



Lending Policy

Community Futures East Kootenay

Board of Directors
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1. Purpose

The assets of the Community Futures East Kootenay (CFEK) investment fund include all grant moneys from Canada, partnership funds, money flowing back into the fund in the form of repayment of loans, buy back of shares, and loan receivables of all types.

The purpose of the CFEK Investment Fund is to assist small and medium sized businesses start or expand operations. The activities support:

- Developmental lending to new and innovative businesses to encourage diversification of the economy in the area,
- Promote sustainable business and employment development and a healthy and resilient local economy,
- Provide assistance and technical advice to encourage and facilitate the successful development and implementation of business plans for new and expanding businesses,
- Participate in the financing of enterprises that will create or enhance employment, and
- Provide ongoing counseling and assistance to businesses.

2. Eligibility

The Investment Fund is to be used to provide repayable financing to assist business projects and to help entrepreneurs and community organizations to create or expand businesses and to support Social Enterprises. CFEK does not provide grants, contributions, or forgivable loans.

The applicant and business must be located within CFEK's service area, which includes the communities and rural areas of Columbia Shuswap Area A and the Regional District of East Kootenay.

Financing or other assistance will not be provided to businesses that exploit sex or religion or that engage in illegal activities. CFEK may also decline service to any business where there is a significant real or perceived risk to the organization's reputation.

Financial Assistance may be provided where one or more of the following criteria are met:

- Financing would increase local and regional benefits through job creation, business sustainability and/or diversification of the local economy,
- Financing would enhance sector development,
- Financing would assist with the adoption of innovation or new technologies,
- Financing would assist businesses to enter into global markets.

CFEK does not normally provide financing for projects where the primary purpose of the loan would be to consolidate or assume the debt of other lenders. CFEK may agree to assume the debt of other lenders for existing businesses as part of a broader financing solution if there is a strong business case for doing so, and where there is tangible security for that portion of the program of financing.

CFEK does not normally provide financing for current or prior period operational losses. CFEK will consider a reasonable request for working capital to cover anticipated start-up costs outlined in the business plan financial forecasts. CFEK may also consider applications that include a working capital component for intangible business costs such as hiring & training, market development activities, delivery & installation costs for new equipment or consulting fees related to the project being financed.

CFEK does not provide financing to pay outstanding taxes or other government remittances in arrears.

Applicants must attest to having attempted to access financing from another source (bank or credit union).

3. Term Loans

a. Loans under \$150,000

All applicants must submit a complete Loan Application Package, including all necessary supporting documents. Specific supporting documents may differ for each application, based on a number of factors.

The principals of the business must have or will have a financial involvement to a degree that the CFEK deems reasonable in relation to the principals' own wealth and to the funding requirements of the proposal.

CFEK is required by law to obtain the applicant's signature for the purposes of making a credit decision, to collect, use and disclose their personal information. Should their application be approved, they are also consenting to collection, use or disclosure of their personal information by CFEK. In the case of a partnership, all parties to the partnership must sign the loan application.

All Individuals, shareholders, and directors of a proprietorship, partnership or incorporated company who hold a controlling interest (10% ownership or greater) must provide personal financial statements.

Where the applicant is a Not-for-Profit Corporation or Society, the requirement for personal financial statements will be waived.

For all applicants, proof of paid and up to date government remittances, including but not limited to Corporate Income Tax, GST & PST, employment source deductions and Personal Income Tax must be provided.

Applications are adjudicated according Community Future's "5 Cs of Lending":

- Character
- Capacity
- Conditions
- Capital
- Collateral

CFEK is prepared to participate in an under-secured position in financing programs for small businesses and entrepreneurs. However, CFEK will seek to secure its financial support with tangible business assets to the extent possible. CFEK may choose not to participate in projects where there is insufficient security even if there are other positive factors.

If the Investment Fund Manager concludes that the applicant fails to meet CFEK's eligibility requirements or that the application clearly fails to address and satisfy the "5 Cs of Lending" criteria, he/she may notify the applicant of the issue(s) and decline the application. The applicant may appeal this decision (see S. 6 Redress / Appeals Process).

Delegation of Authority

CFEK's Board of Directors delegates authority to the approve loans under \$150,000 to a Loan Review Advisory Committee. Terms of reference for the Loan Review Advisory Committee are outlined in CFEK's General Policy, s. 6.2.

CFEK's Board of Directors delegates authority to approve loans up to \$50,000 to the General Manager, Investment Fund Manager and one (1) Director preferably from the community the business is located.

CFEK's Board of Directors delegates authority to approve re-advancement of funds up to \$25,000 to existing loan clients in good standing to the General Manager and Investment Fund Manager, provided that the re-advancement does not exceed the original authorization limit.

b. Micro-Loans

CFEK has recognized that small businesses and entrepreneurs may require rapid access to financing to take advantage of an immediate opportunity. To address this need, CFEK has adopted a simplified and accelerated process for business loans up to \$25,000.

All applicants must meet CFEK's eligibility requirements and complete the Micro-Loan Application package.

Micro-Loans are short-term loans (repayable within 48 months) with a maximum total commitment per client of \$25,000 or less.

Security pledged in support of a loan will normally include only a promissory note and/or personal guarantee (for corporate Borrowers). CFEK may also choose to register a specific or general security agreement in some cases.

The minimum average beacon score for Micro-Loan applicants (Borrowers or Guarantors) is:

- 650 for loans secured solely by a promissory note and/or personal guarantee,
- 600 for loans secured by a promissory note and/or personal guarantee, **and** a specific or general security agreement pledging tangible security in support of the loan.

CFEK's Board of Directors delegates authority to approve Micro-Loans to any two of the following: Investment Fund Manager, General Manager, Board Chair and Board Vice-Chair.

This streamlined process will normally permit applications to be approved and funds disbursed within 5 business days.

Applications for loans with a total commitment under \$25,000 that do not meet the minimum requirements for the Micro-Loan Program may still be approved by the next level of authority which is the General Manager, Investment Fund Manager and a one (1) Director preferably from the community the business is located.

c. Loans over \$150,000

Applicants must follow the same application process as for loans under \$150,000 and meet the same eligibility criteria.

For loans to clients in excess of \$150,000 drawn from Government of Canada contributed funds, subject to the guidelines recommended by Pacific Economic Development Canada (PacifiCan), the following additional criteria are applicable:

- i. The amount of any individual investment (loan or loans to the same Borrower) cannot exceed the greater of 15% of the Government of Canada contributed investment fund assets or \$150,000,
- ii. CFEK has demonstrated and recorded on file unsuccessful attempts to collaborate with the Business Development Bank of Canada (BDC) and/or other conventional lender, and/or with a CF syndicated loan program, where in place, with other regional CF organizations, to ensure that the CF portion of the loan only exceeds \$150,000 where absolutely necessary,
- iii. Approving the loan must not raise the total outstanding value of all such loans (over \$150,000) to greater than 30% of the value of CFEK's total Government of Canada contributed Investment Funds (PacifiCan funds) at the date of the approval of the loan,
- iv. During the assessment and approval process, the Board should consider and document their rationale as to whether enhanced due diligence such as outside review of business plan or independent appraisal of business assets is required,
- v. As this will be an exception to policy, the decision to approve any financial assistance over \$150,000 from the Government of Canada Investment Funds must be made by the Board of Directors (not a sub-committee), irrespective of any delegated approval that may exist, and clearly recorded in signed Minutes of the Board meeting, and

- vi. CFEK has clearly documented the above in their client files.

4. Syndication

From time to time, two or more Community Futures organizations will collaborate to provide financial assistance to small businesses and entrepreneurs.

a. CFEK as Syndicate Lead

Applicants must follow the same application process as for loans under \$150,000 and meet the same eligibility criteria.

Because other Community Futures organizations are being asked to invest funds from their investment portfolio outside of their own service areas, projects should:

- create a greater economic impact than non-syndicated projects, or
- create proportionately higher job creation opportunities than non-syndicated projects, or
- lead to greater opportunities for the development and/or adoption of innovative technologies, or
- demonstrate other benefits to the community or region relative to the amount of financing being requested.

Applicants should expect the due diligence and adjudication process to take longer than for non-syndicated loans as it is necessary to secure the commitment of other lending partners.

Provided CFEK's portion of the project does not exceed \$150,000, the application can be adjudicated by a Loan Review Advisory Committee.

b. CFEK as Syndicate Participant

CFEK will only invest outside of its service area if there are sufficient investment funds available to participate in a syndicated loan project while ensuring that CFEK can continue to meet the access to capital needs of small businesses and entrepreneurs in CFEK's service area.

CFEK should not participate in syndicated loan projects when less than 20% of the investment fund portfolio is available as cash or cash equivalents.

Syndicated loan projects should:

- create a greater economic impact than non-syndicated projects, or
- create proportionately higher job creation opportunities than non-syndicated projects, or
- lead to greater opportunities for the development and/or adoption of innovative technologies, or
- demonstrate other benefits to the community or region relative to the amount of financing being requested.

Because CFEK's investment funds are being invested outside of CFEK's service area, the proposal will be adjudicated by the Board of Directors, regardless of the total commitment by CFEK.

CFEK should not normally participate in a syndicated loan with a repayment schedule greater than 5 years. Loans with longer amortization periods can be considered where there is a reasonable expectation CFEK's portion will be repaid within 5 years.

5. Interest Rates

All Loans shall be repayable with interest. The minimum interest rate is defined as the Prime Rate plus two percent.

In exceptional circumstances, CFEK may charge lower interest rates for Social Enterprises **between prime and prime plus two percent** if the following conditions are met:

- The decision to approve using interest rates between prime and prime rate plus two percent is made by the Board of Directors (rather than a sub-committee) irrespective of any delegated approval that may exist and is clearly recorded in signed minutes of a duly constituted Board meeting.
- All interest rates offered under exceptional circumstances must be reported to PacifiCan in the annual performance report.
- Audited Financial Statements must indicate any loans with interest rates between prime and prime plus two percent. Recommend note to Audited Financial Statements to this effect.

Interest rates **less than the prime rate** are only to be used in **emergency situations**, such as natural disasters or economic downturns, and are subject to PacifiCan pre-approval. The responsibility for assessing and determining situations that are deemed emergencies rests with PacifiCan and requires prior written approval of the Minister. All interest rates offered under exceptional circumstances must be reported to PacifiCan in the annual performance report.

6. Equity Financing

CFEK may consider applications or proposals for equity financing from eligible, incorporated businesses where traditional term-lending solutions are not an available or reasonable option. In rare cases, CFEK may propose equity financing to clients as an alternative to term lending, where CFEK identifies a strong business case for equity over debt, both for the client and for CFEK.

CFEK considers financial support for small businesses and entrepreneurs by way of equity financing to comprise significantly greater risk than traditional term lending solutions. This additional risk requires that CFEK undertake supplementary due diligence in the adjudication of any proposal or application and that CFEK seek a commensurate return on investment, proportionate to that increased risk.

To ensure that equity financing does not represent a disproportionate risk to the overall investment portfolio, the total equity financing commitment to a single borrower should not exceed 5% of the total investment funds. Further, no more than 10% of the investment fund portfolio should be committed to equity financing at one time.

Equity financing is only available to incorporated businesses authorized to issue share capital. Corporations must have been in business for 3 or more years or, in the case of a joint venture, the majority of shareholder companies must have been in operation for 3 or more years.

Assistance in the form of equity investments should not exceed 49% of the outstanding voting shares of the corporation. CFEK may require representation proportionate to its share ownership on the corporation's Board of Directors.

CFEK may seek outside advisory support in the development of an appropriate and acceptable equity financing arrangement. Equity financing projects should include a detailed exit strategy with a target exit within 5 years.

Assistance provided must be the subject of formal agreements that meet all requirements under the applicable securities legislation in the province of British Columbia.

CFEK may consider programs of financing for incorporated businesses that include both an equity component and term lending where there is a strong business case for this type of blended program. Blended programs that raise the total commitment to any one client over \$150,000 must adhere to the policy for loans over \$150,000.

Authorization to participate in financing programs that include equity financing will be made by the Board of Directors, irrespective of any delegated approval that may exist.

7. Redress and Appeals

a. Incomplete Applications

Applications for financing are to be accompanied by the required fees and supporting documentation, often including a business plan, cost estimates, equipment quotes, financial forecasts and any other information required to properly assess the economic viability and financial risk of the project. In cases where the Investment Fund Manager has concluded that the applicant has failed to provide sufficient information, documentation or other material necessary to prepare a full and accurate Loan Proposal, the application will be considered incomplete.

In this case, the Investment Fund Manager will inform the applicant in writing (e-mail or letter) of the status of the application, the steps required or documents needed to continue the application process, and the reasons for requiring the information.

Should an applicant disagree with the need for any of the requested information or believes that the application is sufficiently complete to continue, he or she may request an appointment to review the application with the General Manager.

If the applicant remains unsatisfied following the meeting with the General Manager, he or she may request in writing that the application and all supporting documentation provided to CFEK be presented to a Loan Review Advisory Committee for consideration.

The Investment Fund Manager will then complete the Loan Proposal for presentation to a CFEK Loan Review Advisory Committee, without prejudice.

b. Applications not meeting CFEK's Lending Criteria

In situations where the application fails to meet CFEK's criteria for eligibility or where the Investment Fund Manager determines that the application does not sufficiently satisfy the "5 Cs of Lending", the Investment Fund Manager will notify the applicant in writing of the decision not to proceed further with the application.

Should an applicant disagree with the decision of the Investment Fund Manager, he or she may request an appointment to review the application with the General Manager.

If the applicant remains unsatisfied following the meeting with the General Manager, he or she may request in writing a meeting with a quorum of the Board of Directors to appeal the General Manager's decision.

c. Applications that are Tabled

A tabled Loan Proposal is an application package that has been presented by the Investment Fund Manager to a Loan Review Advisory Committee and where the Committee members have identified issues or raised questions to be addressed prior to coming to a final decision. In this event, the Investment Fund Manager will follow-up with the applicant to gather additional information required to satisfy the Committee's concerns.

If the applicant disagrees with the Committee's decision to table the application, he or she may request in writing that the application and all supporting documentation provided to CFEK be presented to a quorum of the Board of Directors for consideration. The Board will then objectively consider the application and reach a conclusion to either approve or decline the applicant's Loan Proposal.

d. Applications that are Declined

In situations where a Loan Review Advisory Committee has declined an applicant's Loan Proposal, the Investment Fund Manager will provide the reasons for the decision to the applicant in writing.

The applicant may choose to address the reasons for the Committee's decision and re-apply in the future.

If the applicant disagrees with the Committee's decision, he or she may apply in writing to have the Loan Proposal reviewed by a quorum of the Board of Directors.

If the application remains unsuccessful following a review by the Board of Directors, he or she may request in writing that the application and all supporting documentation provided to CFEK be forwarded to the Executive Director of Community Futures British Columbia (CFBC). A committee of the CFBC Board of Directors or other

such body as determined by CFBC will review the application, and issue a determination as to whether the Board of Directors ***adhered to CFEK policies and procedures in the consideration of the application and appeared to have been objective in reaching its conclusion.***

If the CFBC review committee or other CFBC body determines the Board of Directors failed to adhere to CFEK policies and procedures or did not appear objective in reaching its decision, the Board of Directors will reconsider the application. Representatives of CFBC will be asked to attend and advise the CFEK Board of Directors as its reconsiders the application. The decision of the Board of Directors will be final and the CFBC will be asked to provide the applicant with a final determination regarding the Board's decision.

What Community Futures Looks for in a Loan Application:

The Five C's of Lending



When your local Community Futures staff and volunteer board assess the merits of your loan application, they take into account our own version of the classic banking industry guideline “The Five C’s of Lending.” As we are developmental lenders – and because community economic development is our number one priority – we are able to interpret and prioritize lending criteria a bit differently than traditional banks.

Here’s some insight into the criteria we will use when we look at your loan application:

1. Character

Character is a combination of your credit history, your training and work history, and any proven experience you have at running a business. Most banks look primarily at how the loan will be secured. While this is also important to us, we value your personal experience and track record too. We’ll also want to know about the industry skills and management experience of your leadership team, because even the best business ideas don’t succeed without strong management. It’s all part of ensuring that you are set up for success in business – not just loan repayment!

2. Capacity

Capacity refers to your ability to take on and repay debt based on the earning potential and cash flow of the business. We look at your business plan very carefully to determine the strength and marketability of your idea as well as the viability of the business. It is therefore very important that you take the time to carefully research and thoroughly test your business concept. We also want to make sure there will be adequate cash flow, to ensure that you can realistically afford the loan. If you are asking for a loan for an existing business, we’ll look carefully at your historical financial statements. If you are starting a new business, we’ll review projected financial statements as well as data like industry averages.

3. Conditions

When assessing a loan request, we take great care to understand the market and conditions in which you are planning to operate your business. Is the industry mature, or emerging? What are the current political, environmental, social, and technological issues affecting the industry? To gain insight, we look at data from industry associations and government and regulatory bodies, as well as your own marketing plan research. And, of course, we factor in the ability of your business to help drive rural economic diversification – adding recognition for big potential impacts.

4. Capital

Capital includes your personal and corporate net worth, the “sweat” and real equity you have invested in the business and your ability to access other financial reserves. We want to make sure you have adequate capital to grow your business and to weather any unexpected emergencies or setbacks. Having insufficient capital is a common mistake for too many businesses, and we want to ensure it doesn’t happen to you.

5. Collateral

Because Community Futures organizations are developmental lenders, we place a greater focus on the management team, business capacity, market conditions, and cash flow of a business. However, we do have a responsibility to lend money responsibly, and therefore must take adequate security. We will be as creative as we can in assessing your collateral, but we are aiming for a 1:1 security to loan principal ratio. Your chances of obtaining a loan depend upon how you are assessed in each of these areas. By becoming familiar with these 5 criteria, you can ensure that your business plan addresses all the essential points, and that you are prepared to answer any questions the review committee may have. Be ready to show us the creativity, energy and drive behind your business idea – and we’ll do our best to help.