Middlesex County Community Futures Development Corporation

Loan Fund Policy

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# Objective

The objective of this Loan Fund Policy is to serve as a tool for more efficient and effective operation of the investment fund. Specifically it intends to:

* Define and assign the roles and responsibilities of all involved parties.
* Offer guidance and restrictions to General Managers, Loan Managers and the Board of Directors regarding the investment of CFDC loans.
* Establish a basis for evaluating the suitability and risk of investment opportunities.
* Ensure consistency of the decision making in regard to investments by CFDC staff and the Board of Directors.

# Roles and Responsibilities

## General Manager

* May be given authorization to approve loans up to $25,000.
* Report all loans under $25,000 to the Board of Directors.
* Review and make recommendations to the Loans Committee/Board of Directors on all Loan Application Proposals which fall within the financial limit $250,000.

## Loans Committee

* Unanimous approval required for all loan applications otherwise the loan application will be sent to the Board of Directors for review and authorization.
* Report all loans over $25,000 and under $250,000 to the Board of Directors.
* Review and make recommendations to the Board of Directors on all Loan Application Proposals which fall within their authorized financial limit.

## Board of Directors

* Review, and make decisions on, all Loan Applications received from the loans committee

# Authority Levels

## General Manager

* May be given authorization to approve loans up to $25,000.
* Review and make recommendations to the Loans Committee/Board of Directors on all Loan Application Proposals which fall within the financial limit $250,000.

## Loans Committee

* Authorization of loans where applicable up to $250,000.
* Unanimous approval required for all loan applications otherwise the loan application will be sent to the Board of Directors for review and authorization.
* Review and make recommendations to the Board of Directors on all Loan Application Proposals which fall within their authorized financial limit.

## Board of Directors

* Review, and make decisions on, all Loan Applications received from the loans committee when the loans committee has not approved an application on an unanimous basis.

Joint Loans

The CFDC may collaborate with one or more local CFDCs to provide financial assistance to SMEs or Social Enterprises in cases where there is a demonstrated benefit to their local region. In such situations each participating CFDC may provide up to $250,000 in financial assistance.

# Loan Fund Eligibility and Restrictions

## Eligibility

Financial assistance shall only be provided to business projects:

* In which the principals have or will have a financial involvement to a degree that the Committee deems reasonable in relation to the principal’s own wealth and to the funding requirements of the project;
* That would employ predominately local people in respect of the jobs created; and
* That, in the judgment of the General Manager and/or Loans Committee and/or Board of Directors, the business has a reasonable expectation of economic viability and ability to repay the loan.
* To be eligible, business enterprises applying for assistance are to be located within the CFDC’s jurisdiction.
* There will be no restriction on the sector of the enterprise eligible to receive assistance, with the exception that the proposed enterprise must:
* Be suitable for public funding (i.e. not involving the commercial exploitation of sex, religion, politics or illegal activities);
* Indicate commercial viability; and
* Demonstrate an ability to repay funds advanced on a loan or equity participation basis.
* To be eligible for assistance, the proposed enterprise must demonstrate that it has the potential for new job creation or job maintenance within the CFDC’s jurisdiction. Loans can be made to establish, expand or maintain a business.

## Additional Restrictions

* Applicants for financial assistance should be encouraged to first apply to a commercial lending institution and shall not be provided with financial assistance from the Corporation unless they are unable to obtain adequate financing from them;
* No member of the Board of Directors, or of the immediate family of either body shall receive assistance;
* No grants, contributions or forgivable loans will be made by the CFDC under the Investment Fund;
* Employees of the CFDC and their immediate family are restricted from receiving assistance;
* Applicants who are in a status of un-discharged bankruptcy are not eligible for financial assistance during this time;
* Applicants who have declared bankruptcy two or more times are not eligible for assistance; and
* Loans solely for the purpose of consolidating debt will not normally be considered.

## Connected and Related Parties

A connected person is defined in relation to the borrowing member as a person or entity as described below:

* A body corporate in which the person or entity holds or beneficially owns, directly or

indirectly, at least 35% of the voting securities.

* + An affiliate of a body corporate as described above.
	+ A person or entity that has a 50% interest in a partnership in which the person or entity also has a 50% interest.

* + A partnership in which the person or entity is a partner.
	+ A trust or estate in which the person or entity has a substantial beneficial interest.
	+ A trust or estate in respect of which the person or entity serves as a trustee or in a similar capacity.
	+ A person or entity on whose financial resources the person or entity depends to repay a loan to the CFDC.
	+ A person or entity that provides security to the CFDC for a loan to the person or entity.
* In relations to an individual, if another individual is one of the following:
	+ A spouse of the individual who is financially dependent on the individual.
	+ A relative of the individual or of the individual’s spouse who lives in the same home as the individual and who is financially dependent on the individual or spouse.
	+ Loans may not be provided to connected or related parties.

# Types of Loans

## General Term Loan

The term of these loans will be a maximum of five (5) years with a maximum amortization period of fifteen (15) years, and will reflect the purpose of the loan and the life expectancy of the assets pledged as security for the loan.

The Loans Manager, General Manager, Loans Committee and/or Board of Directors shall establish the terms of principal and interest payments to suit the particular business situation.

Full draw down of the approved loan amount will normally happen within 6 months of the date of approval by the Loans Committee/ Board of Directors.

Monthly principal and interest payments will normally commence within 30 days of the funds being advanced.

Principal payments may be postponed at the discretion of the General Manager /Board of Directors for a period not greater than six (6) months. Conditions affecting such arrangements may be seasonality of the business, cash flow cycles or new business startup situations. Should principal payments be postponed, they will either be increased so as to keep the loan within the term originally authorized for the loan or will be subject to a term extension.

## Types of General Loans

### Short-Term Loans

The Corporation may, at the discretion of the General Manager/ Loans Committee/ Board of Directors, undertake Short- Term Loans of this nature where an applicant is unable to obtain suitable credit from the chartered banks. Such loans would be secured by specific assignment of accounts or contracts.

### Medium-Term Loans

Medium-term loans are those that generally are to be repaid within a one (1) to five (5) year period. Loans of this nature are usually required by a business for the purchase of capital assets or leasehold improvements that are subject to depreciation.

The Corporation may undertake loans of this nature when an applicant is unable to obtain suitable credit from the chartered banks, general acceptance corporations or the Business Development Bank of Canada.

### Long-Term Loans

Long-term loans are those that generally are to be amortized over a longer period, depending on the life of the asset. Loans of this nature are usually required by a business for the purpose of acquiring fixed capital assets such as land, buildings or major plant facilities that do not depreciate significantly over the long term.

The Corporation may undertake loans of this nature when other lenders have refused suitable credit; however, in cases where the Corporation advances loans of a long-term nature, it shall be required that the loan be secured by a real property mortgage, registered in the name of the client, Corporation and/or a specific charge over equipment.

Long-term loans may be amortized from 10 to 15 years, with 10 years as being the norm and 15 years as the exception.

## Micro Business Loans

There are two types of Micro Business Loans; a Business Enhancement Loan and a Business Start-up Loan. The following applies to both types of loans:

* The maximum loan amount is $25,000.
* Funds may be used for, but not limited to: renovations, leasehold improvements, inventory purchases, equipment and other fixed assets, marketing related expenses, as well as staff training and certification costs.
* Only sole proprietors, partnerships, corporations, and not-for-profit corporations may apply.
* Business must be located within the CFDC’s jurisdiction.
* A family unit owning more than one business can apply for micro business financing for each individual business if they can clearly demonstrate that their financial records and tax reporting are not consolidated and that the respective businesses are not substantially inter­dependent
* A business is eligible for only one Micro Business Loan at any given time
* Repayment terms based on amount borrowed and available cash flow with a maximum term of five (5) years.
* First twelve months may be repayable on an interest only basis. Thereafter the principal will be repaid over the remainder of the established term, commencing on the first anniversary of the loan disbursement date.
* First payment is due thirty (30) days from loan disbursement or first advance.
* Loans are repayable at any time without penalty

Security is a Promissory Note executed by the owner(s) or majority shareholder(s) of the business, together with a General Security Agreement registered under the Personal Property Security Act forming a non-specific charge on the assets of the business and/or borrower.

The following only applies to Business Enhancement Loans:

* Funds must be used to enhance, sustain and/or improve the business
* Applicants must have been in business, whether part-time or full-time for period of no less than one year.

The following only applies to Business Start-up Loans:

* Funds must be used to establish a new business within the CFDC’s jurisdiction.
* Applicants cannot be currently in business, whether part-time or full-time, nor have operated a business in the year preceding date of application.

# Risk Assessment and Interest rates

The General Manager/ Loans Committee/ Board of Directors may fix or vary the rates of interest payable on loans.

The current interest rate, effective the date of policy approval, shall be a minimum of 2% above the chartered banks’ prime rate. The rate offered to the customer should be directly related to the risk assessment score achieved based on the below criteria.

Interest rates are based on a risk/return analysis. All applications may be evaluated on the criteria set out below where applicable. The following is a list of risk analysis criteria:

* Management experience;
* Age of business;
* Market competition and customer loyalty;
* Credit history;
* Ability to cover household expenses without income from business;
* Home Equity;
* Financial debt leverage ratio;
* Working capital ratio;
* Cash flow and debt service ratio;
* Quality and size of security; and
* Industry the business operates in.

# Loan Terms and Conditions

The conditions attached to loans shall be included in the Offer to Finance, the intent of the conditions shall be to:

* Ensure loan repayment
* Secure the debt with the best available security
* Two types of conditions can be attached to the loan.

Conditions Precedent – condition(s) that must happen before the loan is advanced. The conditions may or may not be within the client’s ability to change. They could, for example, include special licensing by a governing body, specific financial performances by the client or appraisals to verify the value of assets such as real estate.

Other conditions – conditions attached to loans that include but are not limited to the following items:

* Who will receive the funds – through third parties such as solicitor, who in turn may direct funds to supplier(s), tax department(s) and to client
* When funds are to be disbursed – immediately or a series of payments based on future events or performance goals
* What purposes the funds may be utilized for by the Borrower (e.g.; the Borrower must buy equipment only)
* How long the loan offer is available to the Borrower
* How payments shall be made – typically the loan offer will request pre-authorized automatic bank transfers
* Description of reporting obligations of the Borrower – provision of monthly financial reports, copies of tax remissions, copies of supporting invoices, proof of staffing or copies of payroll reports, etc.

Restrictive Covenants

The conditions attached to loans may include, but not be restricted to the following restrictive covenants:

* Limits on future borrowing
* Limits on future capital expenditures
* Restrictions on the payment of dividends or repayment of shareholders’ equity or shareholders’ loans
* Restriction on disposal of capital assets owned by the business
* If the business moves out of the CFDC’s jurisdictions they would have to repay the loan.

## Terms of financing

When establishing terms made by the General Manager/ Loans Committee/ Board of Directors, the following criteria should be used as guidelines:

* Clients must make payments on principal at least monthly, unless authorized by the General Manager/ Loans Committee/ Board of Directors.
* Clients must make interest payments at least monthly, unless waived by the General Manager/ Loans Committee/ Board of Directors. This ensures that if a payment is missed, follow-up is quick and timely, both from a collection aspect and from the aspect of providing counselling assistance to cut short a client’s potential problem before it becomes a major problem.
* Working capital loans and micro business loans shall usually be for a shorter term than conventional loans; the duration to be fixed in the Offer to Finance.
* The term of any loan should not exceed the estimated life time of the assets held as security and, in any event, should not exceed the maximum of five years unless, at the discretion of the Board of Directors a loan of longer term may be approved.

* Loans with amortization terms greater than five years should be restricted to purchase of fixed assets such as land and large pieces of equipment. These loans should be secured with land, buildings or equipment with an expected life greater than the amortization period of the loan.
* The date assigned for the first payment shall generally be within 30 days of the first advance. Where loans are made with several advances over a period of time, principal payments commence within 60 days of the last advance. In the interim, interest is paid monthly. There can be no more than 6 months between the first advance and the last. If a longer period is necessary, the extension must be presented to the Loans Committee/Board of Directors for approval with a full explanation and analysis. The Loans Committee/Board of Directors is under no obligation to extend the advances if they feel the risk is higher than when the loan was first approved. The Offer of Finance must include the clause that the last advance must be taken within 6 months of the initial advance.
* All adjustments and/or changes to the terms of financing of any client which have been agreed to by the General Manager/ Loans Officer and must be reported to the Board of Directors monthly.

# Loan Application Process

## General Policy

The organization shall make available to clients, written information about the loan application process and shall arrange to conduct as many interviews as necessary with clients in order to counsel, assist and prepare them to make an application or to pursue other options for financing based on available information.

No loan application will go forward unless a business plan or written financing proposal is presented.

The General Manager and the Loans Officer will be the only staff persons who have responsibility for taking and processing loan applications.

The process will include but will not be limited to the following steps (not necessarily in chronological order):

* Taking and responding to inquiries;
* Counselling;
* Review of the written proposal and/or business plan;
* Completion of the loan application, and other supporting documents, by client;
* Review of the loan application;
* Conduct of due diligence (research, verification) by the CFDC staff;
* Consider potential environmental impacts and the potential need for an environmental assessment;
* Analysis of the information;
* Preparation of a risk assessment based on the factors identified in the risk assessment section;
* Review of the total application package; and
* Preparation of Loan Recommendation Report for presentation to the Loans Committee/ Board of Directors.

After the internal review process is completed, and when the Loans Officer and/or the General Manager are satisfied that all required information has been assembled and that the application is ready to go forward, the application will be sent to the Loans Committee/ Board of Directors for the next available meeting date.

## Inquiries

Any staff member may respond to a telephone or in-person inquiry. A written record of the inquiry must be recorded into the customer information database. If the form is completed by staff other than the General Manager or Loans Officer, the information must be passed to the Loans Officer who shall follow-up all on inquiries within 2 business days.

At the time of the initial conversation with the Loans Officer he/she will obtain details about the proposed project; outline options available to a potential applicant; and/or refer clients to other programs or lenders, if appropriate. The client may then be booked for a consultation interview and advised that a written proposal or business plan is a prerequisite for serious discussion of the client’s proposal.

All intake forms and related documents should be given to the administrative assistant in order to create a file.

## Counselling

The initial consultation between the Loans Officer and the client may take place at the CFDC or at the client’s proposed location or current place of business. The Loans Officer will review any written material presented by the client and attempt to learn as much as possible about the business idea.

Detailed information will be provided to the potential applicant, which will include but is not limited to the following:

* The CFDC makes available such amounts as specified under the authority section in the form of a loan or equity investment to a small business;
* The loan request must be for the purpose of a business start-up or the expansion of an existing business;
* The business must operate within the CFDC’s jurisdiction;
* The business must create and/or maintain employment within the CFDC’s jurisdiction;
* Interest rates are based on both the board policy and the a risk analysis criteria;
* Repayments are flexible and will be negotiated in the best interest of the business;
* Clients are required to invest some of their own money into the business to demonstrate a real commitment to the business (normally a minimum of 10%);
* Clients must demonstrate a history of honesty and integrity in their dealings with creditors and other business contacts;
* Clients should have experience and the necessary skills required to succeed in the business venture;
* Clients must demonstrate a serious commitment to making the business work and paying back the loan even if the business fails;
* Security on personal assets will be requested; and
* Clients are required to prepare a written proposal and/or business plan showing how much money is required and presenting evidence of an ability to generate sufficient funds to repay the loan and support other goals such as job creation.

A number of further consultation interviews may follow over an unspecified period of time; this is determined by the nature and complexity of the proposal and the client’s ability to meet all requirements.

## Business Plan

A chief requirement in order for the loan application to move forward is the development of a business plan and/or a written proposal by the client. Some clients may have this done when they make the initial approach to the CFDC; others will need to develop it throughout the course of the consultations with help from the Loans Officer, an external consultant or by their own efforts.

The amount of the loan request will determine the complexity and detail required in the business plan. A detailed business plan may include, but is not limited to the following subject, to the requirements stipulated by the Loans Officer:

* Executive Summary;
* Description of the industry – outlook, trends, markets, size of market, market share
* Description of the business venture – product or service, target market, competitive advantage, brief history, staff and equipment needed;
* Marketing plan- sales strategy, distribution, pricing, promotion, guarantees;
* Sales forecast – assumptions, price lists, monthly forecast for coming year, annual forecast for 2-5 years;
* Production planning (manufacturing) – description of the production process, plant requirements, machinery and equipment, raw materials, inventory requirements, suppliers, personnel, cost of facilities, capital estimates;
* Production plan (retail or service) – purchasing plans, inventory system, space requirements, staff and equipment required;

* Corporate structure – organization chart, principal shareholders, lists of contracts in force,
background of key management personnel, duties and responsibilities of key personnel;
* Risk assessment – possible competitor reaction, list of critical internal and external factors, contingency plan;
* Other financial – list of inventory, purchase orders, aged payables, aged receivables
* Action plan – steps to accomplish the set goals and targets, check points for measuring results;
* Photos, diagrams, layouts;
* Copies of major contracts, lease, partnership agreements franchise information, letters of intent;
* New businesses should also include business license(s), building inspections, environmental assessments, insurance information (personal, liability, and assets), business name registration, HST applications; and
* Consideration of potential environmental impacts.

## Loan Application and Screening

At any point that the Loans Officer thinks the project has the potential to be viable; he/she will ask the client to complete the CFDC Loan Application. The purpose of the loan application is to capture detailed information about the client’s financial background, nature and amount of loan request and pertinent information such as net worth, references, etc.

The applicant must complete the application and return it to the CFDC. If assistance is required with aspects of the application such as the cash flows, appointments may be arranged for this to occur.

The Loans Officer will review the application to ensure all information is complete and will then arrange to meet with the applicant to discuss the business idea in detail, to determine its merits as well as determine the skills and strengths of the applicant.

If not already done, a site inspection must be performed along with an inspection of collateral assets. All other collateral must be confirmed and verified. Loan references must be identified.

## Analysis and Performance of Due Diligence

The Loans Officer must conduct a thorough investigation of the venture. Areas for examination are character of the applicant, credit (credit check), and capital available, collateral and capacity.

The Loans Officer must assess the project and other aspects of the proposed loan to ensure that they comply with program terms and conditions and agree with the policies approved by the board. The balance between risk and economic benefits to the area must be weighed.

The Loans Officer will:

* Evaluate the business’ product line, marketing strategy and competitive position;
* Analyze the management capabilities of the business;
* Examine the financial condition of the business; and
* Note conditions of the economic sector or industry.

## Completion of the Loan Application Proposal

The Loans Officer will determine when there is sufficient data for the loan application to move forward to the General Manager/ Loans Committee/Board of Directors. The Loan Proposal must be prepared in anticipation of the meeting. All supporting documentation must be attached.

## Loan Application Proposal

All loan application proposals presented to the Board of Directors or Loans Committee should be presented in a consistent and objective manner. The Loans Committee/Board of Directors should determine and approve what information and documentation should be within each and every proposal.

The Loan Application Proposal should be distributed to the Board of Directors and/or Investment Committee at least 5 days prior to the Board of Directors or Loans Committee meeting at which it will be presented.

# Criteria for Approval

All applicants must have completed, in full, the CFDC’s Business Loan Application and must have signed authorizing the CFDC to obtain any information it deems necessary, including reports from credit bureaus, retail credit companies and any other sources it deems appropriate.

In order to make their decision the Loans Committee and/or Board of Directors will need to be presented with the relevant information, for example, financial statements, business proposal, credit history and contracts. The same documents and information should be obtained for all loan applicants however they may vary in complexity due to the sizes of the businesses.

The following documents should be provided by the loan applicant for each loan where applicable:

* Completed and signed Personal Financial Statement
* The most recent 3 years’ financial statements (if applicable), including income statement, balance sheet and accompanying notes.
* If yearend is more than 3 months past, most recent in-house interim financial statement, including balance sheet and income statement.
* Aged listing of accounts receivable and accounts payable as at most recent business year end and as at most recent month end.
* Business Plan including an Executive Summary and cash flow projections.
* Completed and signed Environmental Checklist for each location where the business operates and for any property to be acquired or new location to be established when financing.
* Detailed project costs for which financing is being requested. Copies of applicable quotes, Purchase and Sale Agreements will be required.
* Details of existing financing for business in place, as well as new financing being arranged with lenders besides Middlesex County Community Futures Development Corporation.
* Copy of Articles of Incorporation for companies, Partnership Agreements, and business trade name registration where applicable.
* Detailed list of property, equipment, vehicles, etc. providing details, make, model and serial number or VIN for equipment and vehicles; with an estimate of current market value as well as a copy of any existing appraisals for property or equipment that may be held.
* Copy of lease for leased premises, or Offer to Lease where applicable.
* Copy of government remittances.
* Copy of tax returns and notices of assessments for applicant(s) and those providing personal guarantee.

A checklist that identifies the documents that should be on file for each loan applicant, this should be maintained for each loan application. Once a file is completed, the General Manager should also review the file to ensure that all key documents are on file.

Prior to making a loan, the Loans Committee/ Board of Directors will require that the applicant’s proposal be considered for approval based on the following:

## Character of the Owner/Manager

The applicant’s character, integrity and credit rating offer an important guide to his/her performance for the future. It also includes management capability, work experience, previous training, age and health and initiative and necessary skills for carrying out all aspects of the business proposal. For consideration also, are legal proceedings or lawsuits outstanding against the applicant. The CFDC staff will make assessments on the basis of personal interviews with the applicant and character reference checks. The CFDC will use the generally accepted sources of credit information.

## Capital

Assessment factors shall include:

* Reasonable personal commitment to the enterprise
* Adequate financing, including the CFDC loan and other investors (lending institutions, BDC,
other) to ensure that the enterprise will have sufficient investment and working capital

## Capacity

A realistic cash flow shall indicate that the business will be able to cover: repayment of principal and interest on the funds advanced by the CFDC and/or any other lenders, to cover operating costs, provide owner/operator with personal income.

## Collateral

* Value of the collateral, less costs to re-possess and resell, should provide a reasonable value in relation to resale value and the associated risk. Collateral assessment shall take into account
* Liquidity of the asset (ease to take ownership and re-sell)
* Importance to the loan applicant so that there is a strong material incentive to avoid repossession
* Collateral free and clear of encumbrances
* Order of priority of creditors

## Quality of Business Plan

The amount of the loan request will determine the complexity and detail required in the business plan. Contents of a sufficiently detailed business plan can be seen in the “Loan Application” section.

## Insurance

Applicants must have or acquire adequate insurance against fire, theft, public liability, property damage.

Normally all loan applications must provide for assignment of life insurance or purchase of life insurance through the CFDC to cover the loss of the loan.

## Staff Due Diligence

The CFDC Loans Officer will conduct thorough research and analysis of all the above aspects to assess the business plan as realistic, thorough and able to be implemented. As well, all legal documents, compliance to legislation from all levels of government, registrations, etc. must be explored and confirmed.

Consultants will conduct site visits and take digital photos of sites, buildings and equipment

Serial numbers on equipment shall be verified.

Particular emphasis should be paid to real property, including:

* Buildings – for new construction, engineering and architectural plans to be prepared by qualified professionals; site plan environmental implications, time allowed for delivery and installation of equipment and purchase of raw materials; cash flow for building stage of the proposal.
* Land – tenure of the land/buildings to be secured for a period at least equal to the number of years of amortization of the proposed loan
* Up-to-date professional appraisals of land, buildings and equipment may be required
* New construction – engineering and architectural plans to be prepared by qualified professionals: site plan, environmental implications, time allowed for delivery and installation of equipment and purchase of raw materials; cash flow for building stage of the proposal

# Security

## Types of Security

In all cases the General Manager/ Loans Committee/ Board of Directors will attempt to obtain adequate security to ensure repayment of advances under default. This objective requires flexibility given the primary objectives of job creation, economic development, and providing an alternative to conventional lending sources.

Types of security frequently taken include, but are not limited to, the following:

* Real Property Mortgage / Assignment of Insurance
* Promissory Note
* General Security Agreement
* Personal Guarantee
* Subrogation / Postponement
* All-inclusive Life Insurance
* Assignment of purchase and sale agreement; contracts, trade accounts receivable, and any rents, leases, proceeds
* Financial instruments such as stocks, bonds and debentures that can be verified, provided the instruments are unencumbered at the time of commitment

## Valuation of Security

At the time of the loan application, the Loan Officer/General Manager will provide on the loan proposal summary, an estimated realization value of security. Where there exists a shortfall between the estimated realization value of the security, and the amount of the loan proposed, the Loan Officer/General Manager must raise as a risk on the loan proposal summary for review by the Loans/ Committee/ Board of Directors. Estimated values will be based on, but not limited to the following, with discount for realization:

### *Property*

An evaluation for residential property is required – at the discretion of the Loan Officer/General Manager the evaluation may be required to be supported by an appraisal to be conducted at the expense of the applicant; comparable sales in the last six months as determined by research conducted by the Loans Officer; or the most recent municipal assessment; all discounted to a minimum of 90%. Commercial property valuations may be determined by an appraisal ordered at the discretion of the Loan Officer/General Manager and conducted at the expense of the applicant; net book value; or municipal assessment; all discounted to a minimum 90%.

### *Inventory and Equipment*

Invoice, depreciated book value, appraised value, the Loan Officer/General Manager site visit estimation; discounted to 50-75% in accordance with age and marketability.

### *Account Receivables*

Current list or book value; less accounts in excess of 90 days discounted to 75%.

### *Personal Guarantee*

Full value for confirmed liquid assets; tangible assets discounted as above.

## Registration and Maintenance of Security

All security documents will be registered with the appropriate government agency, and it will be the responsibility of the CFDC to ensure the ongoing priority of the Corporation. All documentation is to be prepared by the Corporation and will accompany the Letter of Instructions to the Solicitor (i.e. Promissory Note, General Security Agreement, Personal Guarantees, and Postponements).

Mortgage security is to be registered by the applicant’s solicitor. A Draft mortgage is to be approved by the Corporation prior to registration. Financing Statements may be registered by the Corporation or the applicant’s solicitor, based on the decision of the Loans Committee/ Board of Directors. All legal fees and out-of-pocket expenses are the responsibility of the applicant.

Life Insurance should be encouraged and discussed with the client when appropriate. Where it is deemed necessary, life insurance on the value of the loan is to be assigned in favour of the Corporation.

To protect the Corporation’s interest, Personal Guarantees will provide a clause that waives the rights of the Guarantor. Guarantors are to obtain Independent Legal Advice where the Guarantor is a spouse or other related party, or is not a shareholder and/or Director of the company, or is a shareholder and/or Director and not involved in the day-to-day operations of the company.

All physical security will be examined by the CFDC at the time of the loan, and at time of renewal thereafter, to report as to the condition and estimated value. The estimated values will be reported to the Loans Committee/ Board of Directors as part of the renewal process.

In the case where evident deterioration of business operations exist, more frequent site visits with reports to the Loans Committee/ Board of Directors are required.

In all cases, the CFDC will ensure that it ranks as a “secured creditor” and will not permit anything, or any action, to negate that position.

## Insurance

When tangible security, such as equipment, machinery, real estate etc. is a key factor in approving a loan the CFDC’s interests in the security should be adequately protected with insurance.

The policy should be issued to the business or sole proprietor with an endorsement containing a loss payable clause to the CFDC and any other who may have interest in the policy. Proof of insurance must be received before funds are released.

# Loan Monitoring

## Financial Reports

All loan clients are to provide annual financial statements (balance sheet and income statement) for the duration of the loan, except where the Offer to Finance specifies more frequent) reporting requirements.

The CFDC staff will review and analyze the annual financial statements as part of the overall assessment of the business operation. Particular attention is given to, but not limited to, the following key indicators:

* significant changes in sales levels
* gross margin
* net profit prior to depreciation
* debt servicing capacity
* owner remuneration in excess of business profits
* capital acquisitions from cash flow
* working capital position and liquidity ratio
* significant change in accounts payables
* source deduction payables
* significant change in accounts receivable
* equity in business; debt to equity ratio
* inventory turnover; inventory build-ups
* capital acquisitions
* expenditures of an unusual nature

Where one or more business indicators point to a deteriorating trend, and if after further analysis by the CFDC these are considered a significant risk to the viability of the business; an update report, or in the case of loan renewal, a loan renewal summary containing any recommendations will be brought to the Board of Directors for review.

Adherence to the conditions and covenants of the original loan are best reviewed upon receipt of annual financial statements.

## Loan Renewal

Loan renewal dates will be completed at the maturity date described in the original promissory note and are subject to the Loan being current and the past repayment history being satisfactory. Updated information required for Loan renewaL and/or annual review should include, but not be limited to, the following:

* Annual financial statements, signed by the business owner(s);
* Updated personal financial statement;
* Discussing with business owners; performance/future plans;
* Site visit to business / inspection of security;
* Updated credit verifications where necessary; and
* Additional financial information where necessary such as aged account payable listing, aged account receivable listing, aged outstanding source deduction listing, and aged tax liability listing.

## Loan Renewal Summary

The CFDC will review and analyze the performance of the business, and any other significant factors that may affect the successful operation of the business. Upon completion of the assessment, the Loan RenewaL Summary is completed for consideration by the General Manager/ Loan Committee/ Board of Directors. The Loan Renewal Summary will contain, but not be limited to the following:

* Client /business name;
* Date of renewal; Loan balance; total CFDC debt;
* Security realization value estimate;
* Existing interest rate / payment; proposed interest rate / payment;
* Reporting schedule and Latest year-end financial statement on file;
* Account performance comments;
* Risk rating recommendation; and
* Renewal recommendation.

Financial statements for the business and the business owner(s) will accompany the Loan Renewal Summary. The General Manager/ Loan Committee/ Board of Directors will review the information provided, ensuring the risk rating to be assigned is in accordance with the account performance. Interest rate and Length of term renewal is governed by the risk rating assigned.

## Offer of Renewal

Once a decision has been made by the General Manager/ Loan Committee/ Board of Directors, the CFDC staff will notify the client, in writing, of his/her approval or decline to renew the Loan within one week. Offers of renewal will remain open for 30 days. If not accepted, the Loan becomes repayable immediately. An Offer of Renewal will be forwarded to the client stipulating the renewal terms including the revised Loan payment, term, amortization, and any changes made by the Board of Directors to the terms and conditions as outlined in the original Offer to Finance. An updated Promissory Note and Life Insurance forms (if applicable) will be included for signature by the client. The client will be requested to return the signed Promissory Note and Life Insurance forms along with post-dated cheques or debit pre-authorization forms covering the payments required under the renewal term.

# Collection and Follow-up of Outstanding Loans

## General Policy

The terms and conditions of the offer to finance should be adhered to at all times.

The General Manager has the primary responsibility for initiating collection procedures if a borrower is not adhering to the terms of the loan. When necessary, upon the recommendation of the General Manager, the Board of Directors will authorize legal action and/or seizing of assets. The Board of Directors and General Manager will also make a determination as to the seeking of judgments or other legal collection actions. The decision to proceed must be based on a cost/benefit analysis.

## Statements of Accounts and Methods of Payment

At the end of the client’s business year and/or annually on December 31, loan statements shall be sent to the client showing payments of principal and interest for the past year.

Loan payments are to be made by automated debit. Clients are required to complete the Pre-authorized Payment Authorization.

## Application of Loan Payments

Payments received on a loan account will be applied in the following order:

Unpaid interest

Any costs payable by the borrower such as insurance premiums, legal costs, administration fees

Outstanding principal balance

## Release of Security and Discharge of Collateral

No security will be released until the loans or guarantees that it secures are paid in full. In cases where equipment held has been traded and we are being asked to substitute security, the Board of Directors must give approval. All costs regarding the re-registration of the security are for the account of the borrower. Care must be taken to ensure continuing security. The signing of discharge documents is undertaken by the General Manager.

## Delinquent Loans

Unless other arrangements have been made and approved by the General Manager, a client will be telephoned within two business days if a payment has not been made. The telephone call will attempt to establish if the problem is temporary or if the problem is long term. In all cases, CFDC staff making the call will determine the date the missed payment can be expected and from what source. A letter will be sent to all clients who have missed a payment regardless of the outcome of the phone conversation ten (10) business days clarifying the actions required and/or status of the loan.

Formal demand for payment must be approved by the General Manager regardless of the size of the loan and who approved it. Timing of a formal demand for payment will be determined only after consideration of all facts, including the value of security and/or other alternatives.

In the case of an emergency, the General Manager, with concurrence and assistance from legal counsel may issue a formal demand for payment and seize security. An emergency situation would exist where there is reason to believe that the client intends to defeat the rights of CFDC by leaving the jurisdiction or converting or selling security in which the CFDC has an interest.

A report identifying any and all delinquent loans will also be provided to the Board of Directors on a monthly basis (or more frequently, if required). Among other things, this will include information related to how late the loan payment is, the value of the loan payment and the actions taken to remediate the situation.

## Revision of Terms of Original Loan

If it is clear that under existing operating circumstance, the borrower cannot meet the original terms of the loan, the General Manager may revise the repayment schedule for the term of the loan but only after a full review of the circumstances.