500%	
Equity						
NWT Government Injection	5,000.0	5,000.0	5,000.0	5,000.0	5,000.0	
Private Funds	4,500.0	4,500.0	4,500.0	4,500.0	4,500.0	
RRSP Investments	4,500.0	4,500.0	4,500.0	4,500.0	4,500.0	
Aboriginal Groups	6,000.0	6,000.0	6,000.0	6,000.0	6,000.0	
Total	20,000.0	20,000.0	20,000.0	20,000.0	20,000.0	

Northwest Territories
Mortgage & Loan Company - Year 5
Projected Income Statement
($ 000's)

	Q	Q	Q	Q	
Revenue:					
Mortgage Interest Income	3,326.7	3,476.5	3,596.8	3,740.9	14,140.8
Short-Term Investment Income	83.3	27.0	21.5	16.5	148.3
Other Income	13.2	13.2	13.2	12.8	52.4
Total Revenue	3,423.2	3,516.7	3,631.5	3,770.2	14,341.5
Expenses:					
Administration Fees	266.9	280.7	291.3	301.6	1,140.4
Interest Expense	1,859.4	1,930.4	2,001.0	2,073.4	7,864.1
Salaries	107.9	108.1	107.9	108.1	431.9
Facility Expense	36.6	36.6	36.6	36.6	146.4
Promotion/Marketing	37.5	37.5	37.5	37.5	150.0
CDIC Insurance	36.5	37.9	39.3	40.7	154.5
Other Insurance	51.8	52.7	54.3	56.1	214.9
Loan Loss Provision	266.9	278.2	289.3	300.0	1,134.4
One Time Organization Expenses	0.0	0.0	0.0	0.0	0.0
Total Expenses	2,663.5	2,762.0	2,857.2	2,954.0	11,236.6
Net Profit/(Loss)					
Retained Earnings, Beginning Period	0.0	759.7	1,514.4	2,288.7	0.0
	759.7	1,514.4	2,288.7	3,104.9	3,104.9
Dividends Declared	0.0	0.0	0.0	3,104.9	3,104.9
Retained Earnings, End Period					

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Northwest Territories
Mortgage & Loan Company - Year 5
Projected Balance Sheet
($ 000's)

	Opening	Q - 1	Q - 2	Q - 3	Q - 4
Assets					
Cash & Short-Term Investments	6,190.0	2,009.3	1,596.4	1,229.5	1,160.4
Residential Mortgages	102,221.2	106,750.3	111,260.5	115,722.3	120,014.6
Real Property					
Total Assets	108,411.2	108,759.7	112,856.9	116,951.8	121,175.0
Liabilities					
Bank Overdraft	0.0	0.0	0.0	0.0	0.0
Accounts Payable	500.0	500.0	500.0	500.0	500.0
Dividends Payable	2,655.6	0.0	0.0	0.0	3,104.9
Term Deposits	85,255.6	87,500.0	90,842.6	94,163.1	97,570.1
Total Liabilities	88,411.2	88,000.0	91,342.6	94,663.1	101,175.0
Equity					
N.W.T. Government Injection	5,000.0	5,000.0	5,000.0	5,000.0	5,000.0
Other Investors	15,000.0	15,000.0	15,000.0	15,000.0	15,000.0
Retained Earnings	0.0	759.7	1,514.4	2,288.7	0.0
Total Equity	20,000.0	20,759.7	21,514.4	22,288.7	20,000.0
Total Liabilities & Equity	108,411.2	108,759.7	112,856.9	116,951.8	121,175.0

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Northwest Territories
Mortgage & Loan Company - Year 5
Projected Cash-Flow Statement
($ 000's)

	Q - 1	Q - 2	Q - 3	Q - 4	Total
Net Profit/(Loss)	759.7	754.7	774.3	816.2	3,104.9
Amortization	0.0	0.0	0.0	0.0	0.0
Cash From Operations	759.7	754.7	774.3	816.2	3,104.9
Residential Mortgages Funded	-4,950.0	-4,950.0	-4,950.0	-4,800.0	-19,650.0
Principal Re-Payments of Mortgages	420.9	439.8	488.2	507.7	1,856.6
Increase (Decrease) in Accounts Payable	0.0	0.0	0.0	0.0	0.0
Increase (Decrease) in Term Deposits	2,244.4	3,342.6	3,320.6	3,407.0	12,314.5
Increase (Decrease) in Equity Funding	0.0	0.0	0.0	0.0	0.0
Dividend Distribution	-2,655.6	0.0	0.0	0.0	-2,655.6
Total Cash-Flow	-4,180.7	-412.9	-366.9	-69.1	-5,029.6
Cummulative Cash-Flow	-4,180.7	-4,593.6	-4,960.5	-5,029.6	-5,029.6
Beginning Cash Balance	6,190.0	2,009.3	1,596.4	1,229.5	6,190.0
Ending Cash Balance	2,009.3	1,596.4	1,229.5	1,160.4	1,160.4

Northwest Territories
Mortgage & Loan Company - Year 5
Financial Model Assumptions

	Opening	Q - 1	Q - 2	Q - 3	Q - 4	Total
Income Statement						
Revenue:						
Mortgage Interest Rate		12.500%	12.500%	12.500%	12.500%	
Short-Term Investment Rate		5.38%	5.38%	5.38%	5.38%	
Mortgage Application Charge/Approved Mortgage		$400	$400	$400	$400	
Expenses:						
Mortgage Administration Fee - Variable						
% of Mortgage Portfolio		1.0%	1.0%	1.0%	1.0%	
% of Other Assets		0.5%	0.5%	0.5%	0.5%	
Salaries:						
President & CEO		45.8	45.7	45.8	45.7	183.0
Senior Financial Officer		32.9	32.9	32.9	32.9	131.8
Compliance & Administration		16.4	16.5	16.4	16.5	65.9
Receptionist		12.7	12.9	12.7	12.9	51.2
Total		107.9	108.1	107.9	108.1	431.9
Loan Loss Provision (% of Mortgage Portfolio)		1.0%	1.0%	1.0%	1.0%	
CDIC Insurance (% of Total Term Deposits)		0.167%	0.167%	0.167%	0.167%	
Financial Bond Insurance (% of Mortgage Portfolio)		0.10%	0.100%	0.10%	0.100%	
Mortgage Impairment Insurance (% of Total Assets)		0.060%	0.0600%	0.0600%	0.0600%	
Directors & Officers Liability Insurance		7.6	7.6	7.6	7.6	
Office Contents/General Liability		1.8	1.9	1.8	1.9	
Balance Sheet						
Assets						
Mortgages Funded		33	33	33	32	
Cummulative Mortages Funded		733	766	799	831	

Northwest Territories
Mortgage & Loan Company - Year 5
Financial Model Assumptions (Cont.)

	Opening	Q - 1	Q - 2	Q - 3	Q - 4
Mortgage Characteristics:					
Average Principal Amount		150.0	150.0	150.0	150.0
Average Term (Years)		5	5	5	5
Average Amortization Period (Years)		20	20	20	20
No. of Payments per Year		12	12	12	12
Average age of Mortgages (Years)		2.50	2.50	3.00	3.00
Mortgage Payments Received (Principal & Interest)		3,747.6	3,916.3	4,085.0	4,248.6
Liabilities					
Term Deposits:Equity		4.4	4.4	4.4	4.4
Term Deposit Interest Rate		8.500%	8.500%	8.500%	8.500%
Equity					
NWT Government Injection	5,000.0	5,000.0	5,000.0	5,000.0	5,000.0
Private Funds	4,500.0	4,500.0	4,500.0	4,500.0	4,500.0
RRSP Investments	4,500.0	4,500.0	4,500.0	4,500.0	4,500.0
Aboriginal Groups	6,000.0	6,000.0	6,000.0	6,000.0	6,000.0
Total	20,000.0	20,000.0	20,000.0	20,000.0	20,000.0

Appendix III

Investment Policies

The company will adopt investment policies consistent with the Income Tax Act, other legislation governing the Company and the Company's charter documents and by-laws. These investment policies will be as follows:

i) at least three-quarters of the assets of the Company will be invested in Residential Mortgages or held in cash or deposits with entities whose deposits are insured by Canadian Deposit Insurance Corporation;

ii) up to 20°/0 of the Company's assets may be invested in Industrial and Commercial Mortgages;

iii) investments of the Company will be diversified, to the extent practicable, with respect to geographic location within the Northwest Territories and will consist of mortgages on properties located in urban centres, towns and hamlets;

iv) the **Company** will invest primarily in mortgages with terms of between three and five years but will attempt to stagger the maturities of the mortgages in order to produce an orderly turnover of assets and liabilities;

v) no single investment or related group of investments involving one property or development, or involving several properties or developments owned by one developer and its affiliates, will exceed l% of the book value of the assets of the Company, but this restriction will not apply to obligations of Canadian municipal, territorial and federal governments and government agencies;

vi) to the extent practicable, the Company will endeavour to invest in NHA Insured Mortgages and Other Insured Mortgages; and

vii) no investment will be invested in equity or debt securities other than those described in (i) and (ii) above

Residential Mortgages and Industrial and Commercial Mortgages in which the Company may invest are more fully described as follows:

Residential Mortgages - mortgages on residential property in Canada such as single family dwellings, duplexes, townhouses, condominium units or multiple family dwellings such as apartment buildings. These mortgages may be:

1. **Conventional Mortgages:** mortgages which do not exceed 75% of the lender's appraised value of the property, are drawn generally for a term of up to five years, have a fixed rate of interest, have an amortization period which is usually between 20 and 25 years, and are normally renewed periodically at then prevailing interest rates;

2. **NHA Insured Mortgages:** mortgages made by an approved lender in which the principal amount is insured by CMHC, the obligations of which constitute obligations of the Government of Canada. These mortgages generally encompass a broader range of residential properties. The insurable amount of these mortgages is determined by CMHC and under current regulations can extend, for certain types of lending programs, up to 100°/0 of CMHC's appraised value of the underlying property;

3. **Other Insured Mortgages:** mortgages which are the same as Conventional Mortgages except that the principal amount may exceed 75°A of the current appraised value of the property. These mortgages are insured to varying portions of the principal amount by a qualified insurance company such as The Mortgage Insurance Company of Canada; or

4. **Leasehold Mortgages:** mortgages from leasees of real property under long-term land leases. These constitute mortgages of the land lease and the buildings and improvements constructed on the leased land.

Industrial and Commercial Mortgages: mortgages on industrial or commercial property in the Northwest Territories which may be Conventional Mortgages, Other Insured Mortgages or Leasehold Mortgages.

Appendix IV

Canadian Deposit Insurance

In order for the Northwest Territories Mortgage& Loan Company to insure deposits accepted from the public, deposit insurance is required to be obtained from the Canada Deposit Insurance Corporation (CDIC) pursuant to the Canada Deposit Insurance Corporation Act (CDIC Act).

For the purposes of the CDIC Act the NWT-M&LC could be considered a provincial institution. A provincial institution may have its deposits insured if it is authorized by the province of its incorporation to apply for deposit insurance and the CDIC approves the institution for deposit insurance.

Application for deposit insurance will be made by the NWT-M&LC to the CDIC pursuant to the CDIC Corporation Application for Deposit Insurance by-law. The application requirements are as follows:

1. General applicant information including corporate name, address, contact person, date, jurisdiction and manner of incorporation and date business to commence.
2. Certified copy of company charter.
3. Certified copy of company by-laws.
4. Certified copy of the most recent annual statement filed with the province of incorporation.
5. A list of shareholders together with a copy of the latest financial statement of any significant corporate shareholders.
6. Names and addresses of company directors, officers and auditors.
7. A brief summary of the business background of each director and senior officer of the company particularly as it relates to the business of a mortgage loan company or a trust company.
8. A description of the proposed plan of operations of the company, including the nature and expected volume of deposit, certificate and debenture borrowings, branch offices, and investment policy as respects to securities and mortgages.
9. Financial projections covering the first five years of operations.
10. Certified copy of directors resolution of applicant and controlling entity authorizing the application and approving its contents.
11. Consents, undertakings and authorizations requested by the CDIC.

The Superintendent of Financial Institutions has the authority to inspect, audit and review member institutions.

Under CDIC guidelines deposits in CDIC member institutions are insured up to a maximum of $60,000 per individual per institution. Deposits must be in Canadian currency and may not be for a term greater than five years.

Appendix V

Mortgage Guarantees

Canada Mortgage & Housing Coloration:

In order to make and administer loans under the National Housing Act (NHA), the Northwest Territories Mortgage & Loan Company must be approved by the Canada Mortgage and Housing Corporation (CMHC). The CMHC is a federal crown corporation which has been in operation since 1946 and whose obligations are guaranteed by the Government of Canada.

Mortgage loans secured by real property consisting of all forms of residential housing in all price ranges are eligible for CMHC's NHA mortgage loan insurance. Mortgage loan insurance can be for homeowner or rental housing. Financing for social housing and non-profit housing is also insurable.

CMHC's general underwriting policies for home ownership loans require the mortgagee to maintain a thirty-two percent Gross Debt Service (GDS) ratio (GDS calculation includes principal, interest, taxes and annual heating costs and, if applicable, one half of condominium fees divided by gross annual income). There is no maximum mortgage amount and the minimum mortgage term is one year.

Government of Northwest Territories:

The NWT-M&LC will provide mortgage financing to public and subsidized housing projects where the Government of the Northwest Territories provides its guarantee on stream of required lease payments.

Cooperation will also be given to the Northwest Territories Housing Corporation in project development to the extent that guarantees are available.

Appendix VI

Analysis of 1992 Housing Needs Survey

The Northwest Territories Housing Corporation conducted an extensive Housing Needs Survey throughout the territory. The purpose of the Housing Needs Survey is to objectively measure the need for public housing, new home ownership programs and repair programs in each community.

The survey results have been analyzed by housing centre. Each housing centre has been evaluated and classified as an "A", "B", or" C" centre depending on its location and size of the centre. An "A" centre is considered the least risky, while the "C" centre is the most risky.

The first attachment Analysis of Potential Mortgages by Housing Centre is a determination of the market size for potential mortgages based on the survey respondents who reported some form of housing deficiency and reported housing costs which represented less than thirty per cent of household income. This group is deemed to be in a position to afford better housing if made available.

The second attachment Analysis of Households in Core Need by Housing Centre is a breakdown of households with housing costs in excess of thirty per cent of household income. These centres and households should be targeted for government sponsored housing programs.

Appendix VI

Northwest Territories Mortgage & Loan Company
Analysis of Potential Mortgages by Housing Centre

(Source: Northwest Territories Housing Corporation 1992 Housing Needs Survey)

Housing District	Housing Centre	Housing Centre Type	Total Households Surveyed	Housing Problems	In Core Need	Mortgage Market**	Total "A"	Total "B"	Total "C"
Baffin District	Arctic Bay	C	117	69	58	11			11
	Broughton Island	C	106	44	40	4			4
	Cape Dorset	C	233	100	89	11			11
	Clyde River	C	109	63	55	8			8
	Grise Fiord	C	27	11	5	6			6
	Hall Beach	C	87	55	37	18			18
	Igloolik	C	193	137	126	11			11
	Iqaluit	A	1,062	302	213	89	89		
	Lake Harbour	C	77	41	35	6			6
	Pangnirtung	B	271	133	115	18		18	
	Pond Inlet	C	194	116	94	22			22
	Resolute Bay	C	39	21	12	9			9
	Sanikiluaq	C	90	63	58	5			5
District Total			2,605	1,155	937	218	89	18	111
Keewatin District	Arviat	B	293	179	160	19		19	
	Baker Lake	B	298	159	148	11		11	
	Chesterfield Inlet	C	79	40	33	7			7
	Coral Harbour	C	121	78	51	27			27
	Rankin Inlet	B	406	166	125	41		41	
	Repulse Bay	C	80	40	37	3			3
	Whale Cove	C	63	36	28	8			8
District Total			1,340	698	582	16		71	45

**Potential Mortgages consist of Households which reported some form of housing problem and reported incomes in excess of the Core Need Income Threshold (CNIT - less than 30% of total income dedicated to housing costs). Therefore, this group is able to afford to solve their own housing problems without government support.

Appendix VI

Northwest Territories Mortgage & Loan Company
Analysis of Potential Mortgages by Housing Centre

(Source: Northwest Territories Housing Corporation 1992 Housing Needs Survey)

Housing District	Housing Centre	Housing Centre Type	Total Households Surveyed	Housing Problems	In Core Need	Mortgage Market**	Total "A"	Total "B"	Total "C"
Kitikmeot District	Bathurst Inlet	C	5	5	2	3			3
	Bay Chimo	C	15	15	13	2			2
	Cambridge Bay	B	291	138	109	29		29	
	Coppermine	B	261	127	109	18		18	
	Gjoa Haven	C	148	97	89	8			8
	Holman Island	C	110	28	23	5			5
	Pelly Bay	C	71	43	41	2			2
	Taloyoak (Spence Bay)	C	119	62	60	2			2
District Total			1,020	515	446	69		47	22
North Slave District	Dettah	C	40	28	14	14			14
	Lac La Martre	C	74	61	49	12			12
	Ndilo (Latham Island)	C	42	25	12	13			13
	Rae/Edzo	B	329	189	137	52		52	
	Rae Lakes	C	52	43	30	13			13
	Snare Lake	C	21	21	14	7			7
	Yellowknife	A	4,318	1,055	236	819	819		
District Total			4,876	1,422	492	930	819	52	59

**Potential Mortgages consist of Households which reported same form of housing problem and reported incomes in excess of the Core Need Income Threshold (CNIT - less than 30% of total income dedicated to housing costs). Therefore, this group is able to afford to solve their own housing problems without government support.

Appendix VI

Northwest Territories Mortgage & Loan Company
Analysis of Potential Mortgages by Housing Centre

(Source: Northwest Territories Housing Corporation 1992 Housing Needs Survey)

Housing District	Housing Centre	Housing Centre Type	Total Households Surveyed	Housing Problems	In Core Need	Mortgage Market**	Total "A"	Total "B"	Total "C"
South Slave District	Enterprise	C	13	6	3	3			3
	Fort Liard	C	125	72	33	39			39
	Fort Providence	C	175	77	44	33			33
	Fort Resolution	C	143	73	38	35			35
	Fort Simpson	B	308	129	89	40		40	
	Fort Smith	B	671	224	101	123		123	
	Hay River	A	1,039	374	169	205	205		
	Hay River Reserve	C	56	39	3	36			36
	Jean Marie River	C	13	9	5	4			4
	Kakisa	C	11	6	2	4			4
	Lutsel K'e (Snowdrift)	C	69	51	33	18			18
	Nahanni Butte	C	24	19	15	4			4
	Trout Lake	C	19	15	10	5			5
	Wrigley	C	48	29	14	15			15
District Total			2,714	1,123	559	564	205	163	196

**Potential Mortgages consist of Households which reported some form of housing problem and reported incomes in excess of the Core Need Income Threshold (CNIT - less than 30% of total income dedicated to housing costs). Therefore, this group is able to afford to solve their own housing problems without government support.

Appendix VI

Northwest Territories Mortgage & Loan Company
Analysis of Potential Mortgages by Housing Centre

(Source: Northwest Territories Housing Corporation 1992 Housing Needs Survey)

Hous'ng District		Housing Centre	Housing Centre Tvpe	Total Households Surveved	Housing Problems	In Core Need	Mortgage Market**	Total "A"	Total "B"	Total "C"
W	Arctic D'stric	Aklavik	C	184	95	79	16			16
		Arctic Red River	C	27	13	9	4			4
		Colville Lake	C	17	17	3	14			14
		Fort Franklin	C	131	75	61	14			14
		Fort Good Hope	C	140	96	56	40			40
		Fort McPherson	C	192	87	64	23			23
		Fort Norman	C	105	52	39	13			13
		Inuvik	B	730	219	143	76		76	
		Norman Wells	C	152	34	12	22			22
		Paulatuk	C	51	33	24	9			9
		Sachs Harbour	C	44	19	15	4			4
		Tuktoyaktuk	C	208	80	63	17			17
District Total				1.981	820	568	252		76	176
Total NWT				14,536	5,733	3,584	2,149	1,113	427	609
% of Total							100.0%	51.8%	19.9%	28.3%

**Potential Mortgages consist of Households which reported some form of housing problem and reported incomes in excess of the Core Need Income Threshold (CNIT - less than 30% of total income dedicated to housing costs). Therefore, this group is able to afford to solve their own housing problems without government support.

Appendix VI

Northwest Territories Mortgage & Loan Company
Analysis of Households in Core Need by Housing Centre

(Source: Northwest Territories Housing Corporation 1992 Housing Needs Survey)

Housing District	Housing Centre	Housing Centre Type	Total Households Surveyed	Housing Problems	In Core Need	Total "A"	Total "B"	Total "C"
Baffin District	Arctic Bay	C	117	69	S8			S8
	Broughton Island	C	106	44	40			40
	Cape Dorset	C	233	100	89			89
	Clyde River	C	109	63	55			55
	Grise Fiord	C	27	11	S			S
	Hall Beach	C	87	55	37			37
	Igloolik	C	193	137	1 Z6			1 Z6
	Iqaluit	A	1,062	302	213	213		
	Lake Harbour	C	77	41	35			35
	Pangnirtung	B	271	133	115		115	
	Pond Inlet	C	194	116	94			94
	Resolute Bay	C	39	21	12			12
	Sanikiluaq	C	90	63	58			58
District Total			2,605	1,155	937	213	115	609
Keewatin District	Arviat	B	293	179	160		160	
	Baker Lake	B	298	159	148		148	
	Chesterfield Inlet	C	79	40	33			33
	Coral Harbour	C	121	78	51			51
	Rankin Inlet	B	406	166	125		125	
	Repulse Bay	C	80	40	37			37
Whale	Cove	C	63	36	Z8			Z8
District Total			,T.MO	698	S8Z		433	149

Appendix VI

Northwest Territories Mortgage & Loan Company
Analysis of Households in Core Need by Housing Centre

(Source: Northwest Territories Housing Corporation 1992 Housing Needs Survey)

Housing District	Housing Centre	Housing Centre Type	Total Households Surveyed	H Problems	In Core Need	Total "A"	Total "B"	Total "C"
m D	Bathurst Inlet	C	5	5	2			2
	Bay Chimo	C	15	15	13			13
	Cambridge Bay	B	291	138	109		109	
	Coppermine	B	261	127	109		109	
	Gjoa Haven	C	148	97	89			89
	Holman Island	C	110	28	23			23
	Pelly Bay	C	71	43	41			41
	Taloyoak (Spence Bay)	C	119	62	60			60
District Total			1,020	515	446		218	228
North Slave District	Dettah	C	40	28	14			14
	Lac La Martre	C	74	61	49			49
	Ndilo (Latham Island)	C	42	25	12			12
	Rae/Edzo	B	329	189	137		137	
	Rae Lakes	C	52	43	30			30
	Snare Lake	C	21	21	14			14
	Yellowknife	A	4.318	1.055	236	236		
District Total			4 [illegible]76	1,422	492	236	137	119

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ortgage & Loan Company
Core Need by Housing Centre

Corporation 1992 Housing Needs Survey)

Total Households Surveyed	Housing Problems	In Core Need	Total "A"	Total "B"	Total "C"
13	6	3			3
125	72	33			33
175	77	44			44
143	73	38			38
308	129	89		89	
671	224	101		101	
1,039	374	169	169		
56	39	3			3
13	9	5			5
11	6	2			2
69	51	33			33
24	19	15			15
19	15	10			10
48	29	14			14
2,714	1,123	559	169	190	200

Appendix VI

Northwest Territories Mortgage & Loan Company
Analysis of Households in Core Need by Housing Centre

(Source: Northwest Territories Housing Corporation 1992 Housing Needs Survey)

Housing District	Housing Centre	Housing Centre Type	Total Households Surveyed	Housing Problems	In Core Need	Total "A"	Total "B"	Total "C"
Western Arctic District	Aklavik	C	184	95	79			79
	Arctic Red River	C	27	13	9			9
	Colville Lake	C	17	17	3			3
	Fort Franklin	C	131	75	61			61
	Fort Good Hope	C	140	96	56			56
	Fort McPherson	C	192	87	64			64
	Fort Norman	C	105	52	39			39
	Inuvik	B	730	219	143		143	
	Norman Wells	C	152	34	12			12
	Paulatuk	C	51	33	24			24
	Sachs Harbour	C	44	19	15			15
	Tuktoyaktuk	C	208	80	63			63
District Total			1,981	820	568		143	425
Total NWT			14,536	5,733	3,584	618	1,236	1,730
% of Total					100.0%	17.2%	34.5%	48.3%

Appendix VII

The Northwest Territories Mortgage & Loan Company Mortgage Originating & Administration Procedures

In originating and administrating the mortgage portfolio the company will follow the standard financial institution protocol outlined herein.

The process will vary depending on the nature and size of the mortgage (single family vs. multi-unit) but generally the company will conform to the following procedures.

The NWT-M&LC will conduct an extensive public relations and marketing program across the territory informing its citizens of the company and its mandate to provide residential mortgage financing to all areas of the territory.

Once a prospective borrower has been identified the first applicant will be provided with an information package outlining the lending criteria of the NWT-M&LC. This information package will include a mortgage application to be completed by the borrower. This application will conform to the Canadian Mortgage and Housing Corporation's lending requirements.

The applicant will be required to complete the application which will contain personal information, employment and income history, amount and nature of financing requested, location and description of the dwelling in question, amount of down payment and permission to conduct a credit review on the applicant. The applicant will be required to pay a small processing fee to demonstrate their commitment to the transaction. The applicant will be required to sign the application under witness.

The application will be submitted to the head office of the company. The portfolio administrator would review the application to determine whether the applicant generally complies with the lending criteria of the NWT-M&LC. If it is clear that the applicant does not meet the basic criteria a rejection letter will be drafted outlining the deficiencies in the application.

If the applicant meets the basic criteria of the company the portfolio administrator will verify and substantiate the information provided by the applicant. Employment and other key financial criteria will be confirmed.

At this point a detailed submission will be provided to the Loan and Business Committee by the portfolio administrator. This submission will include a copy of the application, verification of data submitted, the assessment and recommendation of the administrator, and a draft commitment letter including any conditional items if appropriate.

The committee will then consider the application. All transactions in excess of $250,000 will require Board of Directors approval.

Once approved the commitment letter will be sent to the applicant requesting they satisfy any conditions within a specified period of time. The portfolio administrator will follow-up directly with the applicant to ensure he agrees with the package and is capable of satisfying the outstanding conditions.

If everything is in order the company will engage a lawyer on behalf of the applicant, at the applicant's expense, who will be responsible for completing the necessary mortgage and legal documents. The NWT-M&LC will develop standard mortgage documents which comply with territorial regulatory requirements and CMHC guidelines. The applicant will be required to execute the documents under seal at which point they would be registered on title in the appropriate jurisdiction.

The finds will then be advanced net of any outstanding legal or registration fees. The applicant's deposit will be used to fund the administrative expenses of the process..

This process can vary depending on the location and size of the property, nature of the asset (new or resale), and consideration for other specific or unique factors.

Appendix VIII

Public Policy

The NWT-M&LC will be a private sector financing vehicle and will not compete directly with any public programs now in place. The company will operate as a stand alone, private business and its lending decisions will be based on normal financial and business criteria. The company will be managed by a Board of Directors representing the Northwest Territories and other shareholder's interests. Several independent fiduciary directors will be appointed to provide the required business and financial expertise to direct and manage the company. Lending decisions will be made by a Loan and Business Committee familiar with the mandate of the NWT-M&LC.

Concurrent with the finalization of the NWT-M&LC and prior to the official launch, housing policies of the Government of the Northwest Territories should be reviewed to ensure that they do not adversely affect the market. The new mortgage financing available through the company should supplement the government based programs and relieve some pressure on both finding and direct housing demand.

The attached memo outlines the areas which should be considered to ensure that government policy does not impact negatively on the housing market and more importantly to ensure a complimentary relationship between the government and the NWT-M&LC.

Policy direction should be considered and reviewed for each of the following areas:

1. Staff Housing Policy
2. Rental Housing Policy
3, Agency Funded Rental Housing Program
4. Northwest Territories Housing Corporation Policy and Direction

Each of the above areas should provide incentives for individual home ownership and thereby positively influence the housing market in the Northwest Territories.

Appendix IX

Impact on Current Banks and Financial Institutions within the Northwest Territories

The NWT-M&LC will establish lending guidelines and interest rate schedules based on the location of the asset and the risk of the individual mortgage. The company intends to charge a premium of 1°/0 to 3°A over conventional market rates. This premium will be applied based on the risk and location of the mortgage property. For example, if the conventional mortgage rate in Yellowknife is 10.25°/0 the NWT-M&LC would charge something in excess of 11 .25 °/0 to its customers. In doing so we expect no displacement of existing lenders within the territory and thus provide incremental mortgage financing to residents in the territory.

The NWT-M&LC intends to work closely with the existing lenders that currently do business in the territory. This cooperation is expected to take several forms.

Firstly, the NWT-M&LC will provide second mortgages where a conventional lender has provided a first. This second mortgage will provide additional financing wherein the past the bank may have been reluctant to participate in a second transaction.

Since the NWT-M&LC is limited to lending no more than 1% of its total portfolio to a single borrower, it is intended that the NWT-M&LC will develop lending consortiums and thereby have the ability to get involved in large multi-unit developments.

Convential lenders will be encouraged to participate in these projects since the company will be syndicating mortgages with other lenders in order to spread the risk over several institutions.

As indicated the NWT-M&LC intends to offer a small premium on term deposits of 1/4% to l/2% above the rates offered by conventional financial institutions. The deposits will be C.D.I.C. insured and should be very popular with the small investor. In order to stimulate deposit activity the company will implement an effective public relations and marketing program emphasizing the benefits to the north. These activities will challenge the banks for deposit volume in the territory. Consequently the banks should be more responsive to the Northwest Territories given the importance of deposits to their business.

Appendix X

The Impact of the Division of the Territories on the Northwest Territories Mortgage and Loan Company

The Northwest Territories will be split in 1999 to form two new political units consisting of Nunavut and the Northwest Territories.

The government of Northwest Territories will have been instrumental in creating the NWT - M&LC which will be an asset of the current territory. The shares of the company will have to be divided on a pro-rata basis between the two jurisdictions similar to the division of other shared assets of the Territories. On an operational basis the company will be structured from the start to reflect the demands of communities across the Territories. Thus it is expected that there will be operations and activities throughout both political entities and that the company will continue to provide mortgage financing on the same basis as before. The jurisdictions may however want to assess the actual loan and deposit portfolios at the date of division to ascertain the appropriate share dividion.

Appropriate legislative and regulatory adjustments will have to be made within the Nunavut Government structure to ensure compliance with all regulatory requirements.

The need for a Nunavut political and economic infrastructure will have a very positive impact on the housing market in the eastern arctic. New jobs in the public and private sector will be created and these people will require adequate housing. This will provide a new source of mortgage opportunities for the NWT - M&LC.

Generally the impact is minimal other than the above considerations.

Appendix XI

Asset/Liability Management
for
Financial Intermediaries

Executive Summary

The management of interest rate risk is a serious consideration for financial intermediaries.

Interest rate risk exists in many forms, from the options implicit in mortgage commitments to the cashable features of GICS to the matching of asset and liability cash flows overall.

A financial intermediary must recognize that acquiring expertise in the control of interest rate risk is an essential component of maximizing long term profits.

Asset/Liability management (A/LM) is the term used to describe the. control of this risk. Today, the feasibility of Duration Matching A/LM makes **its use** a clear winner over the traditional' Term (GAP) Matching methods long used by banks and trust companies.

The investment manager should understand that controlling interest rate risk is really only one component of a comprehensive investment risk management system that accounts for all investment constraints.

While the availability of sophisticated modelling and optimization software is a key consideration, so is the ability of the investment manager to integrate the A/LM process and systems with those of the company.

In order to be truly successful in controlling risk and maximizing long term profits, a "top-down" commitment to the A/LM process is required. Furthermore, the A/LM process must be integrated into all parts of a company's operations.

A significant reduction in interest rate risk and improvement in long term profits can be achieved through the use of a comprehensive Optimal Duration Matching investment management system.

Investment Management for Financial Intermediaries

Financial intermediaries are in the business of leveraging their own capital to earn an incremental investment spread. This spread is measured by the difference between what they earn on their assets and what they promise to pay on their liabilities.

Hence, profits in this business are typically described as being equal to:

  Investment Earnings on Capital
+ Gross Spread Earned
  Expenses and Taxes

  Profit

The investment manager's main objective should be to maximize the long run profits of the financial intermediary subject to the risk constraints particular to its owners.

Looking at the equation, above, it is well known that to maximize the Investment Earnings on Capital while satisfying a firm's investment policy constraints (diversification, credit risk, and liquidity risk), the expertise of an investment manager is required.

Common sense tells us that the Gross Spread Earned is a function of the difference between what a financial institution pays to attract deposits and what it can earn on the assets the deposited funds are invested in.

Most financial institutions understand that there is little that can be done on the deposit side to increase the Gross Spread Earned. The competitive nature of the business world they operate in, mean that deposit rates are largely a given.

The challenge, then, in maximizing the Gross Spread Earned seems to be the same as maximizing Investment Earnings on Capital, i.e. purely asset yield driven. However, 'where the timing or-amount "of the cash flows promised by the investment or the deposit could change for any reason or are simply not perfectly matched to start with, any change in the term structure of interest rates, or the availability of similar quality investment instruments, will ensure that the Gross Spread Earned will not be locked-in. It could be higher or lower than that available at the outset. .

The maximization and control of locking in the Gross Spread Earned is a function of the asset/liability management (A/WI) process and practices employed by the institution. Furthermore, it is only in integrating the A/LM and investment functions that true long term profits will be maximized.

Controlling Interest Rate Risk

Asset/Liability management is generally concerned with controlling the degree of mismatch between a company's asset cash flows and liability cash flows. As the present value of the net cash flows represents the net worth of a company, and as the interest rates used to determine this present value are dictated by the financial markets and are subject to change, it could be said that the A/LM function is one of controlling the exposure of a firm's capital to changes in interest rates.

It is easy to demonstrate, by example, that significant losses could occur due to changes in interest rates if the degree of mismatch is not controlled. However, it is also possible to show scenarios where significant gains are created.

While the decision of whether or not to mismatch (or whether or not to take levered interest rate bets) is left to the owner of a firm's capital, clearly such a decision should only be made with full knowledge of the dollar value of the potential gains or losses.

If a firm decides to take-on some degree of interest rate risk it should only do so with the realization that over time both gains and losses will occur. This has two serious implications. One, the firm may not be able to survive "the big loss". Two, the resulting variability in its reported earnings will make the firm itself, a riskier bet to its counterparties. Hence, raising debt and equity capital will be more costly.

Controlling interest rate risk will minimize the variability of profits over reporting periods.

Having accepted the fact that controlling interest rate risk is essential for financial intermediaries, the next issue is - which method is best.

Term (Gap) Matching

Term (GAP) Matching has been used mostly by banks and trusts companies for years to control interest rate risk. The method is best described by example.

A bank attracts a depositor to invest $1,000 in a 5 year 10.O% GIC with a maturity value of $1,611. To match this deposit and in an attempt to lock-in its spread, the bank simultaneously makes a $1,000 mortgage loan with a 5 year term, 25 year amortization to yield a semi-annual rate of 12.0%. The monthly payment required under the mortgage is $10.32. While the bank may be satisfied that it has matched its asset and liabilities, a closer examination of the cash flows reveals that significant interest rate risk still exists.

Cash Flow Projection

Year	1	2	3	4	5
Mortgage	124	124	124	124	1079
GIC	o	0	0	0	(1611)
Net Cash Flow	124	124	124	124	(532)

Interest rate risk still exists because:

a) the mortgage payments will be reinvested at uncertain future interest rate levels. If interest rates fall, spread will be lost.

b) if the mortgage contains pre-payment privileges without full penalties and interest rates fall, the mortgage will, likely, fully or partially pre-pay. The pre-payment proceeds will be reinvested at lower rates producing spread losses.

c) if the GIC is cashable without penalty and interest rates rise, the depositor will surrender the GIC and reinvest at higher rates; the bank faces not only a liquidity problem if it cannot sell the mortgage, but must also fund new GIC deposits with the existing mortgage, at a loss of spread.

While there are modifications of this method that match maturity values, rather than initial values, the pitfalls of Gap Matching methods remain the same, namely:

a) , All cash flows are not accounted for. Bond coupon payments and monthly mortgage payments introduce reinvestment risk that is not measured.
b) Even when all cash flows are accounted for, matching will rarely be perfect and the residual risk will not be measured.
c) The exposure to option risk is not measured.
d) Gap Matching does not work at all for assets or liabilities that do not have distinct and significant maturity values such as pay-out annuities or short amortization mortgages.
e) Gap Matching allows for only a limited degree of flexibility in selecting assets to match the term of the liability.
f) The current shape of the yield curve is not accounted for.
g) Gap Matching is generally sub-optimal from a total return perspective.
h) Gap Matching attempts to eliminate interest rate risk. They do not, nor do they allow for a quantitative assessment of any potential risk/return tradeoffs.

Optimal Duration Matching

Duration Matching is an alternative method of controlling interest rate risk that was developed by insurance companies but is now gaining widespread acceptance in all financial institutions and pension plans.

While a technical description of duration concepts and the measurement terminology associated with it (convexity, key rate durations etc.) is beyond the scope of this paper, the general goal of this method is to ensure that over a period of time, accounting for plausible changes in interest rates over that period, the present value of the net cash flows (assets-less liabilities) will not change; or in other words, equity is immunized. .

The advantages of a duration matching approach include: "

a) All cash flows are accurately recognized.
b) The method provides quantitative measures of the degree of interest rate risk.
c) Option exposure can be evaluated and hedged, reducing risk.
d) , The impact of asset defaults and other cash flows such as expenses can be evaluated
e) Sensitivity testing techniques have been developed to quantify the degree of interest rate risk when yield curves move in a non-parallel fashion.
f) Greater flexibility is allowed in selecting assets to immunize liabilities.
g) The slope of the current yield curve is accounted for using term structure valuation.
h) The value added by the investment manager can be measured on a true economic basis, rather than simply the asset return achieved.
i) The method allows for an integrated approach to pricing new business and hedging a mortgage pipeline.

A further refinement of the Duration Matching method for interest rate risk management involves the use of linear programming optimization techniques to select, from the universe of available investment instruments, an optimal portfolio of assets that satisfy the interest rate risk constraints, as defined by the duration, convexity and key rate duration measures. The name given to this interest rate risk control technique is Optimal Duration Matching (ODM).

The objective the ODM method actually goes beyond simply controlling interest rate risk. It is really a comprehensive risk management technique that attempts to maximize the profits of the firm by finding an optimal set of assets that maximize Return on Capital while satisfying the various risk constraints of the institution. The quantification of interest rate risk is then, only one component of those constraints.

Given the shortcomings of Gap Matching, only investment-managers that practice Duration Matching techniques should be considered. for the management of interest rate risks.

Optimal Duration Matching techniques are the most appealing in that they optimize profits within a comprehensive framework that includes all of a firm's investment constraints.

Let us examine those constraints further.

Investment Constraints

The investment policies and business practices of a financial intermediary must be understood and accounted for before an optimal portfolio of assets can be found that maximizes profits and satisfies these constraints. A specific list of constraints are:

a) credit risk limits;
b) interest rate risk limits and re-balancing practices;
c) liquidity requirements and management practices;
d) capital measurement and management practices;
e) any segmentation of assets;
f) liability (deposit) pricing practices;
g) asset (mortgage) pricing practices;
h) commitment hedging practices;
i) tax considerations;
j) financial reporting information requirements;
k) administrative procedures.

The investment manager should employ software that can optimize an asset portfolio while recognizing all of these constraints. Only then will a firm be able to maximize profits that are produced by investment methods that are acceptable under its policies.

Interest Rate Risk Management Issues

In addition to being able to account for the investment constraints outlined above, the modelling software used by the investment manager must have the ability to address all of the issues and exposures that are unique to interest rate risk management, namely:

a) hedging asset options including mortgage commitments and renewals, callable assets, mortgage backed securities pre-payments etc.;
b) the use of derivatives such as swaps and bond shorting;
c) . the use of equities;
d) the impact of asset defaults on cash flows;
e) embedded liability options such as cashable or extendible GICs;
f) measuring the sensitivity of a portfolio to non-parallel yield curve shifts and changes in the availability of asset credit spreads for funds that are reinvested in the future;
g) the target duration of a firm's equity accounting for the inventory of assets for new deposit business;

Hedging the Mortgage Pipeline

One component of the comprehensive investment risk management system warrants special discussion, namely the management of hedging a mortgage commitment pipeline.

Since committed mortgages, typically, represent a one way option given to a borrower from a lending institution, the understanding and management of the inherent risks are crucial to the lending institution.

The decision to hedge the risks must be taken very seriously and carefully.

The objective in hedging is to maximize the long run profits and minimize the variability of earnings over reporting periods.

One must consider the capital base of the company in terms of structure, sufficiency and sustainability.

Risk Profile

A committed mortgage represents an off-balance sheet exposure from the commitment date to the funding date. This is because the lender has given the borrower a guaranteed rate 'on funding. A typical Canadian mortgage, however, offers the borrower an automatic rate drop if market rates fall between the time of commitment and the time of funding.

An un-hedged mortgage lender loses money if rates rise between the time of commitment and the time of funding. There is no gain to un-hedged lender in a falling rate environment.

It is essential, then, for the mortgage lender to track and manage their pipeline constantly.

Commitment Pipeline Reporting

In order to determine their current interest rate risk exposure, the lender must design and utilize a loan tracking system that captures all the information required to manage the pipeline risk.

The information required is:

a) Loan funding date;
b) Committed rate;
c) Processing status (ie, pre-qualification, application, commitment issued, commitment accepted);
d) Use of funds (ie, if a refinance is another loan being discharged with the proceeds).

The tracking system should also be able to incorporate any renewal activity. This is a very important feature since renewals are simply a commitment to reinvest cash received on the maturity of an existing mortgage.

The tracking system must be diligently updated to incorporate new commitments and fundings.

Using the Information

Once the loan tracking system is in place and being used. The information tracked must be analyzed for the lender to understand their true commitment exposure.

The lender must be able to accurately determine what percentage of loans at the various stages of processing will ultimately fund.

The lender must analyze (and constantly update) their fallout ratios at the various processing stages.

The fallout ratios will be influenced by factors other than the level of interest rates as well as the lender's rate drop policy; to be considered are:

a) 'Is it automatic or does the borrower have to request the lower rate?
b) Does it survive to funding date or some period of time prior to funding date?
c) Is it the lower of the rate at funding vs. the rate at commitment or the lowest rate during the commitment period?
d) Is it tied to mortgage rate volatility or market rate volatility?

Hedging the Pipeline

To effectively hedge the pipeline the lender must determine the mortgage price sensitivity. This is based on the sales type (ie. using the loan for your own account, selling the whole loan to an investor, including the loan in an MBS package or as a CMO) and the hedging target (Economic target versus OSFI reported gain on sale).

Then a hedging strategy is determined based on a desired risk/return profile and the relative cost of the available hedging instruments. The lender could purchase offsetting options or replicate the option pay off using dynamic hedging.

The hedging instruments should be selected to minimize costs and optimize the hedge performance based on the selected hedging strategy.

The lender must establish a risk management process.

Regular and frequent reporting must be developed as required by lending volumes and interest rate volatility and the commitment versus hedge position must be marked to market daily.

The hedges in place must be rebalanced based on a pre-determined set of guidelines. 'Traders Instinct" must not be relied upon. The hedges must be structured efficiently to allow use of risk aggregation and capture the dynamics of a "going concern" pipeline.

The Cost of Hedging

The cost of hedging is determined by several factors:

1. Lender specific product features:
   a) commitment period
   b) Term and product switching privileges;
   c) Rate drop policy and exceptions;

2. Choice of hedging strategy:
   a) Un-hedged;
   b) Options purchased;
   c) Dynamic hedging - option replication;

3. Hedge instrument selection and availability
   a) Relative value analysis;
   b) Market maker competitiveness;
   c) Depth of Canadian markets;

4. Capital Market influences:
   a) Interest rate volatility;
   b) Yield curve shape and the cost-of-carry;

5. The ability to accurately estimate the ultimate funding ratio;

6. Mortgage/Canada Bond spread volatility and the ability to estimate the forward market mortgage rate.

In any event, the cost of hedging should be considered carefully in conjunction with the ultimate cost of choosing not to hedge.

Requirements for Success

In order for a comprehensive Optimal Duration Matching investment management system to be truly effective, a financial intermediary must be satisfied that it can modify its business practices and embrace. the following

a) the investment management system must be integrated into all parts of the company's operations including new business pricing, mortgage administration and pipeline hedging, deposit administration and financial reporting;
b) the flow of information between the various departments and systems must be accurate, frequent and timely;
c) senior management must be highly committed to the A/LM process; an educational process will be required to allow senior management to understand the concepts and techniques and the information presented 'to them during the weekly A/LM meetings;
d) a champion of the A/LM process must exist; either the investment manager or some other person to whom the responsibility has been clearly delineated;
e) the investment policy should be modified to specifically address . the interest rate risk controls being used.

At the end of this paper, a chart is included that graphically outlines the flow of an integrated A/LM process.

Cost/Benefit Analysis

In reading all of the above, it might beg the question - is all this really worth it?

Relative to a Term (Gap) Matched strategy, the value added in using a Optimal Duration Matching investment management system is commonly understood a significant increase in gross investment spread while achieving a reduction in interest rate risk. The sources of spread improvement include:

The sources of spread improvement include:

a) duration matching allows more flexibility to select assets from a broader universe of possibilities;
b) portfolio aggregation, by which assets and liabilities with offsetting cash flow/duration risks can be combined to eliminate explicit hedging costs;
c) optimization software allows for the selection of the highest yielding combination of assets and liabilities while satisfying risk and capital constraints;
d) duration based arbitrage strategies;
e) cost effective hedging of interest rate risk using duration concepts with derivative investments such as swaps.

In addition , product development capabilities are enhanced as a comprehensive Optimal Duration Matching investment method allows for the proper design and implementation of "hedgeable" products with forward pricing or option-like features. Example include:

a) Open (callable) mortgages; e.g. a five year mortgage that is pre-payable without penalty if within the first 2 years, interest rates fall by more than .150 basis points;
b) Mortgage rate minimizer; when interest rates fall, a mortgagor can partially lock in current mortgage rates by extending the term of an existing mortgage;
c) Cashable GICs; e.g. a 5 year GIC which can be surrendered at any time after one year without a market rate adjustment;
d) Convertible/Extendible GICs; e.g. a 2 year GIC with an option to extend at maturity for another 2 years at a preset rate;
e) GIC rate maximizer; when interest rates rise a GIC holder can partially lock in current GIC rates by extending term of an existing GIC.

The cost of all these benefits is measured by:

a) the incremental fee paid to investment manager for A/LM services;
b) the cost of any required modelling or optimization software;
c) the cost of making changes to a company's own systems to integrate with the A/LM process;

Return Maximization
Disciplined Interest Rate Risk Management