First Nations Finance Authority

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Primary Contact

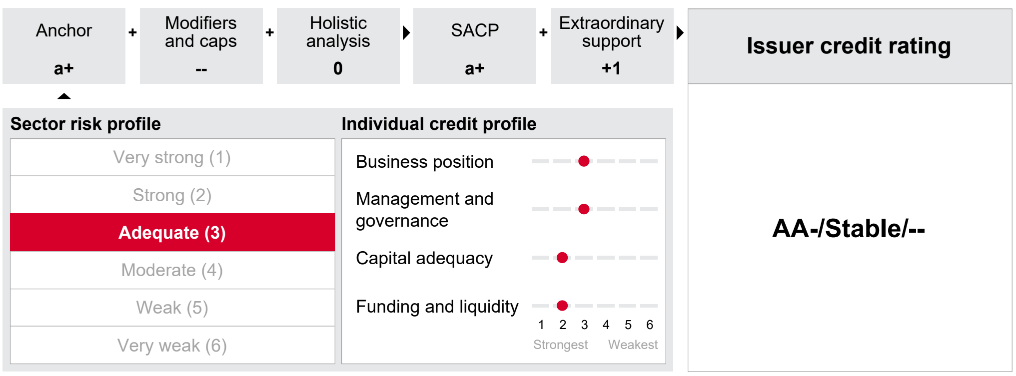
Amanpreet Kaur
Toronto
437-771-7950
Amanpreet.Kaur
@spglobal.com

Secondary Contact

Julia L Smith
Toronto
416-507-3236
Julia.Smith
@spglobal.com

This report does not constitute a rating action.

Ratings Score Snapshot



Credit Highlights

Overview

Key strengths	Key risks
Prudent risk management underscored by conservative risk tolerance and revenue-intercept mechanisms	Canadian First Nations institutional framework remains somewhat weaker than that of other local and regional governments
Strong liquidity aided by rising annual surpluses, leading to operational self-sufficiency	Although FNFA's market share continues to strengthen, it is still limited due to a shorter operating record compared with that of other rated public-sector funding agencies
Strong support from the federal government, given First Nations Finance Authority's (FNFA's) important public policy mandate to facilitate access to capital by First Nations	

Outlook

The stable outlook reflects our view that a strong intercept mechanism, the importance of FNFA's public policy role to the government, and prudent risk management practices balance the risk of FNFA's exposure to First Nations in Canada, which operate under an institutional framework that we view as weaker than that of other local and regional governments in the country.

Downside scenario

We could lower our rating over the next two years if there is material deterioration in risk mitigation mechanisms, including a substantial decrease in the federal or provincial portion of secured revenue streams with ongoing increases in borrowing members, without being replaced by equally stable revenue streams; or if asset quality significantly deteriorates, indicating higher underlying risks of borrowers or persistently weak underwriting decisions suggesting weaker management and governance.

Upside scenario

We could raise our rating over the next two years if management strengthens its strategic positioning with a sustained track record of success in operating its business, suggesting stronger management and governance, while maintaining a strong liquidity position and robust asset quality.

Rationale

FNFA is a financial intermediary facilitating credit access for First Nations in Canada. The 'AA-' rating reflects our view of FNFA’s track record in lending to First Nations, prudent risk management, conservative structural mechanisms, and strong liquidity cushion. FNFA has strengthened its market position recently as the most important lender to First Nations communities in Canada for infrastructure, economic, and social development financing needs.

Also underpinning the rating is the high level of loan repayment revenue streams that do not depend on local economic conditions but are tied to the federal or provincial governments, FNFA's remote data storage, its insurance coverage, and the ability of the authority's employees to work remotely during unforeseen environmental events like wildfire. We believe that these factors will make the authority resilient to physical environmental risks, such as wildfires, that could be present in some areas of Canada where First Nations communities are located.

The ratings further reflect our belief that FNFA benefits from a moderately high likelihood of receiving extraordinary support from the federal government, resulting in a one-notch uplift to the stand-alone credit profile (SACP), leading to the final 'AA-' rating. We believe the authority has a strong link with the federal government. We also believe FNFA plays an important role for the government via its statutory mandate and public policy role to facilitate First Nations’ access to capital.

Sector risk profile: Weakness in the evolving institutional framework for First Nations in Canada offset by FNFA's risk mitigation mechanisms.

The institutional framework under which First Nations in Canada operate has historically been weaker than that of other local and regional governments in the country, in our view. The frequency and extent of reforms affecting the division of responsibility and revenues between First Nations and other levels of government has been evolving for more than a century. The historical and existing fiscal and legal structures have led to large socioeconomic gaps between First Nations and Canada, in part owing to weak equalization mechanisms. Therefore, in our view, the sector's economic resilience is somewhat weaker than that of Canada overall, particularly given the disparities in income per capita across First Nations. Nevertheless, reforms during the past decades all share the same goal to address some of the system's historical weaknesses and strengthen fiscal self-sufficiency.

We believe FNFA's structure of intercepted revenues mitigates the risk of lending exclusively to First Nations in Canada. First Nations borrowers pledge revenue streams that flow directly from the source to FNFA to cover loan payments, which FNFA prudently discounts to support loan repayments. More than 70% of these intercepted revenues come from the federal or provincial governments. These include provincial gaming revenue, provincial tobacco tax revenue and rebates, provincial forestry agreements, federal fishery agreements, and provincial petroleum royalties. This structure of intercepted revenues offsets some of the weaknesses in the institutional framework for First Nations in Canada and is a positive factor for the overall creditworthiness of the authority, given that the Canadian federal government and provinces operate in a stronger institutional framework than First Nations in Canada. Furthermore, with the First Nations Fiscal Management (FNFM) Act amendment and resultant expansion of borrowers' pool, we expect the proportion of federal and provincial sources of revenue streams will remain at or above 70% of total intercepted revenues over the next two years.

Individual credit profile: Adequate market position backed by prudent risk management and robust liquidity.

First Nations' demand and need for accessible capital continues to grow, resulting in higher frequency and size of loan requirements. As a result, FNFA's loan portfolio continues to increase, in turn supporting its market position. As of June 26, 2025, the authority's loans to First Nations exceeded C$3.4 billion, following average annual growth of about 35% in the past five years. This reinforces FNFA's importance as a lender to the sector, in our opinion. The authority is now the creditor of more than two-thirds of the debt of its members, compared with less than one-third in 2017. At the same time, a rising number--more than half--of over 600 First Nations communities in Canada have been scheduled to the FNFM Act, which is the first step to becoming an FNFA borrower. Of these, about 49% have completed the process to become an FNFA borrowing member. The authority borrows in the capital markets and on-lends the proceeds exclusively to borrowing member First Nations.

The FNFA was created by federal legislation, and although it is not an agent of the Government of Canada, it benefits from a strong and supportive relationship with Canada, in our view. We expect amendments to the FNFM Act will further support its business position, as it will expand its borrower pool to include modern treaty and self-governing First Nations, tribal councils, nonprofits serving Indigenous communities, and non-FNFA members through proposed lending to special purpose vehicles (SPVs). The federal government funded the costs associated with this amendment, showing continued support for FNFA, in our view.

FNFA remains operationally self-reliant because of its growing lending base. This is consistent with rising own-source revenue, led by net interest income and investment income. In the fiscal year ended March 31, 2025, the authority's operating surplus exceeded operational funding from the federal government for the fourth consecutive year. As a result, the authority has reduced its reliance on federal operational support and is therefore less exposed to potential political risk, should government funding priorities shift.

We expect the authority's strong price position relative to its competitors will support healthy customer growth in the next several years, continuing a trend that began when FNFA started lending. Historically, access to capital has been difficult for many First Nations. Although it has improved in recent years with more institutions now providing financing to First Nations, some impediments still exist, such as security or lenders' mandates. By statute, land or buildings on First Nations territories cannot be pledged as collateral.

We believe FNFA's strong risk management policies and practices and solid governance are management strengths. We expect that the authority's strategic positioning and organizational effectiveness will remain adequate as its staff increases to accommodate the pace of growth. Management prepares an annual budget and internal loan portfolio and liquidity forecasts. Although FNFA is not subject to banking regulations or equivalent regulatory oversight, we believe that management has instituted robust financial and risk management policies that mitigate key risks.

FNFA's prudent legislative framework mitigates lending risk, in our view. Under this framework, First Nations that want to borrow from the authority must receive a financial performance certificate from the First Nations Financial Management Board (FMB) indicating compliance with certain financial ratios, among other requirements. In addition, legislation is in place for the mechanism used to intercept revenues that secure loan payments. Borrowers irrevocably pledge revenue streams to support their debt service obligations. These revenues do not include the base grants that the federal government pays to all First Nations to fund essential services. The broad geographic source of these revenue streams limits the risk of physical environmental events affecting any single First Nations community. FNFA's remote information storage, virtual work capabilities, insurance coverage, and national presence further mitigate the environmental risks to operations, in our view. If necessary, a member must substitute a performing revenue stream for a nonperforming stream.

We view FNFA as a pass-through vehicle. As a result, given its not-for-profit nature, we view the authority's initial capital adequacy as adequate. That said, we view positively FNFA's strong risk mitigation mechanisms. The authority has never experienced defaults or arrears by borrowing members. Its intercept mechanisms, conservative risk tolerance, solid underwriting standards, and intervention powers through FMB enhance the asset quality, in turn leading to strong capital adequacy.

FNFA has two main sources of capital: a borrower-funded debt reserve fund (DRF) and the federal government-provided credit enhancement fund (CEF). As of March 31, 2025, the DRF and CEF stood at C$178.2 million and C$53.2 million, respectively. FNFA withholds 5% of each member's loan request in the DRF and is the first-loss cushion for debt service nonpayment. Given FNFA’s strong operating performance and the growth of DRF, the CEF hasn’t required any contributions from the federal government since 2023. Over the three years preceding 2023, the federal government injected almost C$23 million.

FNFA also has access to a contingency fund, created by the federal government in fiscal 2022, to provide repayable financial support for the authority's borrowing members, should they face difficulties due to widespread economic shocks. The fund now holds C$38 million, with funding provided by Crown-Indigenous Relations and Northern Affairs Canada. In our view, the fund is not available to absorb all losses, but only losses due to some events. Nevertheless, although no loans have been made from the fund to date, it could serve as an additional source of loss absorption, if drawn upon. We also believe that the establishment of this fund further solidifies the federal government's support of FNFA.

The authority’s asset quality is also supported by its intervention power under the FNFM Act. If a First Nation is unable or unwilling to meet its debt service obligations under its loan agreement or replenish any shortfalls in the DRF, the authority can invoke the statutory intervention provision. If the act is invoked, the FNFA, together with the FMB, can remove and replace the council of the defaulting First Nation, thereby gaining access to the nation's revenues, including those that cannot be pledged.

We view FNFA's overall funding and liquidity as strong, underpinned by the structural stability of funding and strong liquidity ratios, which will continue to support the authority's creditworthiness.

The Canadian bond market, which we consider deep and diversified, provides 100% of FNFA's long-term funding. Although this reflects concentration of the authority's funding sources, we believe it is offset by relatively stable funding versus lending commitments. Investor diversification is also improving based on investor type and domicile. Although loan terms extend as long as 30 years, the bonds mature in a shorter time frame. The authority has sought to mitigate this mismatch by adjusting its relending rates upon debt refinancing, sinking funds, and revenue intercept mechanisms, among other measures.

In addition to its other liquid funds and cash and cash equivalents, the authority held about C$219.4 million in sinking funds as of March 31, 2025. FNFA's one-year liquidity and funding ratios for the period were 1.16x and 1.21x, respectively, consistent with strong historical trends. We expect the ratios will remain well above 1.0x, in line with historical levels.

FNFA’s market activity indicates continued successful access to the market. The authority has issued 13 debentures so far and issued its first 30-year bond for C$350 million on June 26, 2025, contributing to financing Haisla First Nation (British Columbia) and its majority equity ownership in Cedar LNG. FNFA's liquidity is also bolstered by the DRF. In addition, since late 2021, FNFA has operated a commercial paper program for a maximum amount outstanding of C$900 million, which is fully backed by a revolving credit facility with a syndicate of Canadian chartered banks. The program, used to finance FNFA's interim loans, was upsized from C$400 million in 2024.

Moderately high likelihood of support from the federal government in a stress scenario

The rating also incorporates our assessment that the likelihood of FNFA receiving timely and sufficient extraordinary support from the federal government, in the event of financial distress, is moderately high. This provides a one-notch uplift from the 'a+' SACP on the authority to the final 'AA-' rating. Most recently, there have been increased government initiatives in collaboration with FNFA to support the First Nations’ community. These include but are not limited to, increased funding in the federal loan guarantee program to $10 billion from $5 billion in April 2025 and the potential to allow FNFA lending to SPVs to improve access to capital. This further supports our view of FNFA’s likelihood of support from the federal government in the event of financial distress.

We base this assessment on our view of FNFA's:

- Strong link with the federal government, which the government's ongoing support for the authority's operations demonstrates; and
- Important role through the FNFA's statutory mandate and public policy role to facilitate First Nations' access to capital. Also supporting our assessment of the authority's important role is the political visibility of First Nations' issues generally, and the considerable need for capital on First Nations' land.

First Nations Finance Authority--selected indicators

	--Fiscal year ended March 31--				
(Mil. C$)	**2025**	**2024**	**2023**	**2022**	**2021**
Business position					
Total adjusted assets	4,208	2,773	2,335	2,292	1,475
Customer loans (gross)	2,963	1,908	1,677	1,541	1,235
Growth in loans (%)	55.3	13.8	8.8	24.8	73.7
Net interest revenues	9.7	5.5	4.8	4.4	1.8
Noninterest expenses	13.4	10.0	8.5	4.9	3.6
Capital and risk position					
Total liabilities	4,081	2,656	2,226	2,190	1,420
Total adjusted capital	231	172	154	140	114
Assets/capital	18.2	16.1	15.1	16.4	12.9
Funding and liquidity*					
Liquidity ratio with loan disbursement (1 year)	1.2	1.0	1.5	1.5	1.2
Liquidity ratio without loan disbursement (1 year)	1.2	1.0	1.5	1.5	4.2
Funding ratio (1 year)	1.2	0.9	1.3	1.4	4.2

*Funding and liquidity ratios: Includes undrawn portion of credit facility. Funding ratio is without loan disbursements.

Rating Component Scores

First Nations Finance Authority--rating component scores

Sector risk profile	Adequate
Business position	3
Management and governance	3
Capital adequacy	2
Funding and liquidity	2
Anchor	a+
Modifiers and caps	--
Holistic analysis	0
SACP	a+
Extraordinary support	+1
Issuer credit rating	AA-

SACP--Stand-alone credit profile.

Related Criteria

- Criteria | Governments | International Public Finance: Methodology For Rating Non-U.S. Public-Sector Funding Agencies, July 26, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015

- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Key Takeaways Following Update Of Criteria For Non-U.S. Public-Sector Funding Agencies, June 17, 2025
- S&P Global Ratings Definitions, Dec. 2, 2024

Ratings Detail (as of August 26, 2025)*

First Nations Finance Authority	
Issuer Credit Rating	AA-/Stable/--
Senior Secured	AA-
Issuer Credit Ratings History	
21-Aug-2024	AA-/Stable/--
22-Aug-2022	A+/Positive/--
03-Aug-2018	A+/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.