

Community Futures Peace Country Lending Policy

The Community Futures Program Mission

The mandate of Community Futures (CF) is community and business development. Each CF delivers a variety of services ranging from strategic economic planning, technical and advisory services to businesses, loans to small and medium-sized businesses, self-employment assistance programs, and services targeted to youth and entrepreneurs with disabilities.

Access to Capital - Community Futures organizations (CFs) are developmental lenders. Priority is given to viable business ideas that result in wealth generation for the business and economic diversification for the community or region. CFs may invest in qualified business projects that shall not normally exceed \$150,000 outstanding at any one time. Terms and borrowing rates are competitive and tied to cash flow of the business.

Community Futures Peace Country Mission

To facilitate rural diversification through business and community economic development

Loan Policy Governance

1. Community Futures Peace Country operates as a Part 9 Company under the Alberta Companies Act.
2. Board of Directors
 - a. Community Futures Peace Country 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 Community Futures Peace Country staff under the direction of the Executive Director and/or General Manager.
 - b. These policies will be reviewed and updated as needed on an ongoing basis taking into consideration any changes in the business and lending environment, and with the approval of the Board of Directors.
4. Investment Review Committee (IRC)
 - a. An Investment Review committee will be used to assess and approve loan applications.
 - b. The IRC will be made up of all members of the Board of directors.

General Lending Policy

5. Community Futures Peace Country assists small to medium sized enterprises (SMEs) including Social Enterprises by providing repayable financial assistance in the form of loans, loan guarantees, or equity investments to enterprises located within the CF boundary region.
6. The responsibility for assessing and approving investment applications shall rest with the Community Futures Peace Country Investment Review Committee.
7. The maximum amount of financial assistance per SME or Social Enterprise will normally not exceed \$150,000 outstanding at any one time. By exception, Community Futures Peace Country

may consider approving a loan to a qualified SME or Social Enterprise in an amount greater than \$150,000, but less than \$400,000 in the following circumstances:

- a. Community Futures Peace Country has demonstrated that attempts to collaborate with the Business Development Bank of Canada (BDC) and/or other conventional lenders have been unsuccessful and ,
 - b. Where a Community Futures syndicated loan program is in place, attempts to collaborate with other Community Futures organizations have been unsuccessful, and
 - c. The total loan outstanding to a single client will not exceed twenty percent (20%) of Community Futures Peace Country total loan portfolio at the date of approval, and
 - d. There is a demonstration that additional due diligence has been undertaken during the loan assessment and loan approval process, and
 - e. Evidence of compliance to (7a and 7c) will be recorded to the client file.
8. Community Futures Peace Country shall ensure that the SME or Social Enterprise has made best efforts to access other sources of funding or commercial financing prior to providing financial assistance from the investment fund.
 9. The minimum rate of interest charged on any loan from the Investment Fund shall not normally be less than the bank prime rate plus 2%. For loans to Social Enterprises or loans to Entrepreneurs with Disabilities Program clients, an interest rate lower than bank prime plus 2% may be charged.
 10. Appropriate interest rates charged, terms, and conditions, for loans will be set by the Investment Review Committee and will vary depending upon the specific details of the loan including; assessed risk, the fund being accessed, and the loan type.
 11. Loans must be for a business that will create or maintain long term employment for Community Futures Peace Country residents.
 12. Loans can be made to establish, expand, or maintain a business.
 13. The minimum tangible investment by the client into the project being considered for approval by Community Futures Peace Country shall not normally be less than 10%.
 14. All loans will be assessed to ensure adequate character, capacity, conditions, capital, and collateral, as well as a fit to Community Futures Peace Country Operational Plan.
 15. Loans will be assessed to determine if they fit Government of Canada priorities related to economic diversification, including: value-adding, productivity, innovation, development of new markets and products.
 16. Loans will not normally be used to provide bridge financing.
 17. Community Futures Peace Country requires all loans to be covered by life insurance on key principals (owners and/or key employees) unless otherwise specified by the Investment Review Committee.
 18. Community Futures Peace Country requires loan clients to have a Provincial and Municipal Business Licenses (if applicable)

Loan Fund Account Considerations

19. General Investment Fund
 - a. All General Lending Policy considerations apply.
 - b. The interest rate charged for loans accessing this account will be no less than bank prime plus 2.0%.

20. Repayable Investment Loan Fund
 - a. All General Lending Policy considerations apply.
 - b. Since the Repayable Investment Loan Fund must be repaid to Western Economic Diversification (net of any losses), this fund could be considered only for lower risk loans.
 - c. The interest rate charged for loans accessing this account will be no less than bank prime plus 2.0%.

21. Youth Investment Loan Fund
 - a. The maximum available for youth under this program will be \$25,000.
 - b. The youth must be between the ages of 18 and 29 at the time of the application.
 - c. A well-thought out business plan is required.
 - d. Community Futures Peace Country may not be as stringent on the evaluation criteria on these loans, realizing that youth often do not have access to adequate security and may not yet have established a credit rating.
 - e. The interest rate charged for loans accessing this account will be no less than bank prime.

22. Entrepreneurs with Disabilities Fund
 - a. All General Lending Policy considerations apply.
 - b. 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 to entrepreneurs who do not have a similar disability or impairment. The business owner may verbally declare their disability or present a medical statement attesting to the disability when the disability is not evident to the staff member.
 - c. The interest rate charged for loans accessing this account will be no less than bank prime.

Loan Types

23. Term Loans (may be marketed under ReadyCash, TrailBlazer, TakeOver, NewBiz, BusinessAble product names or other product names to be determined by the Board).
 - a. Terms loans will be scheduled to be repaid over a pre-determined period of time (e.g. 36 months).
 - b. The interest rate charged for term loans will be no less than the rate of the account being accessed.

24. Line of Credit Loans (may be marketed as FlexLine or other product names to be determined by the Board).
 - a. Community Futures Peace Country will offer to clients Line of Credit Loans that will enable them to draw the value of the loan in blocks up to a set limit.
 - b. Interest will be charged on the outstanding loan amount on a monthly basis.
 - c. The interest rate charged for lines of credit loans will be 2.0% above the rate of the account being accessed.

25. Quick Cash Loans (may be marketed as FlexLine, ReadyCash, TrailBlazer, TakeOver, BusinessAble, NewBiz product names or other product names to be determined by the Board)
 - a. Existing clients in good standing will be offered access to small loans provided adequate security is in place.
 - b. The interest rate charged for quick cash loans will be 2.0% above the rate of the account being accessed.

26. Student Business Loans: Borrow Our Student Stash (BOSS)
 - a. Community Futures Peace Country will offer interest free loans up to \$3,000, to students wishing to operate a summer business.
 - b. Terms and conditions of the BOSS loans will follow the BOSS guidelines and policies.

27. Equity Loans – Community Futures Peace Country will not consider equity loans.
28. Quasi-Equity or Subordinated Debt
 - a. Community Futures Peace Country will not normally entertain Quasi-Equity or Subordinated Debt loans recommending instead a term loan or line of credit loan.
29. Loan Guarantees
 - a. Community Futures Peace Country will not normally entertain a loan guarantee, recommending instead a term loan or line of credit loan.
 - b. Community Futures Peace Country will secure the Guarantee with standard security, plus a tri-party agreement between the loan client, the CF and the conventional lender providing the loan or line of credit facility to the client.
 - c. Community Futures Peace Country will charge an annual fee to the client for this facility at a rate of 1.0% which is reviewed and if required, renewed annually.
30. Loans to Social Enterprises
 - 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. Ability of the Social Enterprise to in fact enter into debt. The Bylaws or Articles of Association must indicate the ability for the organization to borrow. As well, there must be a duly passed Borrowing Resolution enabling the organization to enter into debt.
 - ii. Social Enterprise loans will be assessed to ensure adequate; Character, Capacity, Conditions, Capital, Collateral, as well as fit to Community Futures Peace Country Operational Plan.
 - b. Loans must be for specific growth strategies (not emergency stop-gap measures).

Eligibility

31. The business must be located in the Community Futures Peace Country region, and the applicant must be involved in the day to day operation of the business.
32. The applicant must be of legal age and a resident of Canada.
33. Unless there are unusual or extenuating circumstances, applications will not come to the Investment Review Committee 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. A credit check has revealed a major credit problem;
 - e. The main purpose of the loan is to refinance current debt;
 - f. The applicant is unable to provide proof of residency.
34. The business provides/maintains employment to one or more residents of the Community Futures Peace Country region.
35. The loan(s) are to establish, expand, or preserve a business within the Community Futures Peace Country region.
36. The applicant must declare they have been declined financing by a traditional lender.
37. Community Futures Peace Country requires copies of “Trade Certificates” for loans to trades related businesses.

38. The applicant must have completed a Business Plan acceptable to Community Futures Peace Country.
39. The applicant must complete all other required application forms plus any additional documentation requested by Community Futures Peace Country.
40. The applicant must have proof of personal equity investment in the business. A minimum of 10% equity is required by Community Futures Peace Country based on the lesser of cost or market value.

Lending Process Policy

41. **Community Futures Peace Country will follow the lending process, procedures, and recommendations outlined in the Alberta Community Futures Lending Process manual ACFLP (see ACFLP manual for details).** In general, this will include:
 - a. Application processes
 - i. Conducting an initial client interview.
 - ii. Reviewing with the client the loans process and the services available through Community Futures Peace Country.
 - iii. Supplying a complete application package and documentation required if the client appears to meet basic eligibility requirements.
 - b. Application Administrative Process
 - i. Ensuring Application fees accompany the application
 - ii. Ensuring Administration fees are paid upon loan approval
 - iii. Completing a checklist to ensure the application is complete
 - iv. Application will be documented in TEA
 - c. Assessment Process
 - i. The Business Analyst and/or Loans Manager will investigate all elements of the application under 6 key areas including;
 - a. Character – Including credit checks, references, management capability
 - b. Capacity – Including assessing the business plan and cash-flow
 - c. Conditions – Includes market conditions, labour force situation, plus political, environmental, social, and technological considerations.
 - d. Capital – Including owners equity, assets, and resources
 - e. Collateral – Community Futures Peace Country will undertake to secure loans following the recommendations of margined security value and repayment periods outlined in the ACFLP manual.
 - f. Fit to Community Futures Peace Country Operational Plan (i.e. number of jobs created/maintained, diversification)
 - ii. The Business Analyst and/or Loans Manager will then complete an Investment Review Committee loan summary report providing an overview of all the information in each of the key areas addressed during the loans investigation process.
 - iii. The Business Analyst and/or Loans Manager will then submit the summary report along with all appropriate supporting documentation to the Investment Review Committee.
 - d. Approval Process
 - i. Loan application(s) greater than \$20,000 for any applicant will be reviewed by the Investment Review Committee.
 - ii. Loans less than or equal to \$20,000 may be approved by the General Manager and Business Analyst, and will be reviewed by the Investment Review

Committee at their next scheduled meeting providing minimum collateral requirements have been met as outlined in the Alberta Community Futures Lending Process manual.

- iii. The role of the Investment Review Committee will include:
 - a. Ensuring the application meets all eligibility criteria.
 - b. Reviewing and confirming the recommendations and ratings contained in the Investment Review Committee Loan Summary Report.
 - c. Confirming the required equity contribution by the loan applicant.
 - d. Requesting any additional information as needed.
 - e. Approving the repayment schedule for the loan applicant.
 - f. Approving or rejecting the application(s) (pending additional information as needed).
 - g. Determining loan terms and conditions.

- e. Disbursement Process
 - i. The General Manger or Business Analyst will inform the client immediately following the Investment Review Committee decision.
 - ii. A Business Loan Agreement will be prepared for the client.
 - iii. A Checklist for the Legal File will be used to ensure all items required are addressed prior to releasing funds.
 - iv. TEA will be used to track client contacts and information relating to payments, history and comments.
 - v. Clients will be required to provide regular financial and business updates as determined in the conditions of the loan agreement.

- f. Rejected Applications/Appeal Process
 - i. The General Manger or Business Analyst will inform the client immediately following the Investment Review Committee decision meeting.
 - ii. The applicant will be sent a letter outlining the rejection.
 - iii. Appeals will be addressed by the Investment Review Committee only.
 - iv. Appeals must be made in writing
 - v. The appeal decision by the Investment Review Committee will be final.

Loan Monitoring - Community Futures Peace Country will follow the loan monitoring process, procedures, and recommendations outlined in the Alberta Community Futures Lending Process manual (ACFLP) for monitoring clients and the status of the complete loan portfolio (see ACFLP manual for details). In general, this will include:

42. Client Monitoring Policy

- a. The Business Analyst and/or Loans Manager will monitor each loan client on a regular basis through personal contact at a minimum of twice per year.
- b. A Loan Client Monitoring Checklist will be completed on each client near the anniversary of the loan.
- c. The checklist will verify key documentation remains in place, and to 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.
- d. Client monitoring information will be recorded on an "Investment Fund Status Report".
- e. Clients that fail to report will be subject to specific remedies outlined in their Business Loan Agreement.

43. Loan Renewal

- a. Loan renewals may be brought forward to the IRC for approval.
- b. Renewal shall be offered automatically unless there has been a problem 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
 - iii. The client's "5C" rating dropping to a "Needs Improvement" rating for any category at the time of approval.
 - c. Loan renewals shall be dealt with by the IRC the month before the Renewal Notice is to be sent.
 - d. Renewal notice shall be sent to the client three (3) months in advance of the renewal date (loan expiry date) by registered mail.
 - e. Where a client has not accepted the terms of the renewal as evidenced by the client not signing the renewal notice 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 IRC.
 - f. Where the loan is not renewed on or before the renewal date, but is renewed at a later date, the client shall pay interest on the principle outstanding at the interest rate as per the offer to renew from and including the renewal date until the first payment is due pursuant to the renewal terms and conditions, with all outstanding interest to be due and payable as at the date the first payment is due and if such outstanding interest is not paid, then the interest shall be added onto the principle of the loan.
44. Closing the File
- a. Community Futures Peace Country will send the loan client a letter thanking them for their business complete with summary details of the loan including principle and interest paid
 - b. Security will be released upon full payment of the loan plus any other amounts owing.
45. Loan Portfolio Monitoring Policy
- a. Credit worthiness of the portfolio
 - i. The Loans Manager and/or Business Analyst will maintain an Investment Fund Status Report (IFSR) (See ACFLP manual)
 - ii. The IFSR will include:
 - a. A client summary listing including:
 - i. Loan balance
 - ii. Security held
 - iii. Current value estimate of security held
 - iv. Status of the security held
 - v. Loan arrears
 - vi. Exposure to loss
 - b. A Portfolio summary listing including:
 - i. Value of the loan portfolio
 - ii. Total loan portfolio exposure to loss
 - iii. An assessment of the credit worthiness of the loan portfolio.
 - iv. An overall portfolio rating score
 - v. Bad debt rate
 - b. Reporting to the Board of Directors
 - i. An Investment Fund Status Report will be presented to the Board of Directors at least once per year on or before February 28th of each operating year.

Arrears Policy - Community Futures Peace Country will follow the arrears process, procedures, and recommendations outlined in the Alberta Community Futures Lending Process manual ACFLP (see ACFLP manual for details). In general, this will include:

46. Problem Accounts, Foreclosure

- a. A schedule of all loans, payments due, due dates, and client contacts will be maintained by Community Futures Peace Country staff.
- b. A monthly "Exception Report" will be completed by Community Futures Peace Country staff and will be presented to the Board of Directors.
- c. Any client that has missed two or more payments in the current fiscal year must be reported to the Board of Directors.
- d. Community Futures Peace Country staff will be expected to implement the specific procedures outlined in the ACFLP manual for clients in arrears after:
 - i. 15 – 30 days in arrears;
 - ii. After 2 or more payments are in arrears;
 - iii. After payments are more than 90 days in arrears.

47. Foreclosure

- a. The decision to foreclose on a loan client will be made by the Investment Review Committee.
- b. Following file review and receipt of Board or IRC approval, Community Futures Peace Country staff may approach the client with a Voluntary Release form (Quit Claim) expressing to the client that it is in his/her best interest to sell the assets and get out of debt.
- c. If the client agrees to the Voluntary Release Form - the collateral/security is taken and sold. The monetary value is split with first rights to Community Futures Peace Country and any funds left over will go to the client. (Assuming there are no other encumbrances). If there is a default, arrangements are made with the client to repay the shortfall.
Note. Community Futures Peace Country staff must have completed a full research of all encumbrances including priority encumbrances including CCRA, WCB to gain a full and complete understanding of the net resale value of the assets that are being considered for seizure or voluntary release. Further, Community Futures Peace Country must ensure that adequate and proper insurance coverages are in place prior to acceptance of the formal release as signed by the proper client authorities.

48. Seizure

- a. If the client refuses to sign a Voluntary Release of security, Community Futures Peace Country staff will look into legal action for seizure of assets.
- b. Assets will be seized, stored, and sold to the highest bidder.
- c. If the sale of the security is not enough to pay off the loan in full, the General Manager will send a letter to the client demanding final settlement.
- d. Should it be deemed advantageous, the services of a collection agency may be solicited at this time, (if final settlement is not made).
- e. While repayment will continue to be pursued, loans shall be written off as bad debts after a continuous period of one (1) year expires with no payments being received or earlier depending upon agreements reached with the client. The amount to be written off shall include current Principal from date of last payment. Unpaid interest since the date of last payment shall be cancelled.

Performance Policy

49. Interest Rates

- a. Shall average commercial bank rate plus 3%.

50. Loan approval time

- a. The Investment Review Committee (IRC) will meet in a timely fashion to ensure loan approval times of no more than **10** business days from the time completed applications are submitted by the borrowing client to Community Futures Peace Country staff
- b. The IRC will reduce loan approval times by making use technologies such as faxing, emailing, teleconferencing, and/or secure internet site meetings.

51. Number/Value of Loans made/year
- a. Community Futures Peace Country will make a minimum number of 12 loans/year
 - b. Of the number of approved loans, Community Futures Peace Country will make a minimum of 20% to businesses that achieve priority targets as established by Community Futures Peace Country in its annual Operating Plan and or that align with Government of Canada priorities.
52. Cash on hand
- a. Community Futures Peace Country 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 shall normally not exceed twelve percent (12%) of the total value of the investment fund at any one point in time.
 - b. Community Futures Peace Country shall undertake to deposit investment fund cash on hand in excess of twelve percent (12%) of the current value of its investment fund portfolio into the professionally managed/administered Community Futures Lending & Investment Pool (CFLIP).
53. Loan Portfolio Performance Targets
- a. Loan portfolio "Credit Worthiness Score" (*See Investment Fund Status Report*) will be above **4.0**
54. Bad Debt Rate - will be no greater than 2.5% less than Community Futures Peace Country lending rate or 5.0% annually.
55. Marketing Policy
- a. Community Futures Peace Country will maintain and implement a formal marketing and networking plan to contact other lenders, accounting firms, lawyers, employers, and business groups in order to achieve performance targets.

Approval & Amendments

Lending Policy Document	Date	Minute Number
Approval		
Amendment 1		
Amendment 2		

General Manager

Chair

Vice Chair