

LOAN PROGRAM POLICY

The full Board of Directors shall be advised of all loan applications, and by resolution, shall have final approval for acceptance or refusal of all loans, amounts, and all terms and conditions, as deemed appropriate in accordance with the following Policy, the Community Futures Alberta approved Lending Process Manual, PrairiesCan Contribution Agreement and any other PC directives issued from time to time.

The following Policy is a guideline for traditional lending:

ELIGIBILITY

1. Loan applicants must have their business within the Community Futures East Parkland (CFEP) region, as outlined in the *Articles of Association*. Depending on the type of venture, loans for businesses outside of the region may be considered with written approval from the CF Office servicing that region.
2. Loan applications shall be accepted for the purpose of establishing, maintaining, or expanding a small-medium business enterprise (SME) that is in accordance with the PC and CFEP mandates.
3. All applications shall be assessed on the following criteria:
 - a. Character
 - b. Capital and equity position
 - c. Capacity to pay
 - d. Collateral available to secure the loan
 - e. Conditions of the borrower's situation
 - f. Economic impact on the community and/or region
4. Applicants shall receive one (1) point for each successful criterion listed above to receive a Client Ranking under the following headings:
 - a. 5 points = excellent
 - b. 4 points = good
 - c. 3 points = fair
 - d. 2 points = marginal
5. Each loan application file shall include, but is not limited to, the following documentation:
 - a. Signed loan application
 - b. Financial statements/income tax/cash projections
 - c. Business plan
 - d. 1-2 letters of reference
 - e. Notice of refusal from another lending agency
 - f. Credit report
6. Each loan application shall be reviewed and evaluated on its own merit.
7. Legal Counsel shall complete any additional checks or searches as deemed necessary.

TERMS & INTEREST RATES

8. The term of the loan shall be a maximum of five (5) years.
9. The monthly interest rate shall be set on the first working day of the month using ATB Financial prime lending rate adjusted within the matrix as outlined in the attached Schedule of Interest Rates.
10. Notwithstanding Section 9, the PC Contribution Agreement allows for interest rates of prime plus two percent (2%), interest rates between prime plus two percent

(2%) in exceptional circumstances, and interests rates less than prime in emergency circumstances.

11. The full Board shall define what constitutes an exceptional circumstance and shall be responsible for approving any loans that fall within those criteria.
12. PC is responsible for determining what are deemed emergency situations, and prior written approval from PC is required prior to the full Board approving any loans with interest rates below prime.
13. All loans approved under exceptional, or emergency circumstances shall be reported to PC in the annual reports as well as noted in the Audited Financial Statements.

APPLICATIONS

14. A non-refundable application fee shall be charged for each loan, as outlined in the attached Schedule of Fees, and when possible, collected by Legal Counsel. If the application fee is not collected by Legal Counsel or funds are distributed by CFEP Office, fee may be withheld from the loan proceeds or added to the loan balance.
15. Once an application has been reviewed by the Board, Staff shall notify the applicant in writing via mail, fax or email following review with Legal Counsel.
16. Should the application be successful, the written notice shall advise that approval is conditional to Legal Counsel review and acceptance.
17. Should the application be unsuccessful, the written notice shall advise the Reconsideration of an Application process, as well as alternative funding options that may be available.

RECONSIDERATION OF AN APPLICATION

18. The applicant, the General Manager or a Board member may request the reconsideration of any loan that was refused, by submitting a written request to the Board Chair.
19. At either a Regular Meeting or Special Meeting, the full Board shall invite the applicant to make their appeal in person. The length of time allocated to the appeal shall be at the discretion of the Chair.

LOANS UNDER \$10,000

20. The General Manager has the authority to approve loan applications for amounts up to and including \$10,000.
21. Applications approved shall require only a promissory note for security.
22. Applications approved shall be ratified by the Board at their next Regular Meeting.
23. All other conditions of this policy shall apply.

LOANS EXCEEDING \$150,000

24. Financial assistance exceeding \$150,000 shall be considered exceptional, and not the norm.
25. Loan applications exceeding requests of \$150,000 shall be presented to, and reviewed by, the full Board. This shall not be delegated.
26. Attempts shall be made for joint lending with the Business Development Bank of Canada, other traditional or alternative lending agencies, or as a syndicate with other CF Offices.

27. The amount of any individual investment cannot exceed 15% of the total Investment fund assets or \$150,000, and approval shall not raise the total outstanding value of all such loans (exceeding \$150,000) to greater than 30% of the value of the total investment fund.
28. For applications approved, full disclosure of the Board's rational behind their decision shall be recorded and kept within the loan file, along with documentation of unsuccessful attempts to collaborate with traditional or alternative lending agencies.
29. Consideration for approval shall include, but not be limited to:
 - a. Type and scope of the business venture and economic impact
 - b. Amount application exceeds \$150,000
 - c. Calculations of risk and financial impact on current lending portfolio
 - d. The client ranking and current portfolio score
 - e. Other evidence of additional due diligence
30. All such loans approved shall be reported to PC in the annual report as well as noted as 'exceptional loans' in the Audited Financial Statement.
31. All other conditions of this policy shall apply.

FLEX LINES OF CREDIT

32. A FlexLOC refers to the entire scope of the project or business and is renewable annually from the effective date.
33. At the date of renewal, any outstanding loans shall be updated with the terms and conditions of renewal, as per this policy.
34. After the initial loan amount is advanced, a new loan shall be created for further advances (once the initial loan is sufficiently paid down), with the total of all loans not to exceed the approved loan amount.
35. Should the client wish to maintain the FlexLOC before funds have been advanced, or after the loan(s) have been paid in full, the account shall be charged a monthly fee as outlined in the attached Schedule of Fees.
36. All other conditions of this policy shall apply.

EQUITY LOANS

37. Loan applications requesting an equity loan shall be presented to, and reviewed by, the full Board.
38. Every effort shall be made to discourage applications for equity loans.
39. For applications approved, full disclosure of the Board's rational behind their decision shall be recorded and kept within the loan file.
40. All other conditions of this policy shall apply.

LOAN EXPIRY

41. The borrower has Ninety (90) days from the loan being approved to draw down the funds. If the funds are not drawn down within this time, the loan shall be cancelled. The borrower may request an extension, which shall be granted at the absolute discretion of the Board.

LEGAL AND OTHER FEES

42. The client shall be responsible for all legal fees incurred throughout the life of the loan, including all costs for amending security.

43. The statement of account for legal services rendered to the date of cancellation shall be payable by the applicant, where the client has decided, at any time, not to proceed with the loan.
44. A non-refundable administrative fee, as outlined in the attached Schedule of Fees, shall be applied to the balance of a loan after the first advancement for ongoing administrative costs throughout the term of the loan, excluding those fees specified within this Policy.
45. Clients shall be responsible for submitting bi-annual financial reporting and/or annual income tax returns, with failure to comply, resulting in CFEP reserving the right to apply a penalty to the balance of the client's loan, as outlined in the attached Schedule of Fees.

LOAN RENEWALS

46. All loan renewals shall be brought forward to the Board for approval and shall be dealt with the month prior to the Renewal Notice being sent.
47. The Renewal Notice, shall be sent to the client 60 days in advance of the renewal date (loan expiry date).
48. A renewal shall be offered automatically unless there has been a concern with the loan in the past, as defined as:
 - a. Client has been delinquent during the history of the loan; or
 - b. Any other circumstances that could potentially adversely affect CFEP's security.
49. The interest rate shall be as calculated in the matrix outlined in the attached Schedule of Interest Rate, at the time of the Board resolution.
50. A non-refundable renewal fee shall be charged on the balance outstanding of the loan, as outlined in the attached Schedule of Fees, as at the date of renewal.
51. Where the loan is not renewed on or before the renewal date, the client shall pay interest on the principle outstanding at the interest rate as per the offer to renew, should the rate be higher, from, and including, the renewal date until the first payment is due pursuant to the renewal terms and conditions, with all outstanding interest to be due and payable as at the date the first payment is due, and if such outstanding interest is not paid, then the interest shall be added onto the principle of the loan.

CLIENT REQUESTED INTEREST RATE REDUCTIONS

52. Clients may submit a written request to the Board for a reduction in their interest rate to the current rate at the time their letter is presented, provided they meet the following criteria:
 - a. There is more than two (2) years left on the loan
 - b. There is a difference of at least one and a half percent (1.5%) in the interest rate
 - c. The loan balance exceeds \$10,000.00
 - d. The client is not delinquent
53. A non-refundable processing fee, as outlined in the attached Schedule of Fees, must be paid to CFEP and the client is responsible for all legal costs incurred to amend the terms of the loan.

LOAN PAYMENT

54. The General Manager shall be authorized to hold a payment for up to two (2) months when requested to do so by a client.

INSURANCE

55. Upon CFEP receiving the first loss payable notification that the client has allowed the insurance to lapse or be cancelled, the client has fourteen (14) days to provide CFEP written evidence from an Insurance Broker that insurance with a first loss payable in favor of CFEP has been procured or reinstated.
56. If the client fails to provide such evidence within that time, CFEP may initiate foreclosure/default proceedings without further notice to the client.
57. In the event the security consists of real property, CFEP has the option of placing insurance on the property with all related costs being applied to the balance of the client's loan.

DELINQUENCY

58. When a payment has not been received on its due date, or it is returned NSF, the General Manager and/or CFEP Staff shall contact the client.
59. CFEP reserves the absolute right to apply a penalty, as outlined in the attached Schedule of Fees, to the balance of the client's loan for each payment that is not honored by the client for whatever reason.
60. A loan is deemed delinquent after two (2) consecutive missed payments.
61. Upon declaration of delinquency, the Board and/or General Manager shall consult Legal Counsel to seek advice concerning the course of action for security enforcement.
62. It shall be the duty of Legal Counsel, under the direction of the Board, to take any and all steps required to collect on the loan and to enforce all securities held. Legal Counsel shall inform CFEP of all actions as the steps are taken.
63. All legal action taken by Legal Counsel shall be taken with the best interests of CFEP as being forefront. If the Board desires a different course of action, the Board shall instruct Legal Counsel accordingly.
64. Alternative arrangements to collections may be recommended by Legal Counsel and shall become effective only when approved by the Board.
65. The Board shall make all decisions that involve, or could involve, losses to CFEP.
66. All legal matters relating to collection of delinquent loans and enforcement of security may proceed through Legal Counsel including, at the insistence of the Board and/or General Manager:
 - a. All contact with clients, and any clients who attempt to contact CFEP shall be directed to Legal Counsel
 - b. All funds collected shall flow through Legal Counsel

DOUBTFUL ACCOUNTS / LOAN WRITTEN OFF

67. During the annual audit, the General Manager, Accountant, Auditor and Legal Counsel shall consult to review the entire loan portfolio with regards to determining doubtful accounts, loan allowances and whether an account should be written off, with recommendation presented to the Audit Committee and Board.
68. Consideration for designating a doubtful account and corresponding loan allowance, or writing an account off shall include, but is not limited to:
 - a. Level of business success
 - b. Delinquency history
 - c. Degree and cost of legal action taken and available to take
 - d. Type and amount of security held

- 69. Board approval of the Annual Audit Report shall deem approval of the annual doubtful accounts and loan allowance amounts.
- 70. The Board shall approve all accounts recommended to be written off.

SECURITY/COLLATERAL

- 71. Any change in the security held for a loan must be approved/ratified by the Board.
- 72. The client shall be responsible for all legal costs incurred to amend the terms of the loan.

BORROWING

- 73. The Board is authorized to make use of funds from the Operating Savings Account for loans in keeping with the criteria for loans, including using the funds to commit to Letters of Credit as may be necessary for Borrowers.

LOAN PORTFOLIO MANAGEMENT

- 74. The overall portfolio risk shall be calculated and reported to the Board quarterly.
- 75. The cash-to-loans ratio shall be calculated using the loans outstanding balance (including committed funds) to the percentage of cash on hand (excluding CFLIP contributions) and reported to the Board quarterly.

Unanimously accepted by resolution of the Board of Directors their Regular Meeting of **September 11, 2023.**

Eric Bloomquist

Lennard McFarland

Ron McIntosh

Marilyn Weber

Ray Reckseidler

Lisa Smith

Glenn Ruecker

LOAN PROGRAM POLICY – SCHEDULE OF FEES

The Schedule of Fees is contained within the Loan Program Policy and may be amended by the Board of Directors as deemed necessary from time to time, without affecting the remaining Loan Program Policy.

APPLICATION FEE

Loans Under \$10,000

\$100

Loans over \$10,000 and Flex Lines of Credit

1% of loan application

RENEWAL FEES

Loans

0.5% of the loan balance at the date of renewal

Flex Lines of Credit

0.5% of loan authorization.

FLEX LINES OF CREDIT

Monthly fee to maintain an account with a \$0 balance

\$100.00

LEGAL AND OTHER FEES

- a. Clients shall be responsible for all legal fees incurred throughout the life of the loan, including all costs for amending security.
- b. Administrative Fee: \$200.00
- c. Bi-Annual Financial and Income Tax Return Penalty:
 - i \$500.00 – October - June reporting
 - ii \$500.00 – March – December reporting

INTEREST RATE REDUCTIONS

- a. Processing Fee: \$100.00
- b. Clients shall be responsible for all legal costs incurred to amend the terms of the loan.

DELINQUENCY

- a. NSF Fee: \$50.00
- b. Or Non Payment Fee: \$50.00

SECURITY/COLLATERAL

- a. Clients shall be responsible for all legal costs incurred to amend the terms of the loan.

Eric Bloomquist

Lennard McFarland

Ron McIntosh

Marilyn Weber

Ray Reckseidler

Lisa Smith

Glenn Ruecker

LOAN PROGRAM POLICY – SCHEDULE OF INTEREST RATES

The Schedule of Interest Rates is contained within the Loan Program Policy and may be amended by the Board of Directors as deemed necessary from time to time, without affecting the remaining Loan Program Policy.

- a. Notwithstanding Section 10, the minimum interest rate shall be ATB prime plus **3.25%**
- b. The maximum interest rate shall be ATB prime plus **9.25%**

Criteria	Risk					Client Rating
	5	4	3	2	1	
Beacon Score	<650	650-674	675-699	700-749	750+	
Personal Networth	<50%	50-59%	60-79%	80-99%	>100%	
Security Coverage	<50%	50-59%	60-79%	80-99%	100%	
Debt/Equity	Start-up	>3:1	2:1-3:1	1:1-2:1	<1:1	
Current Ratio	Start-up	<1:1	1:1-1.25:1	1.25:1-1.5:1	>1.5:1	
Years Operating	Start-up	<2 yrs	2-3 yrs	3-4 yrs	5+ yrs	
Debt Service Coverage	Projected	<1.0x	1.0-1.10x	1.10-1.25x	>1.25x	

Average Risk:

#DIV/0!

Additional Risk Factors that may be considered:

	5	4	3	2	1	
Economic or Industry Risk	V High	High	Medium	Low	Stable	
# Employees	1-2	3-4	5-7	8-10	>10	

Rate Premium	6.0%	5.0%	4.0%	3.0%	2.0%	
---------------------	-------------	-------------	-------------	-------------	-------------	--

*Criteria are equally weighted in Risk Rating Calculation

CFEP GM Discretion (+/- 0.5%) with Mitigating Factors:

Personal Property vs. Real Estate Collateral
Collateral Assignment of Life Insurance
Management experience/ability

CF Base Rate P+3.25%		
Plus Rate Premium		
GM Discretion		
Rate to be Charged:		#VALUE!

Eric Bloomquist

Lennard McFarland

Ron McIntosh

Marilyn Weber

Ray Reckseidler

Lisa Smith

Glenn Ruecker