**General Lending**

**Procedure & Guidelines Manual**



Growing communities one idea at a time.

## Revised: SEPTEMBER 2024

## Approved: CFLLB Board

## Reviewed & APPROVED: TBD

# **Loan Procedure & Guidelines Manual**

**Purpose:** CFLLB will assist SME (Small and Medium Enterprises) to access capital through use of its Investment Fund and other activities. In administering its Investment Fund, the CFLLB shall adhere to the following:

1. Repayable financial assistance in the form of loans or loan guarantees, shall only be provided to SME:
   1. where the principals have or will have a financial involvement to a degree that the CFLLB deems reasonable in relation to the principals' own wealth and to the funding requirements of the venture
   2. that shall predominantly create or maintain local jobs outside of metropolitan areas, and
   3. that, in the judgement of CFLLB, have a reasonable expectation of economic viability.
2. CFLLB is responsible for assessing and approving Loan applications. This responsibility shall ultimately rest with its Board. However, the Board may delegate this assessment and approval function to its duly authorized delegates, as permitted by the CFLLB's corporate bylaws, other governance documents or Board resolution. The Board and its delegates must respect and comply with the Board's conflict of interest and related transparency policies and practices, and the Board shall establish and exercise appropriate practices to ensure this.
3. Changes to this procedure manual must be approved by the Executive Committee of the Board.

**Loan Procedure & Guidelines Manual**

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# **Overall Loan Procedures**

The client submits a Loan Application and pays the application fee.

1. Once the loan application is complete with all required documentation on file, the client is informed that the approval process can now begin and that a decision on the loan can be expected within approximately ten (10) working days.
2. The Business Analyst then begins the loan investigation process by researching all elements of the application under six key areas:
   1. Character
   2. Capacity
   3. Conditions
   4. Capital
   5. Collateral
   6. Fit to CF Operational Plan
3. Relevant client data is entered in The Exceptional Assistant (TEA) database, a loan tracking software. All available and pertinent fields should be completed by appointed staff.
4. **Character**
   1. Credit Check
      1. A complete credit check, personal and/or corporate. This is done before any other research or due diligence is initiated.
      2. Credit information on an applicant may be obtained from Equifax and/or any other credit rating agencies that may likely have information relating to the applicants.
      3. Corporate Registry – Determines if the corporation is in good standing as far as submitting annual returns, who the shareholders are, plus registered addresses.
      4. Personal Property Registry (PPR) – This is done on the individual’s name, on the business trade name, and/or on the corporate name to determine who has a lien registered against the borrower. The PPR name search also shows non serial numbered collateral provided to other creditors. Sometimes it may be necessary to do the PPR name search on the vendor because some creditors register serial numbered but non-vehicle or trailer equipment such as caterpillars, office equipment, etc. under the “general security” category and it will not show up under a serial number search.

A PPR name search may provide information not reported on the credit bureau. The creditor can register their interest at PPR for mechanic’s lien, WCB lien, etc. This is very important because, for example, WCB has a priority over any and all collateral you may register.

Registering an “All Present and After Acquired Personal Property (AllPAAP) of the Debtor(s)’ gives the registrant or creditor a charge against all personal assets of the debtor(s). If the search reveals that another creditor has registered a first AllPAAP clause against the client, the office can obtain a first charge on the property being financed by issuing a (Purchase Money Security Interest) PMSI letter (via registered mail) to that creditor. The PMSI will only give first charge on the specific items(s) being financed. Personal property here refers to non-real estate assets, whether owned by the individual, partnership, or corporation.

Other creditors and PPR search on serial numbered goods offered for collateral must be done to ensure there is first charge on all items. If there is a lien on any item offered as collateral, then the creditor shown as having a charge needs to be contacted to determine if the lien is still valid or to determine how much money they require to discharge their interest in the said collateral so that it is available as first charge. Not all creditors discharge paid off collateral immediately.

Land Titles (if applicable) – Real property (real estate) to be searched at Land Titles.

Revenue Canada – To ensure there are not outstanding taxation issues. Please note Revenue Canada has a super priority position.

Does the client have a good credit history indicating they have honored their financial commitments in the past?

* 1. References
     1. An applicant should identify at least three references at the time he/she makes an application for assistance from the CF including two employer/business references and two personal references.
     2. References should not be persons with a specific interest in the project for which assistance is being sought.
     3. Does the client’s history and references suggest they will honor their financial commitments?
  2. Other Sources of Information to Assess Character
     1. Interviews, client resume, attention to detail spent on the application.
     2. Stability in jobs, businesses, and residences.
     3. Current and past legal actions against the client.
     4. Reviewing how responsibly the client manages their personal and business credit.
  3. Management Capability
     1. Does the applicant’s work and educational history indicate they have sufficient expertise or a sound working knowledge of the proposed business and industry?
     2. Does the applicant have the management ability and/or skills necessary to plan, develop and operate the proposed business?
     3. In terms of work experience, training, age, health, and initiative, does the applicant and/or management team appear to have the necessary skills capable of making successful operations of the business proposal?
     4. Where the applicant's experience and capability appear to be less than adequate: Recommendations may be made to the applicant to obtain training on the job, training courses, or other appropriate training or experience.
     5. Provision may be made to provide technical knowledge, management advice, marketing advice or financial advice on a continuing basis to ensure the success of the business proposal.

1. **Capacity**
2. Business Plan
   * 1. Market research should be done to confirm the assumptions and financial projections outlined in the Business Plan.
     2. Is there a financial timing work plan, indicating the schedule for which funds from lenders will be advanced to the project?
     3. In reviewing the applicant's plan to carry out the business proposal, the following additional items must be reviewed.
        1. If the business proposal involves the construction of new facilities, have engineering or architectural plans been prepared and reviewed by qualified professionals?
        2. Does the business plan allow a reasonable time for the delivery and installation of equipment and the purchase of raw materials?
        3. Is the Business Plan a well-conceived document, with sufficient attention to detail for the type of venture proposed, suggesting the business is likely to succeed?
        4. Are all supporting documents on file including; purchase orders, leases, signed offers to purchase and/or estimates for items to be purchased? Also, financial statements, truck, and equipment certifications, etc.
        5. Is a listing including serial numbers on file for all items to be purchased and/or to be used for collateral?
3. Cash-flow
   1. Does the business proposal indicate that the business will be able to;
      1. Generate sufficient cash flow to cover repayment of principal and interest on any funds advanced by the CF and/or any other lenders,
      2. Cover reasonable operating costs associated with the day-to-day operations of the business,
      3. Provide the owner/operator sufficient salary benefits to maintain his/her personal living needs, which are outlined in the personal budget.
4. **Conditions**
   1. Market Conditions
      1. Market research should confirm the assumptions given in the Business Plan. A determination must be made as to whether the market is suitable for the business venture to succeed.
      2. Is there a market for the goods/services to be provided by the proposed business?
      3. Has research been done on the market potential of the proposal by the client and has this research been verified by the CF office by a qualified professional, and/or industry expert?
      4. Is the proposed selling price of the product or service comparable to the current market prices of other competitive products or services?
      5. What is the competitive environment in the clients target market region? How will the competition be affected? The CF does not want to be in a position of running someone out of business due to having two similar businesses “struggle” because the market cannot support both.
      6. What is the state of the industry?
   2. Labor Force
      1. Is there an adequate labor force located within the Community Futures Region?
         1. If the project is seasonal, will a sufficient labor force be available when required?
         2. Does the project require qualified technical personnel? If so, are there qualified personnel residents in the area?
      2. PEST (Political, Environmental, Social, Technological)
         1. Are there any political, environmental, social, and/or technological considerations?
         2. Should an environmental assessment be required? (This is particularly true of properties which were/are being used to sell fuel or are located in close proximity to businesses selling fuel).
5. **Capital**
   1. Owner’s Equity, Assets & Resources
      1. Financial Statement review to determine the level of debt in relationship to assets and equity.
      2. Review of Personal and Corporate Net worth to determine if the client has sufficient financial reserves for this venture to succeed.
      3. Does the applicant presently own other assets free of encumbrances or assets with sufficient equity, which can be taken as security, in addition to assets that may be acquired as a result of financial assistance from the CF?
      4. Does the applicant have a reasonable financial commitment invested in the business proposal, or access to funds, which may be invested in the business proposal?
      5. What does the client have to lose if things get tough?
6. **Collateral**
   1. Does the proposal provide reasonable security to the CF office in the event of business failure and if the client is unable to repay the investment?
   2. Have the existing land, buildings and equipment been professionally appraised, and is the appraisal available for review by the CF?
   3. Do any buildings and equipment which may be pledged as security for a loan, have a life expectancy and value sufficient to repay the loan and, if not, will profits and cash flow be sufficient to replace these items?
   4. If land or buildings are included in the business proposal, is the tenure of the land or buildings secured for a period of at least equal to the number of years required for repayment of the loan?
   5. Has margined value of the collateral been used to calculate adequate security against the proposed loan?

|  |  |  |  |
| --- | --- | --- | --- |
| **Asset** | **Margin % of Current Value** | **Maximum Repayment Term** | **Maximum Amortization** |
| Equipment – New  (Non-specialized) | 90% | 2 years | 5 years |
| Equipment – Used | 65 % | 2 years | 3 years |
| Vehicle | 65% | 2 years | 2 years |
| Specialized Equipment  (i.e. Computer hardware/software, etc.) | Highly variable based on the nature of the asset and the history of liquidation of that type of asset. (50% -75% range) | Tied to life expectancy of the asset.  Computers 2 years | 2 years |
| Land & Buildings | 80% against current independent appraised value. | 2 year term | 10 years or Max 15 years with ED approval |
| Inventory  (Note: Very risky to do) | 50 % of cost or current inventory based upon wholesale value. Older stock may be margined at higher rates. Some inventory may be obsolete or have low turnover and therefore have 0 margin value to the CF | 2 years | 2 years term |
| Receivables | 75% for under 60 days | NA | NA |
| Working Capital | 0 % | Tied to cash flow – Maximum 3 years | NA |
| Goodwill | 0 % | Typically supported by outside assets | NA |

1. **Fit to CFLLB Operational Plan Considerations**
   1. Does the business proposal maintain or expand employment of one or more CFLLB residents?
   2. Does the business proposal help to diversify the economy of the CF region?
   3. Is the type of business organization, (i.e., proprietorship, partnership, corporation) proposed by the applicant, appropriate in terms of the management, financing, income tax liability and the security required by lenders?
   4. Has the applicant acquired adequate insurance against death of key people, fire, theft, public liability, property damage, business interruption, etc. If not, adequate insurance to cover the loan balance must be obtained with the CF listed as loss payable prior to disbursement of loan proceeds?
   5. Have all licenses and permits required been obtained from the appropriate authorities?
   6. Where governments or other lenders are to be involved in the business proposal, has the timing and the extent of their commitment been confirmed in writing?
2. Loan application and search fees shall be collected prior to presentation to the IRC for review.
3. The Business Analyst shall ensure that each applicant has made and taken reasonable and diligent efforts to access other sources of funding, including other commercial lending institutions, prior to granting a loan.
4. The IRC shall have less stringent requirements than conventional lending institutions when considering loan applications but shall only consider those loans which they feel shall succeed.
5. Unless there are unusual or extenuating circumstances and upon agreement with the Executive Director and the Business Analyst, applications will not come to the IRC for consideration in the following situations:
   1. Lack of security
   2. Lack of business viability
   3. Poor credit rating, bankruptcy, outstanding collections, outstanding court judgement, or major credit problems
   4. Lack of financial and business management skills
   5. Corporate GST or Employee Deductions, or Taxes owing
   6. Applicant is unable to provide proof of residency
   7. Condition, character, capital collateral, capacity

A full report, when the above occurs, will be presented to the IRC at the following Committee meeting and placed on file.

1. Loan summary report shall be provided to Members of the IRC.
2. The client has the right to instruct CFLLB staff to proceed with the credit application even though advised not to.
3. Amortization Based on Equipment
   1. New Equipment: 60 months maximum
   2. Used Equipment:
      1. 1-3 model years old 48 months maximum
      2. 4-6 model years old 36 months maximum
      3. 7+ model years over 24 months maximum
   3. Age of collateral – dozers and other motorized heavy equipment not to be more than 12 years old and must be in good operating condition; obtain copies of service work
   4. Preferably log trailers should not be older than 8 -10 years
   5. Vehicles must not be older than 10 years. All commercial vehicles and trailers regardless of age must be certified as road worthy. Approval is subject to receipt of certification documents from Alberta Transportation
   6. Other equipment older than 10 years such as rock crushers, cement plants, sawmills, and their attachments/accessions will be considered if they are in good working order.

# **Loan Underwriting Process**

1. **Business Information**
   1. A completed Business Plan.
   2. Cash Flow Projections (2 years recommended).
   3. Estimates (if applicable) for renovations, equipment, construction, etc. to be financed.
   4. Verify security (i.e., property, vehicles, equipment) and collect VINs’ for and copies of registrations of vehicles to be used as collateral, if applicable.
   5. The Business Analyst creates an IRC Loan Application to provide a summary overview of all the information in each of the key areas addressed during the loan’s investigation process and checklist and provides recommended Terms and Conditions to the IRC

# **Loan Approval Process**

1. **IRC will:**
   1. Ensure the application meets all eligibility criteria.
   2. Review the recommendations contained in the Loan Summary Report.
   3. Confirm the required equity contribution by the loan applicant (bank statement).
   4. Request any additional information as needed.
   5. Approve or reject the client loan application(s) within five (5) business days.
   6. Clients will be contacted immediately following the decision from the IRC by the Business Analyst.
   7. Communication is made (telephone or email) to the client, outlining required documentation still required prior to loan disbursement. Commitment Letter along with other legal loan documentation is prepared for client’s signatures.
   8. Once all information is collected from the client, client is called to sign legal documents and disbursement may be made at that time.
   9. Except for approved Lines of Credit, where funds for an approved loan have not been disbursed within ninety (90) days of approval, the application must be taken back to the IRC for review and re-approval prior to disbursement.
   10. CFLLB will not consider any loan applications that are for the sole purpose of debt consolidation other than existing CFLLB clients with outstanding loan balances.
   11. CFLLB will not consider refinancing of business taxes (income taxes, GST, payroll) due to Canada Revenue Agency.
   12. CFLLB will not consider any loan application for the sole purchase of real estate property.
2. **Loan Approval Process for Loans over $150,000:** 
   1. Refer to schedule “G” of the Contribution Agreement under the WD 2021 contract. If exceptional circumstances conditions are met follow the below process.
   2. Investment Review Committee may approve loans up to $150,000. Any loan application over that amount must first go before the IRC. When they are satisfied that there is adequate information to make a decision, a call will go out for Board approval based on an IRC Committee summary and recommendation.
   3. The timeline of approval will be five (5) business days.
   4. The loan requires a majority vote of more than 50% of the board members present and voting to approve or decline. Absences without response from any board member within the specified timeline will be considered as abstentions and their votes will not be counted in the approval process. Quorum for the vote is four board members.
   5. IRC committee will provide the Business Analyst with written confirmation on the decision made by the board.
   6. Clients will be contacted by the Business Analyst immediately following the decision from the IRC of approval and decline (follow the Client decline and appeal process)
3. **Loan Approval by Executive Director** 
   1. The Executive Director has a discretionary lending limit of $25,000 for any one individual business. If, however, the applicant has an existing loan, any new funds requested that take it over the $25,000 limit must be presented to the Investment Review Committee for approval.
   2. Loan values over $25,000 are approved by the Investment Review Committee, a sub-committee of the CFLLB board of directors.
4. **Lending Approval Matrix**

|  |  |
| --- | --- |
| **Approval Level** | **Loan Amount** |
| Executive Director | Up to $25,000 |
| Investment Review Committee | $25,001 to $150,000 |
| Board of Directors | $150,001 and above |

# **Loan Disbursement**

1. **Loan Disbursement**
   1. Ensure the application meets all eligibility criteria
   2. Lease Agreement
   3. Incorporation documents detailing ownership structure
   4. Life Insurance on the principals with a collateral assignment to CFLLB for the loan, (if reasonable)
   5. Commercial Insurance with CFLLB listed as Loss Payable
   6. Proof of home insurance with CFLLB listed as Loss Payable if a
   7. Corporation Notice of Assessment
   8. WCB Clearance Letter and balance, (if applicable)
   9. Business License (if applicable)
2. Collateral is registered with the appropriate government agencies including PPR, and for real estate with Land Titles.
3. Legal Loan Documentation generally required and signed include the following:
   1. Commitment Letter
   2. Certificate of Independent Legal Advice (where applicable)
   3. Assignment of Insurance
   4. Resolution of Directors
   5. Acknowledgement
   6. General Security Agreement
   7. Assignment & Postponement
   8. Personal General and/or Specific Security Agreement Corporate General and/ or Specific Security Agreement
   9. Promissory Note
   10. Collateral Mortgage, if applicable
   11. Authorization for Direct Debit – to set up a direct debit (void cheque or document from bank)
   12. Loss Payable Endorsement, with CFLLB specified as loss payee, must be completed and held on file before disbursement of loan funds.
   13. Direction to Pay
4. General Security Agreements (GSA) shall be registered under the Personal Property Registry the day following loan approval. All GSAs shall be registered for one a minimum of one (1) additional year beyond the approved amortization period.
5. The purpose of the loan as well as the approved terms and conditions of the loan must be stated in the written agreement (Commitment Letter). Commitment Letters shall have a maximum thirty (30) days acceptance clause. Two (2) copies of all legal documents, including the Commitment Letter) must be signed. One (1) copy must be kept on file, in line with the CFLLB legal requirements, and one (1) copy shall be given to the client.
6. Where a mortgage on real property is to be taken and held by CFLLB as collateral to a duly executed Promissory Note, Guarantee (personal or corporate) and/or General Security Agreement, the mortgage must be signed before a qualified lawyer.
7. Alberta’s Guarantees Acknowledgement Act requires that a lawyer sign the personal guarantee acknowledgement certificate. Accordingly, guarantees require notary services from a qualified lawyer (a notary public is not sufficient).
8. All legal documents are to be maintained in a safe.
9. When a collateral mortgage is taken as security on a loan and the property title is jointly in the spouse's name, a Personal Guarantee must be attained from the spouse and supported by Independent Legal Advice (ILA).
10. When a collateral mortgage is taken as security on a loan and the property title is not jointly in the spouse’s name, a Dower or Spousal Consent with Independent Legal Advice (ILA) must be attained. Once this duly executed Consent has been returned, the Business Analyst may then proceed with completing and submitting the collateral mortgage to Alberta/Saskatchewan Land Titles, or by way of instruction to CFLLB’s legal counsel.
11. The client will have a maximum of forty-five (45) days, from the loan's first disbursement date, to make the first loan payment, unless otherwise approved by the IRC or Executive Director.
12. Funds for approved loans will not be advanced without prior review of security documentation by the Business Adviser and the Executive Director.
13. If a lawyer is handling the disbursement, a cheque in trust, along with any special conditions should be drafted.
14. When CFLLB is handling the disbursement of funds as part of the lending process, proper care must be taken to ensure funds are used for the purpose listed in the comments in the IRC Application. This is accomplished by:
    1. Writing cheques for a specific purpose payable directly to the vendor (i.e., for equipment amounts over $5,000).
    2. Writing cheques payable to the client for reimbursement based on paid invoices for the goods agreed upon in the legal loan documentation.
15. TEA is used to track all client contacts and information relating to payments, history, and client activity.

# **Loan Arrears**

1. If a payment is returned for any reason, including Non-Sufficient Funds (NSF), the Executive Director is notified, and a letter outlining the issue, including repayment terms for arrears amount is prepared, and is sent to the client via email. The letter must be preceded by a direct telephone call to or on-site visit with the client.
2. If a client has reached a delinquent status the following procedures will apply:
   * + 1. Direct, personal contact by phone must be made to the client within one (1) day of the payment falling into arrears.
       2. Overdue thirty (30) days: An onsite visit to the client’s place of business with facilitated business planning discussion to be led by the Business Analyst for the purpose of developing a strategy to return the loan to current and to assist the client business to successfully pivot.
       3. Overdue sixty (60) days: Direct personal client from CFLLB’s Executive Director.
       4. Overdue ninety (90) day – Demand Letter sent to the borrower and to each of the guarantors
3. A Demand Letter is sent to the client if the client is not in compliance with the conditions as outlined in the Business Loan Agreement. Non-compliance may include:
   1. Business ceases to operate
   2. Nonpayment of commercial lease rent or failure to pay commercial mortgage
   3. Non-Sufficient Funds (NSF).
   4. Lack of response of communication with the client regarding the business or loan arrears.
   5. Cancellation of commercial and / or mortgage insurance
   6. Noncompliance for loan reviews as requested
   7. Notice of Bankruptcy
   8. Any other conditions as per General Security Agreement
4. If full payment is not received as per the Demand Letter, a Repayment Agreement is created using the same or revised loan terms and amortization schedule as per IRC decision.
5. If the terms of the Repayment Agreement are breached, a Forbearance Agreement is created using the same or revised loan terms and amortization schedule as per IRC decision. CFLLB will forbear legal proceedings if payments are made as agreed. CFLLB will apply for a Judgement Order in the Court of King’s Bench, should the terms of the Forbearance Agreement not be adhered to. In conjunction with a Judgement obtained, a Writ of Enforcement will be registered at Alberta Registries.
6. CFLLB staff will endeavor to collect all amounts outstanding on loans with CFLLB. This includes telephone calls, emails, texts, and personal visits in an attempt to collect outstanding amounts. If attempts fail, staff will recommend to the Board initiation of collection action using a recognized civil enforcement agency.
7. Staff will complete all appropriate forms and templates required as part of the PPSA General Seizure Package.
8. Staff will make all attempts to recover collateral or outstanding monies owed related to non-payment or seizure procedures.

# **Client Decline and Appeals**

The CF Staff will:

1. Advise the applicant by email and letter the reason(s) for decline.
2. Maintain copies of the letter of rejection, the original business plan, and other associated documents on file if the originals are returned to the applicant.
3. The notice of decline will outline the local appeal / redress process:
4. Applicant(s) may seek redress or appeal of a credit related decision within seven (7) days of receipt of the notice of decline.
5. Applicants must provide a notice of appeal in writing and include a rational for the appeal.
6. Notices of appeals are to be addressed and directed to the Board of Directors of Community Futures Lac La Biche for consideration and/or possible redress.
7. The applicant may appeal the decision of the IRC (Investment Review Committee) based on the following:
   1. There was significant error in the formal process.
   2. Clear evidence of a conflict of interest.
   3. Significant new evidence that was not available at the time of first loan review.
8. Upon receipt of the notice of appeal, and within a reasonable time frame, the Executive Director, Chair of the Board of Directors, and Chair of the Investment Review Committee will analyze the information presented for all information that is materially different than the original loan application. Once a full and thorough review by the Board Chair, IRC Chair, and Executive Director has been completed, a recommendation for the Board of Directors’ consideration will be completed.
9. By way of motion, the Board of Directors will approve or decline the appeal for loan
10. The Executive Director will communicate the decision of the Board of Directors. No additional rational or written explanation is required.
11. If the Local CF Board declines the credit application on Appeal, the Applicant(s) may seek redress or appeal of that credit decision within seven (7) days of receipt of the notice of decline according to the External Appeal process to the Northeast Committee Appeal Board.
12. The notice of decline of appeal will outline the External Appeal / redress process:
13. All applicants must provide a notice of appeal in writing and include a rational for the appeal.
14. Upon receipt of the notice of appeal, and within a reasonable time frame, the CFNA will task a third party to analyze the information presented for all information that is materially different than the original loan application and to determine if any policies / procedures were not followed. Once a full and thorough review has been completed, and within five (5) days of the decision, a written report will be provided for the Community Futures Lac La Biche Board of Directors’ consideration.
15. The Chair of the Board will provide the Appellant (client) with a written response outlining the Board of Directors final decision on the appeal through this External Appeal process.

# **Loan Extensions & Renewals**

1. All loans subject to renewal will be reviewed upon term renewal utilizing the following information:
   1. Review of the business's activities and progress of the prior term will be conducted by the Business Analyst.
   2. Current year-end financial statements will be obtained and analyzed prior to completing Credit Review.
   3. The Business Analyst shall renew all loans in good standing. Loans not good standing will be referred to the IRC for review.
   4. The client will pay all applicable loan renewal fees or fees may be added to the loan at the time of signing renewal documents.
2. Loan Interest at Renewal
   1. All loans shall have the interest reviewed at the time of renewal. Interest shall be adjusted.
   2. The Executive Director shall have the authority to approve all interest rate adjustments at the time of renewal.
3. Loan Amortization Extension
   1. Loans at amortization maturity with an unpaid balance can be recommended to the IRC for an amortization extension of one (1) year. Regular renewal fees will apply. The loan will be brought before the IRC every year for review, until the loan has been paid out.
   2. If the unpaid balance remaining will be paid off within six (6) months of loan maturity, the amortization extension may be enacted without fees and processes.
4. Loan Monitoring
   1. Accountant-prepared year-end financial statements of Notice to Reader quality or higher (Review Engagement statements are preferred)
   2. Income Statement and balance sheet, prepared by their bookkeeper, from the company’s current fiscal year (should be the first quarter of the current fiscal year).
   3. A letter or statement from the company’s landlord or mortgage holder stating that all payments are up to date (where applicable).
   4. A letter or recent statement from the municipal authority showing that the business-related property taxes are up to date (where applicable).
   5. Recent GST and Remittance statements showing that the company is up to date with CRA filing and payment requirements (where applicable).
   6. A one to two-page summary of highlights and challenges for the business in the last year along with the opportunities and threats in the coming year (S.W.O.T analysis).
   7. Loan Collateral - Provide the following information about collateral held / pledged for the loan.
      1. provide the mileage and condition for each vehicle held for collateral
      2. provide a property assessment for each home held for collateral
      3. provide a property tax receipt or statement for each property held for collateral
      4. insurance statement showing that all items of collateral have coverage and that CFLLB has loss payable endorsement.
   8. Recent statement for payroll remittance (within the last 3 months).
   9. A statement from the insurance company showing that their business insurance policy is current and that CFLLB is “loss payable”.
   10. A copy of the company’s last tax filing and notice of assessment (for sole proprietors and partnerships this will be the personal tax filing of the proprietor or partners).

# **Lending Rates & Fees**

**PURPOSE: to provide guidance in determining lending rates and fees**

1. The date, at which the lending rate is determined, is the date the client signs the Demand Promissory Note and thereafter the date of the term maturity.
2. **Interest Rates**
   1. Minimum Interest Rate is Chartered Bank Prime +2%; however, rates will remain competitive with prevailing market conditions at other lenders and lessors.
      1. Exceptional circumstances are defined in Lending Rate
   2. Factors affecting the interest rate charged:
      1. Credit Bureau Score

|  |  |  |
| --- | --- | --- |
| **Fico Score** | **Owner Equity (cash)** | **Minimum % Rate Charged** |
| 700-850 | 10% | Prime +2% if well secured by high quality collateral |
| 651-699 | 10% | Prime +3% |
| 550-650 | 10% | Prime +4% |
| <549 needs guarantor | 20% | Prime +4% |

* + 1. Based on Character, Capacity, Conditions, Capital, and Collateral.

1. **Exceptional Circumstances**
   1. Exceptional circumstances are defined in the Lending Rate.
2. **Loan Financing Fees**
   1. Loan Application Fee for loans up to $150,000 (non-refundable) $125.00 plus
   2. Loan Negotiation Fee $550.00
3. **Renewal/Annual Fees**
   1. Line of Credit Annual Fees $250.00
   2. Term Loan Renewal Fee $250.00
4. **Additional Fees**
   1. NSF Fees $50.00
   2. Lawyer Fees (as incurred)

Loan fees shall be reviewed periodically and applied consistently.

# **Loan Payout**

1. Upon receipt of loan payout funds from any recognized financial institution or legal firm, the Business Analyst shall proceed as follows:
2. Discharge all security with Personal Property Registry
3. Send a Discharge Notice to Alberta/Saskatchewan Land Titles for mortgage or caveat
4. Return original copies of Personal Guarantees to the client
5. Upon receipt of loan payout funds from any other source, including the client, the Business Analyst shall wait ten (10) working days to ensure the funds clear the bank. The Business Analyst shall proceed as noted above in "A".
6. Upon receipt of certified cheque, money order or cash the above loan payout process will be followed.

# **Loan Write-OFF**

1. Upon exhausting the possible courses of action for recovery of outstanding loan debts, the Business Analyst shall recommend to the IRC that the loan be written off.
2. Upon reviewing the circumstances surrounding the bad debt, the IRC will recommend, to the Board, to approve or deny the loan write-off. The Board shall have the authority to approve or deny any such write-off.
3. Although a loan may be written-off, further action is still possible. The Business Analyst will follow up on any new information received that is pertinent in retrieving bad debts.

# **Closing the File**

1. Once the client has paid out their loan, CFLLB sends the client a payout letter advising the loan has been paid out and security attached to the Loan Agreement will be released. Collateral will not be released if the loan is written -off unless required by law.
2. Close the loan in TEA.
   1. When the loan is paid off by the client, the loan has “Status History” as “Paid in Full” in TEA.
   2. When the loan is a write-off, the loan has “Status History” as “Bad Debt” in TEA.
3. The client file and legal loan documents are moved from active to the archive file and kept for seven (7) years.

# **Appendix “A” Definitions**

|  |  |
| --- | --- |
| **Name** | **Definition** |
| **ALLPAAP**  **Annual Lending Targets** | All present and after acquired personal property  Targets as set by the board of directors in the annual operating plan |
| **Assignment of affiliated company loans** | A legal transfer of a loan account from a creditor to a third party that then becomes the rightful owner of the account for purposes of resolving a debt through collection from a debtor. |
| **Assignment of assets or inventory** | To transfer to another person, company or organization, any asset such as real property or a valuable right such as a contract or promissory note. |
| **Assignment of book debts** | Assignment for the benefit of creditors is simply a contract whereby the insolvent entity transfers legal and equitable title, as well as custody and control of its property, to a third party in trust, to apply the proceeds of sale to the insolvent entity's creditors in accord with priorities established by law. |
| **Bankruptcy**  **Business Analyst** | Bankruptcy is a legal term for when a person or business cannot repay their outstanding debts. The bankruptcy process begins with a petition filed by the debtor, which is most common, or on behalf of creditors, which is less common.  Assists in the management of the ongoing expansion and development of the CFLLB loan program, provides business coaching and supports the strategic goals of the organization. |
| **Caveat** | A caveat is a document registered with land titles that could be served on either a judge or a public official to give him or her notice that he or she should discontinue a certain proceeding until an opposing party was given an opportunity to be heard. |
| **CFLLB Region** | A geographical service area designated & described in the contractual agreement with WD. |
| **Client** | A person or company receiving a service from CFLLB. |
| **Collateral** | An asset pledged as security for repayment of a loan, to be forfeited in the event of default of that loan. |
| **Collateral Assignment** | Asset assignment in which ownership rights are transferred only as an additional security for a loan and revert to the assignor when the loan is paid. |
| **Collateral Mortgage** | Type of loan secured against the borrower's property (home) through a written note of indebtedness such as the Promissory Note. |
| **Community Futures Investment & Lending Pool (CFLIP)** | Entity established with the objective of the pooling of surplus funds with a purpose of increasing access to investment fund resources for CFs in western Canada as approved by the Minister. |
| **Company** | An incorporated entity for whom the liability of the shareholders is limited to the money they paid to buy the shares. In contrast, ownership by a sole proprietor or partnership carries unlimited personal legal responsibility for the debts incurred by the business. Governed in Alberta by the Business Corporations Act. |
| **Conditionally Repayable Investment Fund** | Means the portion of the Investment Fund established with the Conditionally Repayable Contribution, including the EDP Fund. |
| **Corporate Guarantee** | A guarantee to a lender that a loan will be paid, guaranteed by a company other than the one who took the loan. Typically, a larger parent company (often a parent company, or another related company) will make the guarantee on behalf of a smaller company who may not be as well known or have developed a relationship with the lender. |
| **Court Judgment** | A decision by a court or other tribunal that resolves a controversy and determines the rights and obligations of the parties involved. A judgement is the final part of a court case. |
| **Credit Facility** | A type of loan made in a business or corporate finance context such as revolving Line of Credit, Term Loans and committed facilities. |
| **Developmental Lender** | A lending organization that lends funds to enterprises that assist with community development and economic prosperity of that community. |
| **Due Diligence** | Reasonable steps undertaken by lending staff to ensure that the representations made by the borrower are satisfactory to the lender. Normally includes a comprehensive appraisal of the business and a review of the legal, commercial, and economic factors that would influence the lenders willingness to advance credit. |
| **Entrepreneurs with Disability Program (EDP)** | Fund means that portion of the Conditionally Repayable  Investment Fund which has been provided by WD for the purpose of providing repayable financial assistance to disabled entrepreneurs in Western Canada. |
| **Financial Instrument**  **Executive Director** | International Accounting Standards IAS 32 & 39 define a financial instrument as "any contract that gives rise to a financial asset of one entity and financial liability or equity instrument of another entity"  Provides overall leadership and effective management of the organization while adhering to the policies and directions of the Board of Directors as well as with Prairies Economic Development Canada. |
| **General Security Agreement** | Is a contract between a borrower and a secured lender that specifies which asset(s) is(are) pledged as security, and under what conditions the lender or the obligor may foreclose on said asset(s). |
| **Investment Fund Assets** | Means all the assets held in the fund established by the Community Futures Development Corporation to provide access to capital for small and medium sized businesses. |
| **Key Principals** | Owner(s) or shareholder(s) of a business or enterprise. |
| **Line of Credit** | A type of revolving loan account with no specified repayment schedule and a fixed or floating interest rate. |
| **Loan Guarantee** | A promise by one party (the guarantor) to assume the debt obligation of a borrower if the borrower defaults. |
| **Loan Renewal** | Continuation in force and effect of a previously existing legal arrangement for a new period, as the loan, on the same or different terms. |
| **Loss Payable** | A provision in an insurance contract that authorizes a claim payment, in the event of the occurrence of the risk insured, to a third party, instead of the insured person. |
| **Non-Profit Corporation** | A business organization that serves a public purpose and therefore enjoys special treatment under the law. Non-profit corporations, contrary to their name, can make a profit but cannot be designed primarily for profit-making. |
| **Operation Plan** | A detailed annual plan that outlines performance targets and operational funding. The Operating Plan of CFLLB shall be in a format satisfactory to and approved annual by the Minister. |
| **Pari Passu Agreement** | An agreement describing securities or debt with equal claim on some right used to describe distributions to creditors if they will each take a pro rata of a debtor’s assets. |
| **Permanent Residency** | A person who is not a Canadian citizen but who has been granted permission to live and work in Canada without any time limit on his or her stay. |
| **Personal Guarantee** | A personal guarantee signifies that the lender can lay claim to the guarantor's assets in case of a borrower's default. Commonly seen where the borrower is a Company and is provided by the shareholders of same as they would otherwise not be liable for the debts incurred by the entity. |
| **Personal Guarantee Agreement** | An agreement that makes one liable for one's own or a third party's debts or obligations. A personal guarantee signifies that the lender (oblige) can lay claim to the guarantor’s assets in case of the borrower (oblige), default. |
| **Personal Property Security Act** | The Personal Property Security Act (PPSA) was put in place by the Alberta government in 1990. The Act governs many dealings between secured creditors and their debtors relating to the personal property of debtors (all property that is not “land”). The PPSA also governs most matters of priority of claims to personal property between different secured creditors of the same debtor or with competing secured claims to the same property. |
| **Postponement Agreement** | An agreement between two creditors of the same borrower whereby one creditor agrees to postpone repayment of its debt until the borrower has fully satisfied its debt to the second creditor. |
| **Promissory Note** | The individual who promises to pay is the maker, and the person to whom payment is  promised is called the payee or holder. If signed by the maker, a promissory note is a negotiable instrument. It contains an unconditional promise to pay a certain sum to the order of a specifically named person or to bearer, that is, to any individual  presenting the note.  A promissory note can be either payable on demand or at a specific time. |
| **Shareholder Loan** | A loan made to a company from an individual shareholder or partnership that exchanges money for interest payment. |
| **SME - Small to medium sized enterprises** | Organizations having less than five hundred employees and annual sales revenue less than $20 million, and which produce goods and services for the market economy, regardless of their business structure (sole proprietorships, for-profit corporations, cooperatives). |
| **Social Enterprise** | Businesses, producing goods and services for the market economy that manage their operations and redirect their surpluses in pursuit of social, environmental and community goals. |
| **Investment Review Committee (IRC)** | Is a Sub-committee of the board created by the CFLLB board to make recommendations and decisions on loans. |
| **TEA** | The Executive Assistant – Loan data base software used by CFLLB |
| **Term Loan** | A loan for a specific amount that has a specified repayment schedule and a fixed or floating interest rate. |
| **Traditional lender** | A traditional bank lender, by definition, provides a range of services for businesses and consumers that follows a specific model. Funds are acquired from depositors and investors and then made available as interest-bearing loans for commercial and personal use. |
| **Tri-Party Agreement** | The Tri-Party Agreement is a legally binding agreement consisting of two main documents. The "Legal Agreement" itself which describes the roles, responsibilities, and authority of the three agencies, or "Parties", in the cleanup, compliance and permitting processes. It also sets up dispute resolution processes and describes how the agreement will be enforced. |
| **Waiver of non-disclosure** | An agreement that waives a confidential relationship between a person who holds a trade secret and a person to whom the secret will be disclosed. |