



Community Futures Centre West  
(CFCWest) Lending Policy & Process Guide

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**TABLE OF CONTENTS**

<b>COMMUNITY FUTURES LENDING PROGRAM</b>	<b>4</b>
PROGRAM MANDATE	4
AIM OF COMMUNITY FUTURES PROGRAM IN WESTERN CANADA	4
MISSION & VISION	4
LOAN POLICY GOVERNANCE	4
GENERAL LENDING POLICY	5
<b>GENERAL LOANS POLICY</b>	<b>6</b>
INVESTMENT FUNDS	6
LOAN TYPES	6
ELIGIBILITY	8
<b>LOAN MONITORING</b>	<b>9</b>
ANNUAL LOAN REVIEW	9
LOAN LOSS PROVISIONS	9
LOAN RENEWAL	9
<b>ARREARS</b>	<b>9</b>
PROBLEM ACCOUNTS	9
SEIZURE OF COLLATERAL	9
<b>INTERNAL PERFORMANCE</b>	<b>10</b>
INTEREST RATES	10
LOAN APPROVAL TIMES	10
ANNUAL LENDING TARGETS	10
CASH ON HAND	10
MARKETING POLICY	10
<b>LENDING PROCESS GUIDE</b>	<b>10</b>
INITIAL CLIENT INTERVIEW PROCESS	10
PREQUALIFICATION PROCESS	11
APPLICATION PROCESS	12
LOAN UNDERWRITING PROCESS	17
LOAN APPROVAL PROCESS	17
LOAN DISBURSEMENT PROCESS	18

REJECTED APPLICATIONS	19
<b>LOAN MONITORING</b>	<b>20</b>
ANNUAL LOAN REVIEW	20
LOAN LOSS PROVISION	21
REPORTING TO THE BOARD OF DIRECTORS	21
LOAN RENEWAL	21
<b>ARREARS</b>	<b>22</b>
PROBLEM ACCOUNTS	22
<b>CLOSING THE FILE</b>	<b>22</b>
<b>LOAN SECURITY</b>	<b>23</b>
<b>RESTRICTIVE COVENENTS</b>	<b>23</b>
<b>LOAN GUARANTEES</b>	<b>24</b>
<b>EQUITY INVESTMENT</b>	<b>24</b>
<b>APPROVAL &amp; AMMENDMENTS</b>	<b>24</b>
<b>APPENDIX A DEFINITIONS</b>	<b>25</b>

# CFCWest Lending Policy & Process Guide

## **The Community Futures Program Mandate**

Community Futures are non-profit organizations guided by the volunteer boards of directors and staffed with business professionals. Together community volunteers and staff are mandated to actively engage in helping develop and implement community based economic development and diversification strategies. These strategies result in growth within our rural communities; one idea at a time.

## **The Aim of the Community Futures Program in Western Canada is to:**

Support Community Economic Development.

Diversify the Economy; Support the creation and expansion of small and medium sized enterprises through business counselling and/or lending; Maintain and create new employment; and to deliver business services to rural communities.

## **Community Futures Centre West Mission and Vision**

### **Mission**

Community Futures Centre West builds strong entrepreneurial communities through education and business support services.

### **Vision**

Create a regional environment in which all businesses can be successful.

## **Loan Policy Governance**

1. Community Futures Centre West (CFCWest) operates as a Part 9 Company under the Alberta Companies Act.
2. Board of Directors
  - a. CFCWest is governed by a Board of Directors whose role is to develop board policies as required to govern the general operations of the organization.
  - b. Board policies set the foundation from which all administration procedures and guidelines are created.
3. Administration
  - a. Administrative, business, lending, and collections procedures will be created by CFCWest staff under the direction of the Executive Director.
  - b. These policies will be reviewed, updated and approved by the Board of Directors on an ongoing basis taking into consideration any changes in the business and lending environment.
4. Standing Investment Review Committee (SIRC)
  - a. The purpose of SIRC is to adjudicate loan applications and serve as a resource to staff regarding lending.
  - b. SIRC will be governed by Terms of Reference as set and approved by the Board of Directors.

## General Lending Policy

1. CFCWest assists small to medium sized enterprises (SME's) including Social Enterprises by providing repayable financial assistance in the form of loans or loan guarantees to enterprises located within the CFCWest region.
2. The responsibility of assessing and approving loan applications above the delegated in-house lending authority shall rest with eh SRIC except for in exceptional circumstances such as:
  - i. RRRF loans up to and including \$40,000.00 shall be approved in-house by the Executive Director. In the event the Executive Director is unable to fulfill his/her duties, the Chair of the SRIC, in consultation with the Business Development Advisor shall approve loans.
3. Loans approved by the SIRC shall be ratified at the next general meeting of the board.
4. Loans over \$150,000 must meet the conditions outlined in Appendix "B", be approved by the Board of Directors (not the SIRC), irrespective of any delegated approval that may exist, and be clearly recorded in the signed Minutes of the Board meeting.
5. CFCWest shall ensure the applicant has made reasonable efforts to access traditional bank financing prior to providing financial assistance from the investment fund.
6. Appropriate interest rates, terms, and conditions for loans will be based on the most recent Risk Analysis Template approved by the Board of Directors.
7. Loans approved by CFCWest must create, maintain or expand employment within the CFCWest region.
8. Loans approved will be to establish, maintain, or expand a business.
9. The minimum tangible investment by the applicant into the project being considered for approval by CFCWest shall not be less than 10% of the total(s) loan amount unless an exception is approved by the Board of Directors.
10. All loans will be assessed to ensure adequate character, capacity, conditions, capital, and collateral, as well as alignment with the current CFCWest priorities as outlined in the CFCWest Operation Plan.
11. Loans may be used to provide bridge financing.
12. CFCWest requires all loans to be covered by life insurance on key principals with a collateral assignment to CFCWest, unless otherwise specified by the SIRC.
13. CFCWest requires all loans to be covered by commercial general liability insurance with a loss payable to CFCWest, unless otherwise specified by the SIRC.

14. If a collateral mortgage is taken as security, CFCWest requires proof of home insurance with CFCWest listed as loss payable.
15. CFCWest requires loan clients to have a Provincial and/or Municipal Business Licenses (if applicable).
16. Maximum term and amortization of all loans will be sixty months without explicit approval by the SIRC.

## **General Loans Policy**

### **Investment Funds**

1. General Investment Fund
  - a. Applies to all applicants other than those applying through the Youth Investment Fund and Entrepreneurs with Disabilities Fund
2. Youth Investment Fund
  - a. Youth clients must be between 18 and 29 years of age at the time of the application.
  - b. CFCWest may not be as stringent on the evaluation criteria on these loans, realizing youth often do not possess adequate security and may not yet have established a credit rating.
3. Entrepreneurs with Disabilities Fund
  - a. Eligibility for a loan provided under this fund requires the client to have a disability that impairs their performance in their regular work environment or puts the client at some disadvantage. The key principal will self-disclose their disability or present a medical statement attesting to the disability.
  - b. CFCWest may not be as stringent on the evaluation criteria on these loans, realizing, EDP clients often do not have access to conventional life insurance coverage.
4. Rural Relief and Recovery Funds
  - a. Eligibility for a loan provided under this fund must meet criteria as described in Appendix "D"
  - b. These loans do not require the level of detail for due diligence as in the Regular, Youth and Entrepreneur with Disability Funds.
  - c. These loans have a set term, interest rate and special conditions as set out in Appendix "D."

### **Loan Types**

1. Term Loans
  - a. A loan for a specific amount that has a specified repayment schedule and a fixed or floating interest rate.
2. Line of Credit (LOC)
  - a. A type of revolving account with a specified repayment schedule and a fixed or floating interest rate.
  - b. Terms for LOC Loans will not exceed twelve (12) months from the initial

- c. disbursement date.
  - c. At the end of term, all loans over the specified in-house lending threshold will be presented to SIRC for a renewal decision.
  - d. Renewal options can include extending revolving LOC for an additional 12 months, conversion to Term Loan, or conversion to a Guaranteed Credit Facility.
  - e. A one percent annual administration or a \$600.00 fee (whichever is greater) shall be charged.
3. Quick Cash Loans
- a. If adequate due diligence has been completed, existing clients who are current with payments will be offered in house access to a Quick Cash Loan, not exceeding \$20,000. These loans may be approved in house by the Executive Director.
4. Student Summer Business Loans
- a. CFCWest will offer interest free loans up to \$3,000 to students wishing to operate a summer business.
  - b. Funds must be disbursed April 15<sup>th</sup> through July 31<sup>st</sup>.
  - c. Applicants must be between 15 and 24 years of age and must be enrolled in an educational institution as a full-time student. Clients must be returning to school in the fall.
  - d. The loan is interest free for three months.
  - e. If after three months, there is still a balance owing, the loan will accrue interest from that time at prime plus 2%. This loan will be secured by way of promissory note. When a student is under 18 years of age, it is necessary to obtain both parents signatures on a loan application and all related documentation. In the event the parents have separated or divorced, both parents, if they share legal custody of the student must sign a loan application and all related documentation. If the student is not under the care of a parent, a legal guardian will be permitted to sign a loan application and all related documentation.
5. Equity Loans – CFCWest will not take an equity ownership position with any business unless approved by the Board of Directors.
6. Loan Guarantee Credit Facilities
- a. CFCWest will secure the Guarantee with standard security, plus a tri-party agreement between the loan client, CFCWest and the conventional lender providing the loan or line of credit facility to the client.
  - b. CFCWest will charge an annual fee to the client for this facility at a rate of 3% which is reviewed and if required, renewed annually.
  - c. Loan Guarantee's will be extended to clients for a period of one year, with the possibility of an extension for two additional one-year terms.
  - d. Operating Line of Credit Guarantee will be extended in amounts from \$10,000 to \$150,000. The maximum percentage of the guarantee would be 100% on amounts of \$50,000 or less and a maximum of 50% on amounts over \$50,000.
  - e. The Board at its discretion may approve higher maximum amounts or percentages.
  - f. In support of the Guarantee Credit Facility, CFCWest will pledge its guarantee
  - g. based on the financial strength of the organization or alternatively provide an assignment of a GIC to the lending institution for the guaranteed amount.
  - h. All loan guarantees approved by the SIRC must be ratified at the next Board meeting.

7. Loans to Social Enterprise
  - a. The same criteria considered for a for-profit business will influence decisions related to funding for a Social Enterprise business. Key considerations will be:
    - i. There must be a duly passed Borrowing Resolution enabling the Social Enterprise organization to take on debt.
    - ii. All other General Loan Policy considerations apply.
  - b. Loans must be for a specific growth strategy (not emergency stop-gap measures).
8. Loans to RRRF Clients
  - a. These loans must be disbursed to small-medium sized Enterprises (SME's) in non-metropolitan regions, including the area served by CFCWest.
  - b. These loans must meet all other eligibility & term requirements as outlined in Appendix "D".

### **Eligibility**

1. The business should normally be located in the CFCWest region, and the key principal must be involved in the day to day operation of the business. Assistance may be considered for applicants who are not residents of the region who wish to start or expand business ventures in the region. In these cases, it must be demonstrated the region will significantly benefit. Staff shall verify loan applicants have applied for funds through traditional bank(s) and the financing application has been rejected.
2. Loan applicants must be of legal age (Exception for Summer Student Youth Loan applicants) and must be a permanent resident of Canada.
3. Unless there are unusual or extenuating circumstances, applications will not come to the SIRC for consideration in any of the following situations:
  - a. The applicant is in bankruptcy;
  - b. The applicant has an outstanding court judgment;
  - c. The applicant has outstanding collections;
  - d. An Equifax rating of less than 550.;
  - e. The main purpose of the loan is to refinance current debt;
  - f. The applicant is unable to provide proof of permanent residency.
4. The applicant must have completed Operating Proforma based on a Business Plan acceptable to CFCWest.
5. The applicant must complete all other required application forms plus any additional due diligence requested by CFCWest.
6. The SIRC shall require security in the form of one or more of the following:
  - a. A promissory note.
  - b. A personal guarantee supported by tangible assets as deemed acceptable by the SIRC.
  - c. Collateral mortgages or caveats on building and/or land.
  - d. General, personal or specific security agreement.
  - e. Pari Passu Agreement.
  - f. Agreement for sale.
  - g. Financial instruments such as bonds and debentures, provided the instruments are unencumbered at the time of commitment.



- h. Corporate guarantee.
  - g. Postponement and assignment of shareholders loans.
  - h. Postponement and assignment of affiliated company loans.
  - i. Assignment and maintenance of life and commercial and mortgages insurance policies.
  - j. Any release forms required including a waiver of non-disclosure
  - k. Any other documents required by Personal Property Security Act.
  - l. Assignment of book debts.
  - m. Assignment of assets and/or inventory.
7. If a loan is turned down by the SIRC, the Executive Director is not permitted to lend the client any amount of monies unless it is approved by the SIRC.
8. All matters related to rejected applications and or the appeal process shall refer to the Appeals Policy.

### **Loan Monitoring**

1. Annual Loan Review
  - a. CFCWest staff shall contact loan clients via telephone, email or through personal contact at a minimum of once per quarter.
  - b. The Business Development Advisor must complete an Annual Loan Review for all loans.
2. Loan Loss Provisions
  - a. The Business Development Advisor will complete an Annual Loan Loss Provision analysis to determine the current loan portfolio balance, market value of security held, available equity, realizable security, exposure, probability of bad debt for current year, allowance for bad debt and assessment for impaired loans.
  - b. Reporting to the Board of Directors
    - i. A Loan Portfolio Update will be presented to the Board of Directors at minimum quarterly. Staff will provide a Loan Balance by Fund Report, Non-Performing Loans (Delinquency) Report and a Year to Date Performance comparison between lending targets and actuals.
4. Loan Renewal
  - a. Renewal shall be offered unless there has been issues with the loan including:
    - i. Two or more consecutive missed payments during the history of the loan; or
    - ii. Any other circumstances that could affect security held; or could negatively affect the performance of the loan.
  - b. Renewal notice shall be sent to the client three months in advance of the renewal date (Loan expiry date) via email and regular mail.
  - c. The SIRC shall meet to renew or determine new terms for the loan one month in advance of the loan renewal date (Loan expiry date).
  - d. Where a client has not accepted the terms of the renewal as evidenced by the client not signing the new letter of offer nor paying out the loan in full, loan payments shall not be accepted after the expiry date of the loan. Interest shall continue to accrue, unless other provisions have been approved by the SIRC.
  - e. If consensus cannot be reached with the client regarding the SIRC's decision to renew or term out the loan, the balance will be demanded in full.
  - f. All closed files must be held for a period of 7 years.

## Arrears

1. Problem Accounts
  - a. If a client is not in compliance with the conditions as outlined in the Business Loan Agreement, staff shall implement specific processes as outlined in the Lending Process Guide, including the following; Non-Sufficient Funds (NSF), demand, response to demand, repayment agreement, forbearance agreement, Writ of Enforcement and registration of Judgement order, collections, seizure of collateral, foreclosure and recovery.
2. Seizure of Collateral
  - a. The decision to seize collateral taken as security will be made by the Board of Directors.

## Internal Performance

1. Interest Rates
  - a. The Board of Directors will review interest rates when the Bank of Canada changes rates 1% or more and shall be reviewed quarterly based on a rolling twelve-month period.
  - b. Interest rates are determined using an approved risk matrix
  - c. Interest rates must meet conditions set in Appendix "C".
  - d. Interest rate for RRRF loans must meet conditions set in Appendix "D".
2. Loan Approval Time
  - a. SIRC will meet in a timely fashion to ensure loan approvals. Staff shall post loan documents no less than 3 business days prior to the established SIRC meeting date.
  - b. SIRC will seek to reduce loan approval times by making use of technology such as faxing, emailing, teleconferencing, and/or secure internet site meetings.
3. Annual Lending Targets
  - a. Annual lending targets will be set in the CFCWest Annual Operations plan.
  - b. CFCWest will attempt to meet a minimum of twenty percent (20%) of approved loans to businesses that align with WD priorities.
4. Cash on hand
  - a. CFCWest shall undertake to maintain sufficient investment fund cash on hand to ensure it is able to maintain normal investment fund activities. Investment fund cash on hand, non-committed funds shall normally not exceed twenty (20%) percent of the total value of the investment fund at any one point in time.
  - b. CFCWest shall undertake to deposit investment fund cash on hand (non-committed funds) in excess of twenty percent (20%) of the current value of its investment fund portfolio into the professionally managed/administered Community Futures Lending & Investment Pool (CFLIP).
5. Marketing Policy
  - a. CFCWest will maintain and implement a formal marketing and networking plan to contact other lenders, accounting firms, lawyers, employers, and business groups to achieve performance targets.

# Lending Process Guide

## Initial Client Interview Process

1. The client contacts CFCWest and a preliminary meeting is arranged with the Business Development Advisor.
2. Initial Client meeting:
  - a. The business idea, general business conditions, what the applicant is specifically wanting financed (i.e. new business or expansion), and how much money would be required, is discussed to determine if the application meets basic CFCWest lending criteria.
  - b. If the opportunity is within the scope of business of the CFCWest Lending program, the CFCWest lending process is discussed with the client including; loan terms, interest rates, fee structure, applicable fees, requirement for insurance, applicant's equity requirement, plus all other CFCWest requirements.
  - c. The Business Development Advisor would then discuss how the above factors fit into the applicant's situation. If the business prospect looks promising the Business Development Advisor will give an overview of CFCWest's Lending Process.
  - d. The client is asked how they perceive their own credit rating and if they disclose it may be poor, staff will explain that CFCWest will check in any event. If the beacon score is below 550, the loan application may not proceed for that reason alone.
  - e. Explain to the client the role the SIRC plays as part of the adjudication process, the need for a business plan/documentation, and the timelines typical for approval once the applicant has submitted all necessary information.
  - f. If the business prospect continues to look promising, the client is given a complete CFCWest Prequalification Package, including the Business Financing Request and Personal/Corporate Statement of Net Worth of principals and if applicable, from Guarantor(s)

## Prequalification Process

1. CFCWest Prequalification Package – including:
  - Applicant(s) business, personal and contact information
  - Consent to Credit Inquiry – Equifax
  - Personal Property Debtor searches
  - Personal/ Corporate Statement of Net Worth of principals and if applicable, Guarantor(s)
  - Copies of applicant's Driver's License/photo identification
  - A copy of company incorporation/registration (if applicable)
  - Proof of traditional lender rejection
2. CFCWest Business Financing Request – including:
  - Business profile
  - Financing requirements

## Administrative Process

1. The client submits a prequalification package and business financing request.

2. CFCWest staff completes the Prequalification section on the Current Loan Process Checklist to ensure all documents needed are on file.
3. Relevant client data is entered in The Exceptional Assistant (TEA) database and any loan tracking software. All available and pertinent fields should be completed by appointed staff.
4. If after prequalification the business prospect continues to look promising, the Business Development Advisor has a discussion with the Executive Director to determine if the client should be moved ahead to the application stage. If a client is moved ahead, they are given a CFCWest Loan Application. If a client is not moved ahead to the application stage, the Business Development advisor will contact the client and discuss reason(s) why.

### **Application Process**

1. CFCWest Loan Application - including:
  - Applicant(s) business and personal contact information
  - How the funds will be used and expected financing
  - Work and educational history
  - References
  - Declarations (i.e. bankruptcy, judgments, proceedings, and writs)
2. Personal Information
  - Client's personal tax returns and Notice of Assessments (NOA) (past 2 years)
3. Business Information
  - A completed or draft Business Plan including:
    - Cash Flow Projections (2 years recommended)
    - Business Plan Detail (i.e. Business background, industry, description of business, product, customers, competition, marketing plan, other sections as appropriate, summary, financing requested)
  - Outstanding personal/corporate debt (i.e. Mortgage, vehicle loans, equipment loans, personal loans, LOC, Credit Card(s))
  - Corporate Tax Returns and Notice of Assessments (NOA) (past 2 years)
  - Audited Financial Statements if available (past 2 years for existing businesses recommended), or "Notice to Reader, or Review Engagement Report
  - A Schedule of Land and Buildings the client owns and/or plans to purchase (if applicable)
  - A Schedule of Equipment the client owns and/or plans to purchase:
    - Include serial numbers
    - Assets used as security require proof of ownership (i.e. Bills of Sale, or copies of registrations).
  - A copy of any Offer to Lease or Lease Agreement(s), if applicable
  - An aged listing of accounts payable and accounts receivable
  - Most recent bank statements
4. Any additional documentation as requested
5. Non-refundable loan application fee

### **Administrative Process**

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

2. CFCWest staff completes a Loan Application Checklist to ensure all documents needed are on file.
3. 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 working days.
4. Relevant client data is entered in The Exceptional Assistant (TEA) database and any loan tracking software. All available and pertinent fields should be completed by appointed staff.
5. The Business Development Advisor then begins the loan investigation process by researching all elements of the application under 6 key areas;
  - o Character
  - o Capacity
  - o Conditions
  - o Capital
  - o Collateral
  - o Fit to CF Operational Plan

## **Business Development Advisor Process**

The viability of a business proposal is assessed based on the following key areas:

### **1. Character**

#### Credit Check

- o A complete credit check, personal and/or corporate. This is done before any other research or due diligence is initiated.
- o Credit information on the applicant may be obtained from conventional lending sources with whom the applicant may have previously dealt
- o 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
- o Other credit searches:
  - Corporate Registry – Determines if the corporation is in good standing as far as submitting annual returns, who the shareholders are, plus registered addresses
  - Personal Property Registry – 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.

Often, a PPR name search will provide information not reported at the credit bureau. The creditor will register their interest at PPR (such as a mechanic's lien or a WCB lien) but may not report to the credit bureau at all. This is very important because, for example, WCB has a super priority over any and all collateral you may register.

Registering an “All Present and After Acquired Personal Property of The Debtor(s)’ (Allpaap) clause gives the registrant or creditor a first charge against all personal assets of the debtor(s). If the search reveals that another creditor has registered an Allpaap clause against the client, the office can obtain a first charge on the property being financed by issuing a PMSI letter (via registered mail) to that creditor. The PMSI will only give first charge on the specific items(s) the office is financing. 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.
  - Other Searches – Other searches can be done at the Bank of Canada (banks register some of their collateral with this institution under the Bank Act), Office of Superintendent of Bankruptcy, and Court of Queen’s Bench.
- Does the client have a good credit history indicating they have honored their financial commitments in the past?

#### References

- An applicant should identify at least three references at the time he/she makes an application for assistance from the CF including 2 employer/business references and 1 or 2 personal references.
- References should not be persons with a specific interest in the project for which assistance is being sought.
- Does the client’s history and references suggest they will honor their financial commitments?

#### Other Sources of Information to Assess Character

- Interviews, client resume, attention to detail spent on the application.
- Stability in jobs, businesses, and residences.
- Current and past legal actions against the client.
- Reviewing how responsibly the client manages their personal and business credit.

#### Management Capability

- Does the applicant’s work history indicate they have sufficient expertise or a sound working knowledge of the proposed business and industry?
- Does the applicant’s educational history indicate they have the knowledge necessary to be successful in the proposed business and industry?
- Does the applicant have the management ability and/or skills necessary to plan, develop and operate the proposed business?
- 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?
- 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.
- 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.

## **2. Capacity**

### Business Plan

- Market research should be done to confirm the assumptions and financial projections outlined in the Business Plan.
- Is there a financial timing work plan, indicating the schedule for which funds from lenders will be advanced to the project?
- In reviewing the applicant's plan to carry out the business proposal, the following additional items must be reviewed:
  - If the business proposal involves the construction of new facilities, have engineering or architectural plans been prepared and reviewed by qualified professionals?
  - Does the business plan allow a reasonable time for the delivery and installation of equipment and the purchase of raw materials?
- 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?
- 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.
- Is a listing including serial numbers on file for all items to be purchased and/or to be used for collateral?

### Cash-flow

- Does the business proposal indicate that the business will be able to;
- Generate sufficient cash flow to cover repayment of principal and interest on any funds advanced by the CF and/or any other lenders,
  - Cover reasonable operating costs associated with the day-to-day operations of the business,
  - Provide the owner/operator sufficient salary benefits to maintain his/her personal living needs, which are outlined in the personal budget.

## **3. Conditions**

### Market Conditions

- 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.
- Is there a market for the goods/services to be provided by the proposed business?
- 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?
- Is the proposed selling price of the product or service comparable to the current market prices of other competitive products or services?
- Is there an adequate market to support the proposed and existing business?

- 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.
- What is the state of the industry?

#### Labor Force

- Is there an adequate labor force located within the Community Futures Region?
- If the project is seasonal, will a sufficient labor force be available when required?
- Does the project require qualified technical personnel? If so, are there qualified personnel resident in the area?

#### PEST (Political, Environmental, Social, Technological)

- Are there any political, environmental, social, and/or technological considerations?
- Should an environmental assessment be required? (This is particularly true of properties which were/are being used to sell fuel or which are located in close proximity to businesses which were/are selling fuel).

### **4. Capital**

#### Owner's Equity, Assets & Resources

- Financial Statement review to determine the level of debt in relationship to assets and equity.
- Review of Personal and Corporate Net worth to determine if the client has sufficient financial reserves for this venture to succeed.
- Does the applicant presently own other assets free of encumbrances or assets with sufficient equity, which can be taken as security, in addition to any assets that may be acquired as a result of financial assistance from the CF?
- Does the applicant have a reasonable financial commitment invested in the business proposal, or at least access to funds, which may be invested in the business proposal?
- What does the client have to lose if things get tough?

### **5. Collateral**

- Does the proposal provide reasonable security to the CF office in the event of business failure and if the client proves unable to repay the investment?
- Have the existing land, buildings and equipment been professionally appraised, and is the appraisal available for review by the CF?
- 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?
- 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?
- Has the margin value of the collateral been used to calculate adequate security against the proposed loan?

### **6. Fit to CF Operational Plan & Other Considerations**



- Does the business proposal maintain or expand employment of one or more CF residents?
- Does the business proposal help to diversify the economy of the CF region?
- 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?
- 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?
- Have all licenses and permits required been obtained from the appropriate authorities?
- 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?

### **Loan Underwriting Process**

1. Business Information
  - A completed Business Plan
  - Cash Flow Projections (2 years recommended)
  - Estimates (if applicable) for renovations, equipment, construction, etc. to be financed
  - Verify security (i.e. property, vehicles, equipment) and collect VIN's for vehicles to be used as collateral, if applicable
  - Loan Summary Report

### **Business Development Advisor Process**

1. The Business Development Advisor creates a Loan Summary Report 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 SIRC.
2. The Loan Summary Report is reviewed and then signed by the Executive Director.

### **Loan Approval Process**

#### **Standing Investment Review Committee (SIRC) Process**

1. Once the Loan Summary Report is complete, a copy, along with other supporting documents as determined necessary by the SIRC are packaged as a report for the SIRC members and are posted online three (3) days prior to the SIRC meeting date.
2. A SIRC Meeting is held.
3. At the SIRC Meeting the SIRC members will:
  - Ensure the application meets all eligibility criteria
  - Review the recommendations contained in the Loan Summary Report
  - Confirm the required equity contribution by the loan applicant
  - Request any additional information as needed
  - Approve or reject the application(s) (pending additional information as needed).
  - All loans approved by the SIRC must be ratified by the Board or Directors at the next board meeting

4. The applicant is then contacted regarding a decision and the approval or rejection is documented.

### **Administrative Process**

1. Clients will be contacted immediately following the decision from the SIRC by the Business Development Advisor.
2. SIRC Chair will sign the Loan Concur form.
3. A Letter of Offer is prepared and sent to the client along with a Loan Disbursement Checklist outlining all required documentation prior to loan disbursement. When the Letter of Offer has been returned CFCWest staff prepares the Legal Loan documents.

### **Loan Disbursement Process**

1. Loan Disbursement Checklist
  - Lease Agreement
  - Incorporation documents detailing ownership structure
  - Life Insurance on the principals with a collateral assignment to CFCWest for the amount of the loan
  - Commercial Insurance with CFCWest listed as Loss Payable
  - Proof of home insurance with CFCWest listed as Loss Payable if a Collateral Mortgage is taken as security
  - CRA 9-digit Business Number
  - CRA Authorization Form giving CFCWest access to the corporate CRA accounts
  - GST Balance statement
  - Payroll Deductions statement
  - WCB Clearance Letter and balance, if applicable
  - Business License
2. Collateral and individual(s) are registered with the appropriate government agencies including PPR, Land Titles and Equifax to report on consumer and/or commercial debt monthly.
3. Legal Loan Documentation generally required and signed include the following:
  - Letter of Offer
  - Certificate of Independent Legal Advice
  - Waiver of Disclosure
  - Resolution of Directors
  - Certificate of Incumbency
  - Acknowledgement
  - Business Loan Agreement
  - Loan Agreement & Statement of Disclosure
  - Personal Guarantee & Postponement of Claim with Acknowledgment Act
  - Personal General and/or Specific Security Agreement
  - Corporate General and/ or Specific Security Agreement
  - Promissory Note
  - Collateral Mortgage, if applicable

- Authorization for Direct Debit – to set up a direct debit authorization from the client's account for loan payments.
4. All legal documents are to be maintained in a safe.

### **Administrative Process**

1. The Current Loan Process Checklist is completed to ensure the file is complete. It is reviewed by the Executive Director to ensure the Disbursement Process has been completed. All items on the checklist must be addressed prior to releasing funds.
2. A Loan Disbursement Form is completed and signed by the Executive Director for each disbursement of funds.
3. If a lawyer is handling the disbursement, a cheque in trust, along with any special conditions should be drafted.
4. When CFCWest is handling the disbursement of funds as part of the lending process, proper care must be taken to ensure funds are used for the purposes listed in the Loan Summary Report. This is accomplished by:
  - Writing cheques for a specific purpose payable directly to the vendor (i.e. for equipment amounts over \$5,000)
  - Writing cheques payable to the client for reimbursement based on paid invoices for the goods agreed upon in the legal loan documentation
  - Ensuring client records are properly set up in RBC Express
  - Utilizing RBC Express for initial or LOC advances
5. TEA is used to track all client contacts and information relating to payments, history, and client activity.

### **Rejected Applications**

#### **Administrative Process**

The CFCWest staff will:

1. Phone the client to advise him/her of the decision of the SIRC.
2. Advise the applicant by letter the reason(s) for rejection.
3. Maintain copies of the letter of rejection, the original business plan and other associated documents on file for seven years.

#### **Internal/External Appeals Process**

1. The initial decision by CFCWest regarding the viability and/or documentation of the application is subject to appeal to the Board of Directors.
2. All appeals must be made in writing.

3. If the client wishes to pursue a further appeal of a decision made by the Board of Directors, they may appeal to the South Region's Appeal/Redress Committee.

## **Loan Monitoring**

### **Annual Loan Review**

1. CFCWest Annual Loan Review Checklist
  - Accountant-prepared year-end financial statements of Notice to Reader quality or higher (Review Engagement statements are preferred)
  - Financial statements, prepared by your bookkeeper, from your company's current fiscal year (should be the first quarter of the current fiscal year).
  - A letter or statement from your company's landlord or mortgage holder stating that all payments are up to date (where applicable).
  - A letter or recent statement from the municipal authority showing that your business-related property taxes are up to date (where applicable).
  - Recent GST and Remittance statements showing that your company is up to date with CRA filing and payment requirements (where applicable).
  - A one to two-page summary of highlights and challenges for your business in the last year along with the opportunities and threats in the coming year (S.W.O.T analysis).
  - Loan Collateral - Please provide the following information about collateral held for your loan (only for items that you have pledged for collateral).
    - Provide the mileage and condition for each vehicle held for collateral
    - Provide a property assessment for each home held for collateral
    - Provide a property tax receipt or statement for each property held for collateral
    - Insurance statement to showing that all items of collateral have coverage and that CFCWest is "loss payable".
  - Recent statement for payroll remittance (within the last 3 months).
  - A statement from your insurance company showing that your business insurance policy is current and that CFCWest is "loss payable".
  - A copy of your company's last tax filing and notice of assessment (for proprietors and partnerships this will be the personal tax filing of the proprietor or partners).
  - Personal Net Worth Statements.
  - CFCWest Staff will pull Equifax reports and Debtor searches on the client and corporation.
2. Annual review dates will be set by the anniversary of the loan (Defined as the date the clients signed their legal loan papers).
3. The annual loan review will be completed on each client near the anniversary of the loan.
4. The annual loan review will be used to verify key documentation. The Business Development Advisor will determine if any changes have occurred in the 5 key approval rating areas used in the original business loan assessment, and to identify potential issues with the client file.

5. Clients failing to provide documentation as requested will be subject to specific remedies outlined in their Business Loan Agreement.

### **Administrative Process**

1. A First Notice of Loan Review letter is sent to the client three (3) months prior to the review date. Clients are given sixty (60) days to submit the required documentation.
2. As a reminder a Second Notice of Loan Review letter is sent to the clients two (2) months prior to the review date. Clients are given thirty (30) days to submit the required documentation.
3. The Loan Review Checklist is completed, and the Business Development Advisor is notified that all required documentation has been submitted.

### **Loan Loss Provisions**

#### **Business Development Advisor Process**

1. BDA sets a review meeting with client and discusses progress/ issues the client is having or have had throughout the past year.
2. BDA completes the Annual Loan Review summary. The Executive Director reviews, signs and makes the report available to the SIRC Chair for review and signature.

#### **Business Development Process**

1. The BDA completes the Annual Loan Loss Provision template to analyse and determine the current loan portfolio balance, market value of security held, available equity, realizable security, exposure, probability of bad debt for current year, allowance for bad debt and assessment for impaired loans.

#### **Reporting to the Board of Directors BDA Process**

1. BDA completes a Loan Portfolio Update quarterly. Staff will provide a Loan Balance by Fund Report, Non-Performing Loans (Delinquency) Report and a Year to Date Performance comparison between lending targets and actuals.

#### **Loan Renewal**

1. A renewal notice shall be sent to the client three months in advance of the renewal date (Loan expiry date) via email and regular mail.
2. The SIRC shall meet to renew or determine new terms for the loan one month in advance of the loan renewal date (Loan expiry date).

#### **Administrative Process**

1. Once the SIRC has approved renewal or new terms for a loan, legal documentation is prepared.
2. Arrangements are made with the client to sign legal documentation.

3. Security documentation/ collateral is reviewed and re-registered as required.

## **Arrears**

### **Problem Accounts**

#### **Administrative Process**

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 repayments terms, is prepared and is sent to the client via email.
2. 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 such as:
  - Business ceases to operate
  - Outstanding CRA debt
  - Nonpayment of commercial lease rent or failure to pay commercial mortgage
  - Non-Sufficient Funds (NSF)
  - Cancellation of commercial, life and mortgage insurance
  - Noncompliance for loan reviews as requested
  - Notice of Bankruptcy
  - Insolvency
  - Any other conditions as per Business Loan Agreement
3. If full payment is not received as per Demand, a Repayment Agreement is created using the same or revised loan terms and amortization schedule as per SIRC decision.
4. 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 SIRC decision. CFCWest will forbear legal proceedings if payments are made as agreed. CFCWest will apply for a Judgement Order in the Court of Queen'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.
5. CFCWest staff will endeavor to collect all amounts outstanding on loans with CFCWest. 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.
6. After a motion has been passed by the Board of Directors to direct staff to seize collateral, staff will initiate procedures with a recognized civil enforcement agency to seize under the Personal Property Security Act (PPSA) Seizure. Staff will complete all appropriate forms and templates required as part of the PPSA General Seizure Package.
7. Staff will make all attempts to recover collateral or outstanding monies owed related to non-payment or seizure procedures.

## **Closing the File**

1. Once the client has paid out their loan, CFCWest sends the client a payout letter advising the loan has been paid out and security attached to the Loan Agreement will be released.
2. The client file and legal loan documents are moved from active to the archive file for seven (7) years.

## **Loan Security**

The SIRC may require:

- Personal guarantees of loans made to businesses.
- Mortgages or encumbrances of land and buildings.
- General or Specific Security Agreements.
- Agreements for sale.
- Financial instruments such as bonds and debentures, provided the instruments are unencumbered at the time of commitment.
- Promissory notes/personal guarantees completed by applicant.
- Corporate Guarantees.
- Postponement and assignment of Shareholders loans.
- Postponement and assignment of affiliated company loans.
- Assignment and maintenance of life insurance policies where determined necessary.
- Any release forms required.
- Revenue Canada RC59 Business Consent Form
- Any other supporting documents that may be required
- Any other documents required by Personal Property Security Act.
- Assignment of book debts.
- Assignment of inventory.
- Assignment of Lease/rent and Landlords waiver.

## **Restrictive Covenants**

To protect and ensure the continuation of CFCWest loan fund, additional restrictive conditions of financing must be attached to the financing agreement as needed. These may include the following:

- Limitations on future borrowing
- Limitations on future capital expenditures
- Limitations on payment of dividends, owner's capital, or shareholders loans.
- Limitation on disbursement of funds borrowed by the client from specific people or businesses.
- Time limits regarding offer of acceptance.
- Release of regular financial statements.
- Access to accounting records.
- Any change in the security held by CFCWest must be approved by the SIRC.

### Loan Guarantees

The SIRC may, from time to time, may deem appropriate, to guarantee a loan from a recognized financial institution rather than providing funds from CFCWest. Loan guarantees are subject to the following restrictions:

- Loan Guarantees plus funds loaned must not exceed the maximum funds available from the Investment Fund.
- Only loans made by an institution covered by deposit insurance can be guaranteed.
- Loan guarantees are subject to all the same terms and restrictions as loans.

### Equity Investment

Total Equity Investments Loans and Loan Guarantees cannot exceed \$150,000. Investments in equity may only be made:

- In shares of an incorporated company.
- Where a buy-back agreement has been completed, it must recover the initial CF investment plus interest equivalent for the period of the agreement.
- Only in circumstances where a loan or loan-guarantee is not appropriate.

### Approval & Amendments

Lending Policy Document	Date	Board Signature
Approval	January 22, 2020	
Amendment 1	June 19, 2010	
Amendment 2	January 15, 2014	
Amendment 3	January 21, 2015	
Amendment 4	March 3, 2015	
Amendment 5	September 7, 2017	
Amendment 6	September 20, 2018	
Amendment 7	May 20, 2020	DocuSigned by: <i>James Dalt</i>
Amendment 8	January 25, 2023	3FDC80172C8147C...



## Appendix “A” Lending Policy & Process Guide Definitions

Name	Definition
Annual Lending Targets	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	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.
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.
CFCWest Region	A geographical service area designated & described in the contractual agreement with WD.
Client	A person or company receiving a service from CFCWest.
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 repaid.
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 Development Corporation (CF or CFO)	Means a legally incorporated non-profit organization authorized by the Minister and established for the purpose of delivering a wide range of community economic development programs and services including the Program.

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 CF's 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 repaid, 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	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"
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 some public purpose and therefore enjoys special treatment under the law. Non-profit corporations, contrary to their name, can make a profit but can't be designed primarily for profit-making.
Operation Plan	A detailed annual plan that outlines performance targets and operational funding. The Operating Plan of CFCWest 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 the majority of 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 <i>maker</i> , 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.

Small to medium sized enterprises	Organizations having less than 500 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.
Specific Security Agreement	An agreement between a borrower and a lender giving the lender an interest in specific assets of the borrower; generally used for smaller loans.
Standing Investment Review Committee (SIRC)	Is a Standing Sub-committee of the board created by the CFCWest board to make recommendations and decisions on loans.
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 2 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.

## Appendix “B” Policy Bulletin

### Loans over \$150,000 for Community Futures Organizations

#### SUBJECT

To establish an exception framework in which Community Futures (CFs) can make loans in excess of \$150,000.

#### BACKGROUND

The Community Futures Program Investment Funds are designed to provide access to capital to small and medium-sized businesses and entrepreneurs who are starting their own business or expanding a business and are unable to access traditional financing. The Terms and Conditions (Ts & Cs) of the CF program and Western Economic Diversification’s (WD) Contribution Agreement states that “The maximum amount of financial assistance provided by a local CFDC in respect of any SME or Social Enterprise shall not normally exceed \$150,000 outstanding at any one time.” CF Terms and Conditions Schedule 2.1 (iv). As part of the Community Futures Network of Canada (CFNC) proposal in 2017, CF organizations asked Regional Development Agencies (RDAs) for more flexibility in providing loans over \$150,000. This flexibility would allow CFs to respond to unique economic opportunities and/or to support industry sectors, while still ensuring they are not in competition with private sector lenders.

#### CONSIDERATIONS

- Financial assistance in excess of \$150,000 is considered to be exceptional.
- There is an increased risk to undertaking these larger loans and some CFs may not have the necessary expertise to assess these larger, more complex deals.
- CFs must protect the integrity of their Investment Fund in order to ensure the health of their organization and maintain their capacity to operate effectively.
- CFs need to balance the small loans that support the original intention of the CF program and larger investment that may impair their ability to provide financial assistance under \$150,000.
- CFs are encouraged to enter into syndicated or other joint lending arrangements in order to limit the risk borne by any single CF.

**POLICY POSITION** This policy covers where an individual CF provides financial assistance over \$150,000 from the Investment Fund as defined in the Contribution Agreement with WD. Funds provided to the CF from another source will continue to be governed by the conditions on that funding and may have higher limits and, as such, they will not be subject to this policy.

**Community Futures Program (CF)** The Contribution Agreement defines Investment Funds as follows: “Investment Fund “means all the assets held in the fund established by the corporation to provide access to capital for small and medium sized businesses including:

- a) All amounts credited to the Conditionally Repayable Investment Fund
- b) All amounts from all previous grants or non-repayable contributions made by the Minister to the corporation prior to the transfer of the program to WD, which would further include amounts transferred as grants or non-repayable contributions under any previous similar program conducted by the Government of Canada including all amounts credited to the Investment Fund of a Business Development Centre that received non-repayable funding from the Government of Canada, that has been transferred to the corporation by the Business Development Centre; and
- c) All revenues from loans and other investment fund activities, all revenues from investments out of the Investment Fund and all repayments on account of principal in respect of investment fund activities less any losses incurred through the operation of investment fund activities and any amounts transferred from the

Investment Fund to the operating costs as permitted in the Statement of Work – Investment section of the contribution agreement.

**Attachment B, Section II A, 1 (iii) of the CF Program Contribution Agreement states:**

*The maximum amount of financial assistance provided by a local CF in respect of any SME or Social Enterprise shall not normally exceed \$150,000 outstanding at any one time. Two or more local CFs may collaborate to provide financial assistance to SMEs or Social Enterprises in cases where there is a demonstrated benefit to their communities. Each participating CFDC may provide up to \$150,000 in such situations.*

**Attachment B, Section II A, 1 (ii) of the CF Program Contribution Agreement also states:**

*The responsibility for assessing and approving investment applications shall rest with the local CF's Board.*

**Section 5.2 of the Contribution Agreement states:**

*The Corporation must provide a minimum of 30 days prior written notification to the Minister of: a) significant change or proposed changes to its operations; and proposed changes in articles of incorporation, Board structure and corporate policies.*

**Section 5.4 of the Contribution Agreement states:**

*The Corporation shall be required to develop and comply with corporate policies that are consistent with federal and provincial legislation and to provide copies of such policies to the Minister.*

As financial assistance in excess \$150,000 is only to be considered on an exceptional basis, WD's position is that CFs must ensure that their internal investment review policies clearly lay out the conditions upon which they will consider financial assistance in excess of the normal limit of \$150,000. CFs must provide WD with prior written notification of their intention to change their corporate policies to allow for the consideration of financial assistance in excess as per section 5.2 of the Contribution Agreement and provide a copy of these policies to WD as per section 5.4 of the Contribution Agreement.

**Common principles:** for those CFs who wish to consider providing financial assistance in excess of \$150,000 to a qualified SME or Social Enterprise, CF policies should include the following restrictions, as a minimum, in order to balance the risk profile of their Investment Fund and ensure the necessary due diligence for financial assistance of this size :

- The amount of any individual investment cannot exceed 15% of their total Investment Fund assets or \$150,000.
- The CF must record on file unsuccessful attempts to collaborate with the Business Development Bank of Canada (BDC), other conventional lender, and/ or with a CF syndicated loan program, where in place, with other regional CF organizations to ensure that the CF portion of the loan only exceeds \$150,000 where absolutely necessary.
- CF organizations must document how the financial assistance is essential to carrying out the project and is complementary to other sources of funding. Evidence of additional due diligence on larger loans should be documented in the client file.
- During the assessment and approval process, the board should consider and document their rationale as to whether enhanced due diligence such as outside review of business plan or independent appraisal of business assets is required.
- CF organizations must demonstrate the financial impact on their Investment Fund portfolio. For instance, the level of financial risk and the value of the loan as a percentage of the Investment Fund net assets.

- Justification for loans over \$150,000 must be clearly documented and may include the following: financial need, emergencies, creation or retention of jobs, or to ensure project completion.
- Approving the loan must not raise the total outstanding value of all such loans (over \$150,000) to greater than 30% of the value of the CF's total Investment Fund (WD funds) at the date of approval of the loan.
- As this will be an exception to the policy, the decision to approve any financial assistance over \$150,000 is made by the board of directors (not a sub-committee) irrespective of any delegated approval that may exist and clearly recorded in signed minutes of the board meeting.
- In their annual operating plan, CFs are required to report on any loan issued over \$150,000 in the previous year, including number of loans, value of each loan and the rationale by which these loans have been awarded by the CF.
- Audited Financial Statements must indicate any 'exceptional loans' loans issued over \$150,000. Recommend note in the Audited Financial Statements to this affect.

**Key points on interpretation of the clauses related to exceeding \$150,000**

For the purpose of this calculation, the Total Investment Fund is determined as follows:

$$\text{Total Investment Fund} = c+d+e$$

The percentage of all loans exceeding \$150,000 is determined by the following calculation:

$$\text{Percentage of all loans exceeding } \$150,000 = \frac{a + b}{c+d+e}$$

a = Total principal amount outstanding for all loans currently above \$150,000

b = Full value of new loan request more than \$150,000.

c = Value of gross loan receivable;

d = Value of investment fund; and

e = Value of cash and cash equivalents.

- Total loans exceeding \$150,000 refers to the total value of all loans with principal amounts outstanding of more than \$150,000; this also includes approved loans that have not been disbursed. The full value of all loans over \$150,000 at the time of each assessment is included. As the loan value of any loan exceeding \$150,000 falls at/or below \$150,000, it is no longer considered a loan exceeding \$150,000 and is completely removed from that part of the equation (numerator).
- Attached, you will find three examples to better understand the Thirty per cent (30%) threshold. A worksheet calculator (with fillable fields) is also available for your convenience.

*For further information, please contact your regional WD CF officer.*

## **Appendix “C”**

### **Policy Bulletin**

# Interest Rates for Community Futures Organizations

Effective Date: November 1, 2019

#### **SUBJECT**

To establish an exception framework in which Community Futures (CFs) can charge interest rates less than the prime rate plus two percent.

#### **BACKGROUND**

The Community Futures Program Investment Funds are designed to provide access to capital to small and medium-sized businesses and entrepreneurs who are starting or expanding a business and are unable to access traditional financing. The terms and conditions (Ts &Cs) of the CF Program and Western Economic Diversification’s (WD) Contribution Agreement states, *“The minimum rate of interest charged on any loan from the Investment Fund will not normally be less than the prime rate plus two percent.”*

As part of the Community Futures Network of Canada (CFNC) proposal in 2017, CF organizations asked Regional Development Agencies (RDAs) for more flexibility in setting interest rates lower than the prescribed rate of prime rate plus two percent. This flexibility would allow CFs to respond to unique economic opportunities and/or to support industry sectors, while still ensuring they are not in competition with private sector lenders.

The Regional Development Agencies (RDAs) agreed on a common approach that provides guidance on the circumstances in which a CF may set interest rates lower than the prescribed rate.

#### **CONSIDERATIONS**

- Normal interest rates will continue to be prime rate plus two percent as per current program terms and conditions.
- Using interest rates between prime and prime rate plus two percent is only to be used in exceptional circumstances.
- Charging interest rates between prime and prime rate plus two percent is at the discretion of the CF organizations. For these rates, CF organizations will create their own policy guidelines to be approved by



their respective Board of Directors and shared with the WD.

- CFs need to continue to balance normal lending (prime plus 2%) with loans at lower rates in order to protect the integrity of their Investment Funds, ensure the health of their organization, and maintain their capacity to operate effectively.
- CFs must continue to document on file that the client has tried to secure conventional funding.
- Interest rates less than the prime rate is only to be used in emergency situations and is subject to WD pre- approval.

## **POLICY POSITION**

This policy covers conditions under which an individual CF may charge interest rates less than the prescribed rate on any loan from their Investment Fund as defined in the Contribution Agreement with WD. The minimum interest rate or the prime rate is the “prime business rate” set by the Bank of Canada<sup>1</sup>. It is also known as the minimum lending rate that banks and financial institutions use to set interest rates for loans and lines of credit.

<sup>1</sup>English - <https://www.bankofcanada.ca/rates/daily-digest/>; French - <https://www.banqueducanada.ca/taux/sommaire-quotidien>

## **Community Futures Program (CF)**

The Contribution Agreement defines Investment Funds as follows: “Investment Fund” means all the assets held in the fund established by the corporation to provide access to capital for small and medium sized businesses including:

- a) All amounts credited to the Conditionally Repayable Investment Fund;
- b) All amounts from all previous grants or non-repayable contributions made by the Minister to the corporation prior to the transfer of the program to WD, which would further include amounts transferred as grants or non-repayable contributions under any previous similar program conducted by the Government of Canada including all amounts credited to the Investment Fund of a Business Development Centre that received non-repayable funding from the Government of Canada, that has been transferred to the corporation by the Business Development Centre; and
- c) All revenues from loans and other investment fund activities, all revenues from investments out of the Investment Fund, and all repayments on account of principal in respect of investment fund activities less any losses incurred through the operation of investment fund activities and any amounts transferred from the Investment Fund to the operating costs as permitted in the Statement of Work – Investment section of the contribution agreement.

**As per the Terms and Conditions of the CF Program**, “*The minimum rate of interest charged on any loan from the Investment Fund will not normally be less than the prime rate plus two percent. The local CF Organization may charge lower interest rates for Social Enterprises*” Schedule 2.1 (viii).

**Attachment B, Section II A, 1 (ii) of the CF Program Contribution Agreement also states:**

*The responsibility for assessing and approving investment applications shall rest with the local CFDC’s Board.*

**Section 5.2 of the Contribution Agreement states:**

*The Corporation must provide a minimum of 30 days prior written notification to the Minister of: a) significant change or proposed changes to its operations; and proposed changes in articles of incorporation, Board structure and corporate policies.*

**Section 5.4 of the Contribution Agreement states:**

*The Corporation shall be required to develop and comply with corporate policies that are consistent with federal and provincial legislation and to provide copies of such policies to the Minister.*

As interest rates between prime and prime rate plus two percent are only to be considered on an exceptional basis, WD's position is that CFs must ensure that their internal investment review policies clearly lay out the conditions upon which they will consider interest rates below normal lending (prime plus 2%). CFs must provide WD with prior written notification of their intention to change their corporate policies to allow for the consideration of interest rates below normal lending rates as per section 5.2 of the Contribution Agreement and provide a copy of these policies to WD as per section 5.4 of the Contribution Agreement.

**Common principles:** For those CFs who wish to consider providing interest rates between prime and prime rate plus two percent to a qualified SME, a Social Enterprise or an EDP client, CF policies should include the following restrictions, as a minimum, in order to balance the risk profile of their Investment Fund and ensure the health of their investment portfolio:

**I. Interest rates between prime and prime plus two percent**

- Interest rates between prime and prime plus two percent are only to be considered on an exceptional basis,
- CF organizations must document on file that the financial assistance at a less than normal interest rate is essential to carrying out the project. Evidence of additional due diligence on loans with interest rates between prime and prime plus

two percent should be documented in the client file.

- Exceptional circumstances must be defined and determined by the CF organizations and could include financial need, economic opportunity, and/or ability to support industry sectors.
- As this will be an exception to the policy, the decision to approve rates between prime and prime plus two percent is made by the board of directors (not a sub-committee), irrespective of any delegated approval that may exist, and clearly recorded in signed minutes of the board meeting.
- All interest rates offered under exceptional circumstances must be reported to WD in the annual performance report.
- Audited Financial Statements must indicate any loans with interest rates between prime and prime plus two percent. Recommend note to Audited Financial Statements to this effect.

**II. Interest rates less than prime**

- CF Organizations must ensure that when using interest rates less than prime that they receive pre-approval from WD. Interest rates less than prime is only to be used in emergency situations such as natural disasters or economic downturns.
- The responsibility for assessing and determining situations that are deemed emergencies rest with WD and require prior written approval of the Minister.
- All interest rates offered under exceptional circumstances must be reported to WD in the annual performance report.
- Audited Financial Statements must indicate any loans with interest rates under prime. Recommend note to Audited Financial Statements to this effect.

*For further information, please contact your regional WD CF officer.*

# Appendix “D”

## Regional Relief and Recovery Fund

### Eligibility

- Small and Medium-Sized Enterprises (SMEs) located in non-metropolitan regions (all areas served by Community Futures organizations) in Western Canada.
- The SME must attest to their ineligibility for other federal government COVID-19 support programming such as the Canada Emergency Business Account (CEBA) or the Business Credit Availability Program (BCAP). If a business did not apply for the full amount for CEBA, (\$40,000) they will be eligible to top up the ask with RRRF to request the difference to a maximum of \$40,000.00.
- The small business must have been viable and not experiencing any liquidity or other financial difficulties as of March 1, 2020.
- The small business must have experienced a material adverse effect on business operations on or after March 1, 2020 because of the COVID-19 pandemic.
- Business established before March 1, 2020.
- Be a sole proprietorship, partnership (except professional services), corporation, social enterprise, or other similar organization.

### Eligible Expenses

- Operating expenses, payroll and other non-deferrable expenses which are critical to sustain business continuity.

### Approval Process

- It has been highly recommended CF's increase the ED approval limit to a ceiling of \$40,000.00 to dramatically decrease dispersment time (See agenda items: Revision to CFCWest Lending Portfolio Policy)

### Repayment Terms

- No interest accrual or principal payments through December 31, 2022
- If 75% of loan is repaid by December 31, 2022, the remainder of the loan is forgiven
- Interest rate set at 4% for blended principal and interest payments beginning January 1, 2023 and loans must be repaid by December 31, 2025.
- No prepayment penalties are charged during the duration of the loan
- No application fee will be charged.