

SECTION 6 – LENDING PROCEDURE

Table of Contents

6.01	Preliminary Negotiations with Applicants	3
1.	Background Information	3
2.	Eligibility	3
3.	Assistance with Making the Application	3
4.	Advisory Services Available at Application Stage.....	3
5.	Assisting Applicants in Negotiations with Other Lenders	4
6.02	Preparation of Application for Financial Assistance	4
1.	General.....	4
2.	Summary of General Information Required of Application Form	4
3.	Summary of Financial Information Required on Application Form	5
6.03	Procedure for Evaluation and Assessment of Applications for Financial Assistance.....	8
1.	General Criteria for Assessing the Viability of a Business Proposal.....	8
2.	Character and Credit Rating of Applicant	9
3.	Financial Obligations for Liabilities of Applicant.....	9
4.	Management Capability and Experience of Applicant.....	10
5.	Other Items to Consider in Assessing the Business Proposal	10
6.04	Types of Financing Available for Business Proposals	11
1.	General.....	11
2.	Short Term Credit.....	12
3.	Medium Term Loans	12
4.	Long Term Loans	12
5.	Equity Participation.....	12
6.	Guaranteed Loans	13
7.	Grants for Business Purposes.....	13
8.	Appeal Procedure	14

6.05	Amount of Financing Available to Applicants	14
6.06	Terms of Financing.....	15
6.07	Loan Conditions	16
1.	General.....	16
2.	Restrictive Covenants.....	16
3.	Other Conditions.....	16
6.08	The Taking and Maintenance of Security.....	17
1.	General Policy	17
2.	Procedure for Taking Security.....	17
3.	Recommended Security Documents.....	18
4.	Promissory Notes	19
5.	Security Documentation Forms	19
6.	Registration of Documents	19
7.	Maintenance of Security	19
6.08	Collection and Follow-up of Loans Outstanding	20
1.	General Policy	20
2.	Statement of Account / Methods of Payment.....	21
3.	Method of Accounting for Loan Payments	21
4.	Release of Security.....	21
6.10	Delinquent Loans	22
6.11	Loans Committee	23
1.	Membership.....	23
2.	Responsibilities	23
3.	Loan Evaluation Periods.....	24
6.12	Authorities, Lending Limits and Amendments.....	24
1.	General Lending	24
2.	Approved Staff Discretionary Lending Limits.....	24

SECTION 6 – LENDING PROCEDURE

6.01 Preliminary Negotiations with Applicants

1. Background Information

The Corporation staff shall ensure that all applicants are familiar with the basic objectives and operating policies of the Corporation.

2. Eligibility

The Corporation staff shall ensure that the applicant and the proposed business enterprise fall within the terms of eligibility as defined in Section 3.03, and that the applicant meets the criteria for funding assistance as defined in Section 3.03.

3. Assistance with Making the Application

Where the applicant is unable to properly complete an application form and provide Corporation staff with the necessary documentation required, and where the preliminary assessment by the staff indicates that assistance from lending agencies or from the Corporation may be feasible, arrangements should be made to provide the applicant with appropriate advisory services.

4. Advisory Services Available at Application Stage

The advisory services at this stage of negotiations should include where necessary and appropriate:

- a. assistance in determining an appropriate form of business entity for the applicant, i.e. proprietorship, partnership, cooperative, or private corporation
- b. assistance in documenting and forecasting the market potential for a proposed business venture
- c. assistance in providing pro-forma financial statements, cash flow statements, etc.
- d. assistance in describing the security available to a prospective investor or lender

- e. assistance in presenting the business proposal to:
 - i. private individuals who might take an equity share in the enterprise
 - ii. Federal and Provincial government agencies with financial assistance programs for small business
 - iii. conventional sources of business financing, chartered banks, mercantile banks, and credit unions
 - iv. specialized sources of business finance
 - v. the Corporation Loans Committee

Note: Costs incurred shall be borne by the applicant.

5. Assisting Applicants in Negotiations with Other Lenders

- a. In some cases, other conventional sources of financing may be prepared to take part of the financial risk, or to accept the risk subject to guarantee in whole or in part, or to accept the risk subject to further fixed capital investment by a third party where the business proposal of an applicant is a marginal risk.
- b. In such cases, in order for an applicant to realistically discuss the financing of a marginal risk business with other lenders, he/she must be able to indicate the amount and terms of the assistance which might be given by the Corporation.
- c. In this case, the Corporation advisory service may include a determination of the extent and terms of the assistance that could be reasonably expected from the Corporation. It is most important, however, that the applicant and other prospective lenders do not mistake this expression of interest as a firm commitment of the Corporation.

6.02 Preparation of Application for Financial Assistance

1. General

Individuals, partnerships and Corporations shall complete necessary forms. Separate forms for each partner must be completed. The following articles will clarify the requirements.

2. Summary of General Information Required of Application Form

- a. Employment history should be noted for the preceding five years. If the applicant is unemployed or receiving training, reasons for unemployment or retraining should be explained.
- b. Loans or credits granted to the applicant over the past five years should be itemized. If the applicant has never received credit privileges from conventional sources, two references are required.
- c. The total cost of any business proposal must include all expenditures, including those costs to be covered by the applicant's financial contribution to the venture. A value should be given to any input of labour by the applicant. Details should be attached.
- d. The applicant is required to provide a reasonable financial input into any business proposal; the amount of commitment required will be at the discretion of the Loans Committee. Details of the composition and source of equity for any proposal should be explained on the application form.

3. Summary of Financial Information Required on Application Form

a. Current Balance Sheet

Individuals and partners should provide complete statements of their personal and business affairs. Where application is made by a partnership, each partner is required to submit a statement. Where the applicant is a Corporation or Society, a balance sheet prepared by an accountant must be provided for the last three years of operation, if available, and at the very least, for the latest fiscal year end. Where the latest year end fiscal figures are more than six months old, an interim balance sheet for the current period of fiscal activity must be prepared.

Balance sheet information provided by applicants should include the following items:

- i. Current Assets
 - cash on hand and in banks, including name and address of each banker where the applicant is doing business
 - an aged list of trades account receivable
 - any other accounts and/or loans receivable
 - less allowance for doubtful accounts and loans receivable
 - inventories indicating the basis of valuation
 - any other current assets
- ii. Fixed Assets
 - including description, location and valuation at cost and on-appraised basis

- date of acquisition of buildings, type of construction, valuation at cost and on-appraised basis, and rate and method of depreciation
 - vehicles at cost, make, model, year, date of acquisition, and rate and method of depreciation
 - equipment at cost, make, model, year, date of acquisition, and rate and method of depreciation
 - office equipment and furnishings, description, and rate and method of depreciation
- iii. Other Assets
- deferred charges, incorporation expenses, goodwill, etc.
- iv. Current Liabilities
- bank loans, including name and address of banker and terms of loans
 - other short term loans, including name of lender and terms of loans
 - trade accounts payable, listed individually and by age
 - taxes payable, such as income taxes, sales tax, property tax, etc.
 - any accrued liabilities
 - any other current liabilities
- v. Long-Term Liabilities
- long-term bank loans, finance contracts, and mortgages should be explained in detail and a copy provided with the application
- vi. Capital and Surplus – Corporations
- includes details and amounts of authorized capital shares and any rights or restrictions which may be attached to each class of shares
 - issued capital, including the number of shares of each class issued and the consideration received
 - contributed surplus, including information as to the contributors, the full amounts contributed by each, and details of the circumstances under which the contributions were made. If any contributed surplus has been paid out, a full explanation of the circumstances should be given
 - earned surplus, including the amount at the beginning of the year, additions or deductions during the year
- vii. Net Worth – Proprietorships and Partnerships
- net worth of a proprietor or partnership at the beginning of the year plus any additional contributions made by the principal(s) during the year
 - net worth of a proprietor or partnership at the beginning of the year minus any withdrawals of funds made by the principal(s) during the year, minus any net loss incurred during the year

b. Operating Statements – Existing Business

- i. Businesses for which financial statement have been prepared must, if possible, furnish statements of income for the last three fiscal years
 - ii. Businesses for which financial statements have not been prepared must prepare a statement of income covering at least the last two months of operation.
 - iii. Operating statements should provide the following information:
 - revenues categorized by product and/or services
 - manufacturing costs showing direct and indirect costs separately
 - cost of sales, including inventory at beginning of year, purchase and inventory at the end of the year
 - operating expenses itemized by appropriate classification
 - net profit or loss for the year
- c. Opening and Pro-forma Balance Sheets
- i. A new enterprise applying for financial assistance from the Corporation must prepare an opening balance sheet showing the position of the enterprise based on the assumption that the required financial assistance has been received. Pro-forma balance sheets and projected operating statements and statements of cash flow must then be prepared for the next two fiscal years of operation.
 - ii. A pro-forma balance sheet must be prepared by an existing enterprise showing the position of the enterprise based on the assumption that the required financial assistance has been received. Pro-forma balance sheets and projected operating statements and statements of cash flow must then be prepared for the next two fiscal years of operation.
- d. Projected Operating Statements
- i. Statements of projected operations should include estimated changes in revenues and expenditures resulting from the use of financial assistance provided by the Corporation and other lenders. In particular, interest payments on anticipated loans, depreciation on additional assets acquired through financial assistance, and additional operating costs expected to be incurred through expansion of operations should be included in projected figures.
- e. Projected Statements of Cash Flow
- i. Where the applicant is an existing business, a statement of the past fiscal year's cash receipts and cash disbursements is required.

-
- ii. In addition, a projected statement of cash receipts and cash disbursements is required for the next two fiscal years with the first year cash flow projection done on a monthly basis.
 - iii. These projected statements of cash flow must take into account the financial assistance requested from the Corporation and any other financing to be received from conventional sources, as well as the cash flow expected from the normal course of operations of the business.
 - iv. The statement of cash disbursements should include any purchases to be capitalized, i.e. equipment, inventories, and the loan principal and interest to be repaid in an annual basis in relation to the amount of financial assistance requested from the Corporation and other conventional lenders, as well as disbursements for normal operating expenses. Normal operating expenses should include wages and salaries for principals of the business.
- f. Estimate of Employment Opportunities Resulting from Assistance from Corporation
- i. Applicant must indicate the estimated number of employees to be hired for full-time and part-time work if financial assistance is provided by the Corporation.

6.03 Procedure for Evaluation and Assessment of Applications for Financial Assistance

1. General Criteria for Assessing the Viability of a Business Proposal

- a. The viability of a business proposal must be assessed on the basis of the following four key questions:
 - i. Does the applicant have a background of expertise or a sound working knowledge of business proposed?
 - ii. Does the applicant have the ability and/or the managerial skills necessary to plan, develop and operate the proposed business?
 - iii. Does the business proposal indicate that the business will be able to generate sufficient flow to cover repayment of principal and interest on any funds advanced by the Corporation and/or any other lenders, to cover reasonable operating costs associated with the day-to-day operations of the business, to provide a reasonable rate of return on the investment made in the business, and to provide the

-
- owner/operator sufficient salary benefits to maintain his/her interest in the business on an ongoing basis?
- iv. Does the applicant have a reasonable financial commitment invested in the business proposal or at least access to funds which may be invested in the business proposal?

2. Character and Credit Rating of Applicant

The applicant's character, integrity and credit rating offer an important guide to his/her performance in the future.

a. Source of Character References

- i. An applicant should identify at least three character references at the time he/she makes application for assistance from the fund.
- ii. Character references should not be persons with a specific interest in the project for which assistance is being sought. They should be persons who have known the applicant for a reasonable number of years and who occupy a position of trust in the community such as business associates, bankers and former employers.

b. Sources of Credit Ratings

- i. Credit information on the applicant will be obtained from conventional lending sources with whom the applicant may have previously dealt.
- ii. If the applicant is an existing business, or has previously been in business, the major suppliers with whom he/she has done business will be contacted for credit information.
- iii. Credit information on an applicant will be obtained from a local credit bureau and/or any other credit rating agencies which may have information relating to the applicant.

Note: The Corporation is required by law to obtain the applicant's approval prior to any verification of credit.

3. Financial Obligations for Liabilities of Applicant

- a. If an applicant has existing financial obligations in the form of debt or liabilities, a review of his/her ability to repay these obligations should be made.
- b. If an applicant is contingently liable as a guarantor, a co-signer and/or endorser of any other debt obligation, the effect of these obligations on the status of business proposal should be taken into consideration.

- c. If an applicant has any legal proceedings or a lawsuit presently outstanding against him/her, consequences of these legal liabilities should be taken into consideration when reviewing a business proposal.

4. Management Capability and Experience of Applicant

- a. In terms of work experience, previous training, age, health and initiative, does the applicant appear to have the necessary skills capable of making a successful operation of the business proposal?
- b. Where the applicant's experience and capability appear to be less than adequate, will provision have to be made to provide technical knowledge, management advice, marketing advice or financial advice on a continuing basis to ensure the success of the business proposal?

5. Other Items to Consider in Assessing the Business Proposal

- a. Is the type of business organization, i.e. proprietorship, partnership, corporation, proposed by the applicant appropriate in terms of management, financing, income tax liability and the security required by lenders?
- b. Does the applicant presently own assets free of encumbrances which can be taken as security in addition to any assets that may be acquired as a result of financial assistance for the Corporation?
- c. Land or Buildings
 - i. Have the existing land, buildings, and equipment been professionally appraised, and is the appraisal available for review by the Corporation?
 - ii. Do any buildings and equipment which may be pledged as security for a loan, have a life expectancy and value sufficient to repay the loan and, if not, will profits and cash flow be sufficient to replace these items?
 - iii. If land or buildings are included in the business proposal, is the tenure of the land or buildings secured for a period at least twice the number of years required for repayment of the loan?
 - iv. Have documents relating to the lease or purchase of land or buildings been prepared and approved for registration?

-
- v. Buildings and land must have the “Environmental Checklist completed by the Loan Applicant”. With the exception of the question concerning “water and sewer services”, will trigger further investigation.

 - d. Has the applicant adequate insurance against death of key people, fire, theft, public liability, property damage, business interruption, etc. and if not, is he/she prepared to obtain coverage?

 - e. Have all licenses and permits required been obtained from the appropriate authorities?

 - f. Has the effect of Federal and Provincial income taxes and sales taxes been provided for in the business proposal?

 - g. Where governments or other lenders are to be involved in the business proposal, has the timing and the extent of their commitment been confirmed?

 - h. Labour Force
 - i. Is the project located at the closest point to the labour supply when all other factors have been considered?

 - ii. If the project is seasonal, will a sufficient labour force be available when required?

 - iii. Does the project require qualified technical personnel? If so, are there qualified personnel resident in the area?

 - iv. Does the proposal provide for adequate training of employees?

6.04 Types of Financing Available for Business Proposals

1. General

Financing for commercial business proposals may, at the discretion of the Board of Directors, be available in the following categories from the Corporation:

- a. short term (working capital) loans
- b. medium term loans
- c. long term loans
- d. equity participation
- e. guarantees on loans
- f. grants from Federal and Provincial government programs

2. Short Term Credit

The most commonly used form of short term credit is the revolving offered by chartered banks. These loans are generally required by a business which has a seasonal need for funds, by construction firms requiring interim project financing, or by businesses carrying substantial accounts receivable.

A further need for short term credit may arise when a client has obtained a specific contract to supply a product or service.

CFDCPL may, at the discretion of the Board of Directors, undertake loans of this nature when an applicant is unable to obtain suitable credit from the chartered banks. Such loans would be secured by assignment of accounts or contracts.

3. Medium Term Loans

Medium term loans are generally repaid within a one to five year period. Loans of this nature are usually required by a business for the purchase of capital assets or leasehold improvements which are subject to depreciation.

4. Long Term Loans

Long term loans are generally repaid over a period of ten to twenty years. 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 which do not depreciate significantly over the long term.

5. Equity Participation

Equity participation refers to the investment of capital in return for shares in the ownership of a business venture. The investor hopes for an eventual return on capital in the form of capital gains or dividend income which will at least equal, and hopefully exceed, the interest he/she would have earned if the capital had been invested in the form of a conventional loan.

The Corporation may undertake equity participation position in a proposal, but the decision to do so will be dependent upon the need to recapture investments within the short to medium term to ensure that the capital is available on a revolving basis for other applicants, as well as the circumstances for each individual application for financial assistance.

If the Corporation undertakes equity participation in a business venture, the business venture must be a limited company, and the Corporation will:

- a. enter into a “buy-back” agreement with the principal shareholders of the business. This “buy-back” agreement will provide a means for the Corporation to sell its shares to the other owners at an appraised or predetermined value that will not be less than the value of the equity that the Corporation has invested in the business when sufficient funds are available to retire the Corporation position, and/or
- b. if investing in a limited liability corporation (herein called the “Client Company”), either purchase voting shares which provide the Corporation with a controlling interest in the Client Company or non-voting shares which have attached to them some or all of the following rights:
 - i. preference on winding up the Client Company
 - ii. commutative dividends at an annual percentage rate of return
 - iii. redeemable at the option of the Corporation upon reasonable demand to the Client Company
 - iv. redeemable at the option of the Client Company upon payment at an amount predetermined by the Corporation and the principals of the Client Company or at the assessed market value of the shares (but not less than the amount invested by the Corporation plus accumulated dividends)
 - v. conversion to voting shares at the option of the Corporation

6. Guaranteed Loans

Where a conventional lender is reasonably sure of the prospects of a business venture but does not consider that it will have adequate security for the advancement of a loan to a client, it may require the guarantee of such loan by another party.

The Federal government will provide guarantees for bankers who make loans under the Small Business Development Loan Act and the Farm Improvement Act.

The Corporation may take the position of providing loan guarantees for applicants, but it shall be required that any such loan guarantee that the Corporation may enter into shall be supported by adequate security. In addition, before a loan guarantee is made to an applicant, the Corporation should establish, in writing, that conventional lenders will accept the Corporation’s guarantee.

7. Grants for Business Purposes

The Federal and Provincial governments have numerous grant programs and incentives available to small business and industry. Wherever possible this source of funding should be sought for applicants requiring financial assistance.

8. Appeal Procedure

Any applicant whose application has been declined either at the staff level or at the Loans Committee level has the right to appeal that decision. The process for appeal is as follows:

When the applicant wishes to appeal a Committee or staff decision, the applicant shall provide any additional information, which could be used in the consideration of the appeal to the General Manager of CFDCPL.

The General Manager shall review the additional information provided and forward the applicant's appeal, additional information provided together with the original application and recommendation to the Loans Committee for their consideration.

When the Loans Committee receives an appeal, they will review and consider all information received.

- Should the Loans Committee decide to reverse the decision based on the information provided, their decision will be forwarded to the applicant.
- Should the Loans Committee decide the appeal is not warranted, their decision will be forwarded to the applicant in writing.

In the case where the client does not agree with the decision of the Loans Committee, the client has the right of final appeal to the Board of Directors.

For appeals above the Board level, CFDCPL will utilize the Appeals section of the Northern BC Trade and Finance Group. Written appeal requests will be posted to the Appeals section of the Northern BC Trade and Finance Group forum by CFDCPL, where the other eight participating Community Futures' will be able to review the appeal request and provide their decision. The decision of this appeal will be provided to CFDCPL for contact with the client.

Click [here](#) for full Summary of Client Service Review Policy

6.05 Amount of Financing Available to Applicants

The business proposal presented by an applicant will indicate the amount of financing required by the client. The Corporation staff should, however, review the following items:

1. Review the business proposal and determine whether the amount of financing requested by the applicant is adequate to cover the following requirements:
 - a. working capital
 - b. land
 - c. building and equipment
 - d. advisory services
 - e. training programs
2. Compare the amount requested by the applicant with the amount indicated in the business proposal.
3. Review and recommend to the applicant the best possible source of financing that is available for each specific type and amount of financing.

6.06 Terms of Financing

1. When establishing terms for loans made by the Corporation, the following criteria should be used as guidelines:
 - a. Clients must make payments on principal at least monthly unless, at the discretion of the Board of Directors, the guideline is waived.
 - b. Clients must make interest payments on principal outstanding at least monthly unless, at the discretion of the Board of Directors, the guideline is waived.
 - c. Interest rates shall be set utilizing the Risk Analysis Matrix.
 - d. Working capital loans shall usually be for a one year term at which time they shall be reviewed. If at that time they are not able to be repaid in full, then the Board of Directors, at their discretion, may designate the loan to be a term loan, and the appropriate change in documentation may be made.
 - e. The terms of any loan should not exceed the estimated lifetime of the asset held as security and in any event should not exceed a maximum of five years unless, at the discretion of the Board of Directors, a loan of longer term may be approved.
 - f. Long term loans should be restricted to land related purposes and suitably secured.
 - g. The date assigned for first repayment of principal and interest will be at the discretion of the Board of Directors of the Corporation.

2. An applicant receiving a loan guarantee from the Corporation may be charged a service fee on the principal amount of the guarantee outstanding at any given time; such service fee is to be established at the discretion of the Board of Directors.
3. All loan guarantees shall be supported by security in accordance with generally accepted lending practices.

6.07 Loan Conditions

1. General

The conditions attached to loans made by the Corporation should be included in the offer of financing or loan agreement.

In setting such conditions, the following points should be considered:

- a. the security presently held by other creditors
- b. the Corporation should seek protection for any funds advanced to clients in accordance with the objectives of the corporations

2. Restrictive Covenants

The conditions attached to loans made by the Corporation may include, but not be limited to, the following restrictive covenants:

- a. limits on future borrowing
- b. limits on future capital expenditures
- c. restriction on payment of dividends or repayment of owner's capital or shareholder's loan
- d. restriction on disposal of capital assets owned by the business
- e. restriction of changes to share structure or shareholdings without consent of CFDCPL
- f. restriction on the pledging of shares for other loans

3. Other Conditions

The conditions attached to loans made by the Corporation may also include, but not be limited to, the following items:

- a. disbursement of funds by borrower

- b. purposes for which funds are advanced to borrower
- c. time limit on acceptance of offer of financing by borrower
- d. permission for the Corporation to have access to the accounting records and books of the borrower
- e. a provision for the borrower to provide the Corporation with regular financial statements
- f. repayment terms and interest rate charges on funds advanced to the borrower
- g. a provision for the borrower to assign insurance on the assets of the business to the Corporation
- h. a specification of the number of jobs the borrower is expected to create during the term of the loan
- i. life insurance on the principal

6.08 The Taking and Maintenance of Security

1. General Policy

CFDCPL must obtain adequate security to protect its loan positions and equity investments to ensure repayment of same by borrowers, keeping in mind:

- a. the objective of encouraging employment and economic development opportunities within the designated boundaries of CFDCPL
- b. the objective of providing flexibility in assisting clients to obtain financing from conventional sources

2. Procedure for Taking Security

The Loans Officer of the Corporation is responsible for drafting loan conditions including those conditions related to the security of the loan and shall present these to the Loans Committee who shall review them on relation to the proposed loan.

- a. An offer of financing shall be prepared for every application that is approved by the Board of Directors.
- b. Upon review of the security recommended, the Loans Committee shall determine the conditions to be attached to the loan, and the Manager shall draft the offer accordingly.
- c. Acceptance of the offer of financing by an applicant must be signed and witnessed.
- d. Where any person not directly involved with the business offers financing assistance or security for a loan, legal advice should be obtained and suitable evidence provided.

- e. Where the borrower is a company, the corporate seal shall be placed on the document in the presence of those officers designated in a borrower's resolution or the Company's by-law. A copy of the company's articles of memorandum indicating the borrowing powers of the company should also be placed on file.
- f. Accompanying all offers of financing shall be copies of the required security documents in a form satisfactory to CFDCPL legal advisors. A list of recommended and commonly used security documents is recorded in Section 6.08 (3).
- g. The Corporation shall ensure that all security documents required are in place prior to a drawdown of loan funds by the applicant.
- h. A separate security file for each borrower shall be maintained and kept in a fireproof filing cabinet.
- i. A "tickler" file shall be maintained to provide a system of review which will indicate when loan repayments are to be made, when clients' insurance premiums come due and when registration of clients' documents must be reviewed.

3. Recommended Security Documents

Types of acceptable security to be taken or maintained on loans advanced by the Corporation are listed below but are not limited to the following:

- a. first registered chattel mortgages on moveable assets to be purchased with the loan proceeds
- b. first of second registered chattel mortgages on moveable asset owned by a client, prior to the loan made by the Corporation

Note: The Corporation staff should be cognizant of the seize and sue legislation related to chattel mortgages on assets.

- c. mortgages on land and buildings
- d. registered general assignment of accounts receivable and/or inventories
- e. documented assignment of proceeds from the sale of agricultural crops
- f. documented specific assignment of monies receivable from business contracts or other employment, usually by a letter of direction requesting that monies owed to the borrower be assigned directly to the account of the Corporation and acknowledged by person owing the monies

- g. in addition, for limited companies the types of security to be taken by the Corporation are:
 - i. subordination of outstanding shares and shareholder's loans to the Corporation
 - ii. fixed and floating charge debentures on the company's assets
 - iii. assignment of any life and fire insurance proceeds to the Corporation
 - iv. personal guarantees of the principals of the company

4. Promissory Notes

- a. No loan monies shall be advanced by the Corporation without a duly executed promissory note from the borrower.
- b. The wording of the promissory note shall be determined by the Manager in consultation with the Corporation's legal advisors. Each promissory note shall include the amount, terms, interest rate, and repayment schedule of the loan.

5. Security Documentation Forms

- a. Wherever possible the Corporation shall use standard forms for security documentation.
- b. Security documentation forms shall be developed by the Manager to the satisfaction of the Corporation's legal advisors.

6. Registration of Documents

All security documents held by the Corporation shall be registered with the appropriate government agencies and will be monitored on an ongoing basis to ensure that they are always current.

7. Maintenance of Security

- a. All physical assets of a borrower held as security by the Corporation shall be examined by an employee of the Corporation from time to time and reported on as to condition and estimated value.
- b. A "tickler" record should be maintained and checked regularly to ensure that all registrations are in good standing, and that all items of security required in the offer of financing are held in the security documentation file.

- c. All insurance policies covering assets pledged by the borrower as security shall be reviewed on a regular basis to ensure that they remain in force and provide adequate coverage.
- d. Where a general assignment of accounts receivable has been taken as security from a borrower, regular reviews of the accounts so pledged shall be undertaken.
- e. Conditions attached to a loan made by the Corporation to a borrower shall be reviewed periodically to ensure that they are being maintained, i.e.:
 - i. financial statements received on a regular basis from a borrower
 - ii. books and accounting records being adequately maintained by a borrower
 - iii. verification that capital expenditures made by the borrower are within the conditions of the loan
- f. Where the Corporation has taken security in the form of a second mortgage, staff shall periodically review to see whether the first mortgage is being repaid according to the terms under which it was made.
- g. Where the Corporation has guaranteed a loan from another lender, the performance on that loan and the security held on it shall be reviewed on a regular basis with the assistance of the other lender (i.e. the Corporation shall ensure that a regular system of review is established with the lender).

6.08 Collection and Follow-up of Loans Outstanding

1. General Policy

- a. The terms and conditions of the offer of financing should be adhered to at all times.
- b. The Manager of the Corporation has the primary responsibility for initiating collection procedures if the terms of the loan are not being adhered to by a borrower.
- c. It shall be the responsibility of the Corporation staff member in charge of credit and collection to ensure that security on a loan is up to date, and that repayments of principal and interest are being made as required.
- d. It is the responsibility of the Manager to regularly examine the books and records of the borrower where possible.
- e. Loans officer or designate should call a borrower a minimum of 4 times per year regardless of loan status.

2. Statement of Account / Methods of Payment

- a. Where possible, statements shall be sent to each borrower showing payments of principal and interest paid, and the balance of principal outstanding at the end of each quarter.
- b. Where possible, a system of Electronic Fund Transfers for the repayment of principal and interest on all loan shall be established with each borrower.

3. Method of Accounting for Loan Payments

- a. The books of account which shall be maintained by the Corporation to record loan payments include:
 - i. daily cash or receipt journal
 - ii. the general ledger of accounts
 - iii. individual loan account files
 - iv. statement of outstanding payments
- b. Payments received on a loan account shall be credited as follows:
 - i. against outstanding interest
 - ii. against any costs payable by the borrower such as insurance premiums
 - iii. against the outstanding principal balance
- c. The database system, The Exceptional Assistant (TEA), shall be utilized to record every payment made by a borrower. Records of payments are available to every client who requires a receipt.

4. Release of Security

- a. No security held on a loan advanced by the Corporation shall be released until the loan is repaid in full. In cases where equipment held as security is required to be replaced, written authority from the Loans Committee is required before release of such equipment is made, and all costs of release and re-documentation of the security shall be charged to the borrower.
- b. When a loan has been repaid in full, security held by the Corporation may be released upon written authority of the Loans Committee.

6.10 Delinquent Loans

1. When a client's loan is in arrears, the method of collection will vary with the circumstances of the borrower. It is the Manager's responsibility to determine why the loan is in arrears and to endeavor to assist the borrower to meet his/her obligations if at all possible.

Where the loan is considered delinquent, the Loans Officer must contact the borrower within 10 days.

2. When a client's loan is in arrears, the Corporation staff should pay a personal visit to the client's operation to review the following items:

- a. Are the client's books and accounting records up to date?
- b. Are revenues and expenditures meeting projections?
- c. Should the business seek further assistance?
- d. Is the client drawing too much out of the business in terms of wages or draws?
- e. Are there adverse situations affecting profitability, and if so, are there steps that can be taken to remedy the situation?
- f. Is further management training required by the client?
- g. Should the business be liquidated or sold?

3. Revision of Terms of Original Loan

- a. If it is clear that under existing operating circumstances the borrower cannot meet the original terms of the loan, the Corporation may revise the repayment schedule at the discretion of the Board of Directors.
- b. A revision of terms for a borrower may only be made on the authority of the Board of Directors.

4. Legal Action / Seizure and Sale

Calling a loan from a borrower is a formal demand for payment which is a pre-requisite to legal action. Such action shall only be done on the written authority of the Board of Directors.

5. When a loan is deemed to be non-collectable by staff, the interest rate on that loan will be reduced to 0% from the day of the last payment received (or the first day of the current fiscal year, whichever has occurred as the latest). Should the loan repayment be reassessed as recoverable at a later date, accrued interest will be recalculated from the date it was reduced to 0% and every effort made to collect this accrued interest in addition to the principal balance owing.

6.11 Loans Committee

1. Membership

- a. Comprised of a minimum of three (3) members, at least three (3) of which are Directors of CFDCPL.
- b. Members are chosen for their business acumen and experience as well as their fair-mindedness, understanding of the community, and availability for committee meetings.
- c. The General Manager will be an ex-officio member of the committee.
- d. A quorum for the committee shall be three (3) members, two (2) of which must be board members.

2. Responsibilities

- a. Administers the investment activities of the Corporation.
- b. Reviews and either approve or declines loan applications and any requests for amendments to loan agreements.
- c. Reviews delinquent accounts and makes decisions on plans of action for collections procedures. These decisions are final and not subject to approval by the CFDCPL Board of Directors.
- d. Reports investment fund activities to the board on a monthly basis.
- e. Reviews policy, philosophy, and goals established by the board for consistency and effectiveness.
- f. Makes recommendations to the board for changes to policy, philosophy, and goals.

- g. Ensures that minutes of all meetings are kept.

3. Loan Evaluation Periods

Unless unusual circumstances arise, the Loans Committee (acting with the Loans Officer) will give the applicant notice of loan approval or rejection in a timely period. Where at all possible the notice should be given to the applicant within the following periods:

\$0 - \$10,000	5 working days
\$10,000 - \$25,000	10 working days
\$25,000 - \$50,000	15 working days
\$50,000 - \$125,000	20 working days

6.12 Authorities, Lending Limits and Amendments

1. General Lending

The Board of Directors may from time to time authorize Discretionary Staff Lending Limits to individual members.

Staff have the authority to decline any applications which they feel do not meet the guidelines and criteria of the Corporation. All declined applications must be reviewed by two staff members, one of which must be the Loans Officer or the General Manager. In the absence of one or the other, then the loan must go to the Loans Committee.

2. Approved Staff Discretionary Lending Limits

a. Loan Advances to Existing Loan Clients

The General Manager may approve to increase financing facilities to existing loans clients up to the original loan amount approved by the Loans Committee. The original loan cannot exceed \$50,000.00; therefore, the approved amount by the General Manager cannot exceed \$50,000.00.

b. New Loans Clients

The General Manager can approve new loans up to \$25,000 in order to maximize the effective use of time of the Loans Committee. All loans would be reviewed by the Loans Officer and the General Manager.

c. Self-Employment Clients

The Loans Officer can approve a new loan up to \$5,000.00 for Self-Employment client.

All loan activities will be reported to the Loans Committee and the Board of Directors once per month outlining staff discretionary lending.