



# Lending Policy

Approval / Amendments	Date
Approval	October 20, 2015 (Board Meeting)
Amendment 1	June 16, 2016 (Board Meeting)
Amendment 2	March 9, 2017 (Board Meeting)
Amendment 3	April 13, 2017 (Board Meeting)
Amendment 4	February 22, 2018 (Board Meeting)

**Contents**

**COMMUNITY FUTURES BIG COUNTRY MISSION STATEMENT ..... 3**

**LOAN POLICY GOVERNANCE ..... 3**

**GENERAL LENDING POLICY ..... 5**

**LOAN FUND ACCOUNT CONSIDERATIONS ..... 6**

**LOAN TYPES ..... 7**

**LOAN ELIGIBILITY ..... 9**

**LENDING PROCESS POLICY ..... 9**

**LOAN MONITORING.....12**

**CLOSING THE FILE.....13**

**LOAN PORTFOLIO MONITORING POLICY .....14**

**ARREARS POLICY .....15**

**PERFORMANCE POLICY .....16**

**CONFLICT OF INTEREST .....17**

**INVESTMENT FUND INTER-FUND TRANSFERS .....17**

**MARKETING POLICY .....17**

**FEE SCHEDULE**

**CREDIT WORTHINESS OF THE LOAN PORTFOLIO**

# Community Futures Big Country Mission Statement (December 8, 2015)

As the leader in Community Economic Development, Community Futures Big Country strengthens the economy to enhance the quality of life in our region. Community Futures Big Country achieves this through partnerships in:

- Education
- Entrepreneurship development
- Growing and nurturing small businesses

## Loan Policy Governance

- 1. Community Futures Big Country operates as a Part 9 Company under the Alberta Companies Act.**
- 2. Board of Directors**
  - a. Community Futures Big 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.
  - c. The responsibility for assessing and approving all loan applications rests with the Board of Directors of Community Futures Big Country.
  - d. By decision, the Board of Directors of Community Futures Big Country has agreed to formally delegate authority to its Loan Review Committee (LRC) for the assessment and recommendation of all loans to eligible clients.
  - e. The Community Futures Big Country signed contribution agreement with Western Economic Diversification (WD) outlines Investment Fund Terms and Conditions.
- 3. Administration**
  - a. Administrative, business, lending, and collections procedures will be created by Community Futures Big Country staff under the direction of the 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. Loan Review Committee (LRC)**

The primary purpose of the Loan Review Committee (LRC) is to add a level of community accountability and due diligence to the loan approval process. The Loan Review Committee (LRC) is charged with making recommendations to the Board of Community Futures Big Country on the approval of loans that are processed by Community Futures Big Country.

- a. A Loan Review Committee (LRC) will be used to assess loan applications and make recommendations about loan approvals to the Board of Community Futures Big Country.

- b. The Loan Review Committee (LRC) will have at least one Community Futures Big Country Board member (as appointed by the Board of Community Futures Big Country).
- c. The Loan Review Committee (LRC) will be made up to six other members appointed by the Board of Community Futures Big Country, based on recommendations of the Loan Review Committee (LRC) Nominating Committee. Members must reside in the Drumheller region. Notwithstanding the foregoing, the Loan Review Committee (LRC) may admit members who have an interest in the objectives of Community Futures Big Country.
- d. Loan Review Committee (LRC) members can be appointed at any Community Futures Big Country Board meeting to fill vacancies.
- e. The Loan Review Committee (LRC) Chair must be designated by the Board of Community Futures Big Country.
- f. The Loan Review Committee (LRC) shall designate a Vice-Chair, who will act as Chair in the absence of the Loan Review Committee (LRC) Chair.
- g. The maximum tenure of individual Loan Review Committee (LRC) members shall not exceed nine (9) consecutive years. Individuals reaching term limit must wait for a minimum of one (1) year before being eligible for re-appointment to the Loan Review Committee (LRC).
- h. To ensure transparency to clients, communities and stakeholders the names of the Loan Review Committee (LRC) members will be posted to our public website.
- i. The Community Futures Big Country General Manager and other staff members, as appointed by the General Manager, are resource supports to the Loan Review Committee (LRC).
- j. Quorum necessary for the transaction of business will consist of 50% of committee members.
- k. A motion is passed by the majority of those present.
- l. The Loan Review Committee (LRC) shall meet as deemed necessary by the General Manager.
- m. The Loan Review Committee (LRC) shall, as a rule, hold face-to-face meetings, as required. When necessary, members of the Loan Review Committee (LRC) may request an online meeting, but are required to make the request through the Loan Review Committee (LRC) Chair.
- n. Loan Review Committee (LRC) members shall make an effort to attend all meetings. If a member cannot attend a majority of meetings over the course of a fiscal year, the Board of Community Futures Big Country will re-evaluate their membership in the Loan Review Committee (LRC) at the next Board meeting.
- o. Minutes of all Loan Review Committee (LRC) meetings shall be documented and consist of motions and results of motions only.

- p. All Community Futures Big Country directors shall have access to the Loan Review Committee (LRC) minutes, regardless of whether the director is a member of the Loan Review Committee (LRC).
- q. A report of all Loan Review Committee (LRC) meetings shall be given to the Community Futures Big Country Board in a timely manner.
- r. All committee members must attend an orientation session prior to approving loans.
- s. Committee members must know, understand and follow the Community Futures Big Country Lending Policy.
- t. Committee members must be familiar with Community Futures Big Country Policies, Vision and Mission Statements and Investment Portfolio objectives.
- u. Conflict of Interest is outlined and detailed in the CFBC Code of Conduct and Conflict of Interest Policy for Directors, Officers and Employees. Committee members must understand and adhere to this policy. Any questions about potential conflict of interest must be referred to the Board of the Community Futures Big Country through the Board Chair.
- v. Loan Review Committee (LRC) members shall not receive compensation for their services, but will be entitled to be paid any out-of-pocket expenses incurred in the course of discharging any duty for Community Futures Big Country.
- w. **In the absence of a Loan Review Committee (LRC) as constituted above, the Executive of the Board will serve as the Loan Review Committee (LRC).**

## General Lending Policy

5. Community Futures Big 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 Community Futures boundary region.
6. The responsibility for assessing and recommending loan applications shall rest with the Community Futures Big Country Loan Review Committee (LRC). The responsibility for approving loan applications shall rest with the Community Futures Big Country Board.
7. The maximum amount of financial assistance per SME or Social Enterprise will normally not exceed \$150,000 outstanding at any one time, unless previously given tentative approval by the Community Futures Big Country Board to approve such a loan.
8. Community Futures Big 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. The applicant must declare they have made best efforts or provide rationale for not pursuing financing from a traditional lender by indicating so on the loan application.
9. **The rate of interest charged on any loan from any Investment Fund shall not be less than the prime rate + 2%.**

10. Appropriate interest rates charged, terms, and conditions, for loans will be set by the Board of Community Futures Big Country and may 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 is consistent with the Community Futures Big Country Program terms and conditions as set out in the Contribution Agreement and will specifically create or maintain long term employment in the region and/or communities served by Community Futures Big Country.
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 Big Country shall be determined on a case by case basis dependent upon the nature and life expectancy of the security to be held by the CF for the loan and dependent upon the ability of the client. (Some borrowing clients may demonstrate more ability to invest into their small business project than others). Normally, the minimum investment of unencumbered equity into a business will not be less than 10% of the total project being considered for funding.
14. All loans will be assessed to ensure adequate character, capacity, conditions, capital, and collateral, as well as a fit to Community Futures Big Country Operational Plan.
15. Loans will be assessed to determine if they fit Government of Canada priorities related to economic diversification.
16. Loans will not normally be used to provide bridge financing.
17. Community Futures Big Country **may** require all loans over \$50,000.00 to be covered by life insurance on key principals (owners and/or key employees), payable to Community Futures Big Country, to cover the value of the loan, unless otherwise specified by the Board.
18. Community Futures Big Country requires loan clients to have Provincial and Municipal Business Licenses (if applicable).
19. Standard loan terms will be up to five (5) years (maximum), amortized over 60 months (maximum).
20. Any credit investigation, security registration or legal fees associated with the application or loan are the responsibility of the client and will be invoiced directly to the client.

## Loan Fund Account Considerations

### 21. General Investment Fund:

- a. All General Lending Policy considerations apply.
- b. A well-thought out business plan is required.
- c. **The rate of interest charged on any loan from any Investment Fund shall not be less than the prime rate + 2%.**

## 22. Repayable Investment Loan Fund:

- a. All General Lending Policy considerations apply.
- b. A well-thought out business plan is required.
- c. Since the Repayable Investment Loan Fund must be repaid to Western Economic Diversification (net of any losses), this fund will be considered only for lower risk loans.
- d. **The rate of interest charged on any loan from any Investment Fund shall not be less than the prime rate + 2%.**

## 23. 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 Big 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 rate of interest charged on any loan from any Investment Fund shall not be less than the prime rate + 2%.**

## 24. 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. A well-thought out business plan is required.
- d. **The rate of interest charged on any loan from any Investment Fund shall not be less than the prime rate + 2%.**

## Loan Types

### 25. Term Loans (may be marketed under *ReadyCash, TrailBlazer, TakeOver, GrowBiz, NewBiz, BusinessAble* product names or other product names to be determined by the Board).

- a. Term 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.

**26. Line of Credit Loans** (may be marketed as *FlexLine* or other product names to be determined by the Board):

- a. Community Futures Big Country will offer 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% above the rate of the account being accessed.

**27. Micro-loans:**

- a. The General Manager, as a representative of the Board, has authority to approve loans for \$10,000 or less.
- b. Applications will be reviewed by one member of the Loan Review Committee (LRC), who will be asked for a response within 24 hours.
- c. An amended application and expedited process will be developed by staff.
- d. **The rate of interest charged on any loan from any Investment Fund shall not be less than the prime rate + 2%.**

**28. Student Business Loans:**

Community Futures Big Country will offer loans up to \$5,000 to students wishing to operate a summer business. Interest rate policies approved by the Board of Community Futures Big Country shall apply (must comply with the terms and conditions of WD core funding agreement). If the student is not yet 18 years old, a guardian will be required to co-sign.

**29. Equity Investments:**

Community Futures Big Country will not normally consider equity loans.

**30. Loan Guarantees:**

Community Futures Big Country will not normally entertain a loan guarantee, recommending instead a term loan or line of credit loan.

**31. 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 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 Big Country Operational Plan.



- b. Loans must be for specific growth strategies (not emergency stop-gap measures).

## Loan Eligibility

- 32. The business must be located in the Community Futures Big Country region, and the applicant must be involved in the day to day operation of the business. In order to receive a loan from Community Futures Big Country, the recipient must demonstrate they meet eligible business activities that are consistent with CF program terms and conditions. Eligible activities include businesses that will promote stable economic growth, job creation and diversify the local/regional economy.
- 33. The applicant must be of legal age and a resident of Canada.
- 34. Unless there are unusual or extenuating circumstances, applications will not be accepted for consideration by Community Futures Big Country 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.
- 35. The business provides/maintains employment to one or more residents of the Community Futures Big Country region.
- 36. The loan(s) are to establish, expand, or preserve a business within the Community Futures Big Country region.
- 37. The applicant must declare they have made best efforts or provide rationale for not pursuing financing from a traditional lender by indicating so on the loan application.
- 38. Community Futures Big Country requires copies of "Trade Certificates" for loans to trades-related businesses.
- 39. The applicant must have completed a Business Plan acceptable to Community Futures Big Country. The Business Plan will be kept in the client loan file.
- 40. The applicant must complete all other required application forms plus any additional documentation requested by Community Futures Big Country.

## Lending Process Policy

- 41. All loan approvals shall be documented in the signed Minutes of the Community Futures Big Country Board meetings when the loan is approved. The applicable Minute must be recorded in sufficient detail, including clearly outlining the dollar value of the loan approved, the official name of the borrowing client, any and all specific loan terms (loan security) and the date of the meeting.

42. Community Futures Big 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 Big Country.
- iii. Supplying a complete application package and documentation required if the client appears to meet basic eligibility requirements.

**b. Application Administrative Process:**

- i. Completing a checklist to ensure the application is complete
- ii. Application will be documented in TEA

**c. Assessment Process:**

- i. CFBC staff, under the direction of the General Manager, will investigate all elements of the application under 6 key areas including:
  - Character – Including credit checks, references, management capability
  - Capacity – Including assessing the business plan and cash-flow
  - Conditions – Includes market conditions, labour force situation, plus political, environmental, social, and technological considerations.
  - Capital – Including owner's equity, assets, and resources
  - Collateral – Community Futures Big Country will undertake to secure loans following the recommendations of margined security value and repayment periods outlined in the ACFLP manual.
  - Fit to Community Futures Big Country Operational Plan (i.e. number of jobs created/maintained, diversification)
- ii. CFBC staff, under the direction of the General Manager, will then complete a Loan Summary Report providing an overview of all the information in each of the key areas addressed during the loan investigation process. The Loan Summary Report will include the Loan Application Grading Grid, ranking each of the 6 key areas identified above. If the application has a score of 15/30 or greater, it will be sent to the Loan Review Committee (LRC).
- iii. CFBC staff, under the direction of the General Manager, will then submit the Loan Summary Report, along with all appropriate supporting documentation to the Loan Review Committee (LRC). This report will cover all technical aspects of the loan application.
- iv. The Loan Review Committee (LRC) will meet to determine if the loan application is ready to move forward. If requested, CFBC staff, under the direction of the General Manager, will arrange for the client to make a presentation to the Loan Review Committee (LRC) within fifteen (15) business days. The Loan Review Committee (LRC) will meet with the client, ask questions and make a determination. This determination will be given to CFBC staff, under the direction

of the General Manager. If the application is declined, the Loan Review Committee (LRC) must provide their reasons.

**d. Approval Process:**

The role of the Loan Review Committee (LRC) will include:

- Reviewing the recommendations and ratings contained in the Loan Summary Report;
- Review and modify (if necessary) the required equity contribution by the loan applicant;
- Requesting any additional information as needed;
- Review and modify (if necessary) the repayment schedule for the loan applicant;
- Review and modify (if necessary) loan terms and conditions;
- Making recommendation for loan for approval by the Board of Community Futures Big Country; or
- Rejecting the application (pending additional information as needed).

**e. Disbursement Process:**

- i. CFBC staff, under the direction of the General Manger will inform the client immediately following the decision made by the Board of Community Futures Big Country.
- 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. Community Futures Big Country staff will be responsible for tracking 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:**

Community Futures Big Country is an independent not-for-profit corporation led by a volunteer Board of Directors. In an effort to safeguard all efforts are made to ensure our clients are served in a fair and professional manner, the Board of Directors will ensure the corporation provides clients with access to an internal appeal process.

In addition, where a client requests an independent review of the Board's original and subsequent appeal process, the Board of Directors will ensure the corporation provides the client with timely access to a process of external appeal provided in Alberta through the South Region's Appeal Committee.

The role of the South Region's Appeal Committee is to provide an external and independent review of Community Futures Big Country decision making and internal review processes.

The Board of Community Futures Big Country maintains final authority for all decisions.

## Loan Monitoring

Community Futures Big Country will usually 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:

### **43. Client Monitoring Policy:**

- a. CFBC staff, under the direction of the General Manager, will monitor each loan client on a regular basis through personal contact at a minimum of once per year, or as designated by the General Manager.
- 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.

### **44. Loan Renewal:**

- a. 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. A serious negative change in the client's financial or security situation.
- b. Loan renewals shall be dealt with by Community Futures Big Country staff, under the direction of the General Manager, the month before the Renewal Notice is to be sent.
- c. Renewal Notice shall be sent to the client three (3) months in advance of the renewal date (loan expiry date), by registered mail.
- d. 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 General Manager.

- e. 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 principal 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 principal of the loan.
- f. If the client does not sign the renewal documents within 30 days, a demand letter will be sent for payment in full of the loan.

### Closing the File

Procedures		
<b>Letter to Client</b>	Within 30 days after final payment or payout received	Thank you (where appropriate) with detailed information of current CF lending products and list of other services provided
<b>Discharge Security</b>	Within 45 days following payout	
<b>Maintain Loan File</b>	7 years	Kept in fireproof locked cabinet within CF office

## Loan Portfolio Monitoring Policy

### 45. Credit worthiness of the portfolio:

- a. CFBC staff, under the direction of the General Manager, will maintain an Investment Fund Status Report (IFSR) (See ACFLP manual). **All of the following information is tracked in TEA.**
- b. The IFSR will include:
  - i. A client summary listing including:
    - Loan balance
    - Security held
    - Current value estimate of security held
    - Status of the security held
    - Loan arrears
    - Exposure to loss
  - ii. A Portfolio summary listing including:
    - Value of the loan portfolio
    - Total loan portfolio exposure to loss
    - An assessment of the credit worthiness of the loan portfolio
    - An overall portfolio rating score
    - Bad debt rate

### 46. Reporting to the Board of Directors:

- a. An Investment Fund Status Report or Allowance for Doubtful Loan Report will be presented to the Board of Directors by the General Manager at least once per year on or before March 31<sup>st</sup> of each operating year.
- b. The Board of Directors shall be responsible for approval of any and all Management recommendations for loan write-offs. Write-off review shall be completed no less than one time per year, on or before March 31<sup>st</sup> of each operating year. Recommendations from Management related to write-off will be supported by the following:
  - i. Summary of the loan history (date approved, amount approved, original terms and conditions including repayment terms)
  - ii. Summary of loan recovery activity carried out by staff
  - iii. Report on how the loan recovery actions steps followed or exceeded CF approved policies and procedures
  - iv. Recommendation to set up as a doubtful account
  - v. Recommendation to write-off
  - vi. Summary report on potential future recovery for loan write-off

## Arrears Policy

Community Futures Big Country will ordinarily 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:

### 47. Problem Accounts, Foreclosure:

- a. NSF charges will be charged in accordance with our attached Fee Schedule.
- b. A schedule of all loans, payments due, due dates, and client contacts will be maintained by Community Futures Big Country staff.
- c. A quarterly "Exception Report" will be completed by Community Futures Big Country staff and will be presented to the Board of Directors.
- d. Any client that has missed two or more payments in the current fiscal year must be reported to the Board of Directors.
- e. Community Futures Big Country staff will be encouraged 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.

### 48. Foreclosure and Seizure:

- a. The decision to foreclose on a loan client will be made by the Board of Community Futures Big Country. The Board has the ability to delegate this responsibility to the General Manager. The Board will be informed before any action is taken.
- b. Following a decision by the Board Community Futures Big Country staff may approach the client with a Voluntary Release form (Forfeit Agreement and a Bill of Sale).
- 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 Big 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.
  - i. **Note:** Community Futures Big Country staff must have completed a full research of all encumbrances including priority encumbrances such as 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 Big 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.
- d. If the client refuses to sign a Voluntary Release of security, Community Futures Big Country staff will look into legal action for seizure of assets.
- e. Assets will be seized, stored, and sold to the highest bidder.

- f. 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.
- g. Should it be deemed advantageous, the services of a collection agency may be solicited at this time (if final settlement is not made).
- h. 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 or if accumulated, then reversed (phantom interest).

## Performance Policy

### 49. Interest Rates:

- a. Shall average commercial bank rate plus 3%.
- b. Ventures that align with WD priorities and/or Community Futures Big Country Operating Plan will be a minimum of Royal Bank of Canada Prime plus 2%.

### 50. Loan Approval Timing:

- a. The Loan Review Committee (LRC) will have a recommendation or request for followup information within fifteen business (15) days after receiving a completed loan application. Requests for followup information will initiate another fifteen (15) business days. A recommendation for approval will initiate a motion and vote by the Community Futures Big Country Board, which must occur within an additional fifteen (15) days.
- b. Community Futures Big Country Board members will receive a loan recommendation, along with a Loan Summary Report. A request will be made for their vote. Any Board member may request a face-to-face Board meeting. If requested, that meeting will be arranged by Community Future Big Country staff. Regular quorum rules will apply. Reasonable advance notice is required. Time is of the essence.
- c. The Loan Review Committee (LRC) and Community Futures Big Country Board will reduce loan review and approval times by making use of technologies such as faxing, emailing, teleconferencing, and/or secure internet site meetings.

### 51. Number/Value of Loans made/year:

- a. Community Futures Big Country will meet or exceed minimum contract requirements.
- b. Of the number of approved loans, Community Futures Big Country will attempt to make a minimum of 20% to businesses that achieve priority targets as established by Community Futures Big Country in its annual Operating Plan and or that align with Government of Canada priorities.



## 52. Cash on Hand:

- a. Community Futures Big 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 be maintained at maximum of twenty-five percent (25%) of the principal loan portfolio balance.
- b. Community Futures Big Country shall undertake to deposit surplus investment fund cash on hand into the professionally managed/administered Community Futures Big Country Lending & Investment Pool (CFLIP).
- c. The Board shall be responsible for the quarterly review of the cash to loans ratio and undertake to deposit surplus investment funds into CFLIP.

## 53. Loan Portfolio Performance Targets:

- a. Loan portfolio "Credit Worthiness Score" (*See Investment Fund Status Report*) will be above **4.0**. Refer to "Monitoring the Loans Portfolio" (attached).
- b. Number of loans greater than 30 days in arrears will be no greater than 10% of portfolio by number count.
- c. Value of loans greater than 30 days in arrears will be no greater than 5% of portfolio by gross dollar value.

**54. Bad Debt Rate** – our target will be no greater than 2.5% less than Community Futures Big Country average lending rate.

## Conflict of Interest

**55.** Refer to current Community Futures Big Country Code of Conduct and Conflict of Interest Policy for Directors, Officers and Employees.

## Investment Fund Inter-Fund Transfers

**56.** Community Futures Big Country will receive Western Economic Diversification prior approval for all Investment Fund Inter-fund transfers (EDP to General). Submission to WD for approval to transfer funds shall include detail of the value of all loan funds and net free balances (after outstanding loans and loan commitments), the amount, source and rationale for redirecting the funds, and a proposed repayment schedule.

## Marketing Policy

**57.** Community Futures Big 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.

Community Futures Big Country  
Lending Policy

Fee Schedule

February 8, 2018

<del>Loan Application Fee (\$200)</del>	<i>removed application fee February 8, 2018</i>
NSF Fee	\$25

## **Monitoring the Loans Portfolio**

### **Credit Worthiness of the Loan Portfolio**

This section provides a recommended model for CFs to establish the credit worthiness of their loans portfolio. The necessity to establish the credit worthiness of the CF loans portfolio is required in order to meet new CICA standards, including provisions; 3855, 3862, and 3863 effective for the fiscal year ending March 31<sup>st</sup> 2008.

#### **Rating Credit Worthiness**

During the loan approval process, the credit worthiness of the client and business loan application was assessed based on 5 credit criteria including character, capacity, capital, conditions, and collateral plus consideration of the CF operational plan. These areas were in turn rated as either "needs improvement", "marginal" or "adequate/strong". In order for the application to be approved the client required a "marginal" or better rating in all dimensions.

The credit worthiness of the loan portfolio can be assessed in part using this rating system by calculating the value of loans in each of the categories listed below:

- Excellent Loans - Contain 5 adequate/strong C's (Score = 5)
- Good Loans - Contain 4 adequate/strong C's, and one marginal C. (Score = 4)
- Fair Loans - Contain 3 adequate/strong C's, and 2 marginal C's (Score = 3)
- Marginal Loans - Contain 2 or fewer adequate/strong C's (Score = 2 or less)

#### **Benchmarking Credit Worthiness**

While it would be nice to see all loans in the "Excellent" category, the nature of lending in the CF environment is such that a significant number of applicants will not reach this level. A balanced loan fund could arguably be defined as follows:

- Excellent loans – 50% of the loan portfolio value
- Good Loans – 30% of the loan portfolio value
- Fair Loans – 15% of the loan portfolio value
- Marginal Loans – 5% of the loan portfolio value

#### **Portfolio Score**

In addition to the above breakdown, an overall portfolio score (if desired) can be simply calculated on a spread sheet by determining the weighted average in each category. For example, a loan portfolio worth \$2,000,000 using the "benchmark example" above would have an overall score of (4.2). (Explanation below)

- Excellent loans at \$1,000,000 (Weighted portfolio score =  $1,000,000/2,000,000 \times 5 = 2.5$ )
- Good loans at \$600,000 (Weighted portfolio score =  $600,000/2,000,000 \times 4 = 1.2$ )
- Fair loans at \$300,000 (Weighted portfolio score =  $300,000/2,000,000 \times 3 = .45$ )
- Marginal loans at \$100,000 (Weighted portfolio score =  $100,000/2,000,000 \times 1 = .05$ )

Note: Total weighted portfolio scores (sum of all) = **4.2**

**Exposure to Loss**

Other considerations required to assess the quality of the loan portfolio include a calculation of exposure to loss and a calculation of the bad debt rate. Exposure to loss is an estimate of unsecured loan balances (whether the client is paying or not) along with an evaluation as to whether or not the client is likely to default on this amount. For the purpose of loan portfolio monitoring, the Bad Debt Rate in turn can be a calculation of the total value of write-offs plus the allowances made for bad debt per year against the value of the loan portfolio.

(BP) The credit worthiness of the loan portfolio can monitored and calculated on an ongoing basis through an **Investment Fund Status Report**. This report is a listing of all active CF loans which can easily be kept current at all times by inputting information as clients are approved, and from the yearly client monitoring process discussed in the previous section. Since individual information can be updated in part automatically (i.e. loan balances) and from once per/year client visits/phone calls on or about the client's loan anniversary date, the IFS Report can be very easy to maintain. Since this report is quite easy to keep current it may in fact become a valuable tool for CF IRC and Boards at quarterly meetings.

Note: Client information within the IFSR should be updated as needed in between the client's anniversary date as well when critical new information about a client is discovered or is the client is found to be in arrears.

**Investment Fund Status Report Example**

Loan ID	Client	Date Approved	Current Balance	Security Held	Security Value	Payment Structure	Arrears	Exposure to Loss	Allowance for Bad Debt	Marginal (I/C)	Rating Score	Comments
1	Tom J	Jan 05	85,000	Bookshop	80,000	1800/m	0	\$5,000	0	Collateral	4	Very strong integrity
2	Pita S	Mar 05	30,000	Inventory	15,000	600/m	\$4,800	\$15,000	\$15,000	All but Conditions	1	Referred to Collectors
3	Bob R	May 05	120,000	House	250,000	1200/m	0	0	0	None	5	Hired 1 new staff
4	Jane B	June 05	110,000	Building	130,000	1,000/m	0	0	0	Capacity Conditions	3	Fuel prices impacting

\* Security Value – The most recent estimate by CF staff as to the value of the security. Note – this can be done at the clients annual update on the anniversary of the loan.

Report Date	Total Portfolio	Total Exposure	Excellent %	Good%	Fair%	Marginal%	Portfolio Score / 5	Bad Debt Rate
April 2008	\$345,000	\$15,000	34.8%	24.6%	31.9%	8.7%	3.77	4.3%

- o A Portfolio Score of about 4.0 would be an appropriate target.
- o Scores below 3 would indicate the loan fund is likely carrying too much risk – especially if the bad debt rate is higher than the CF average.
- o Scores above 4.5 would arguably indicate the loan approvals are too conservative – especially if the bad debt rate is also extremely low.