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| <b>Policy No:</b>  | <b>FS – 004</b>              |
| <b>Department:</b> | <b>FINANCIAL SERVICES</b>    |
| <b>Subject:</b>    | <b>COMMUNITY LOAN POLICY</b> |

Council resolved:

That the Community Loan Policy and supporting guidelines be approved.

That an additional clause g) be added to the policy as follows:

- g) That loans or loan guarantees made under this policy be disclosed within the annual Financial Statements of the Corporation.

Background

On January 13, 1997 Council adopted the Audit Committee’s recommendation that a policy for the granting of loans to Community Groups be prepared in 1997. This initiative was a result of the 1995 management letter from the City’s auditors (KPMG) which recommended that the City develop a policy concerning loans to community groups.

This policy recognizes that in certain circumstances a loan or loan guarantee to a Community Group may be warranted, however the City does not intend to be a financing institution. The City of Vaughan may wish to assist groups by granting a loan for which they were unable to obtain the necessary funding through normal channels. It is understood that there may be circumstances where provisions of such financing would be of benefit to the ratepayers of Vaughan.

Policy

- a) That this policy applies to loans and loan guarantees.
- b) That loans are to be granted only to an incorporated non-profit organization.
- c) That the organization must demonstrate that their services have significant benefits to the City of Vaughan businesses and/or residents.
- d) That there be a fully executed agreement between the organization and the City of Vaughan.
- e) The organization must demonstrate their ability to repay the loan.
- f) That the attached Guidelines are to be adhered to in the consideration and preparation of any future loans to community groups.

In addition to the policy are the following supporting guidelines to aid in the evaluation of the loan

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and developing the terms of the agreement.

Guidelines

The following guidelines have been developed to aid in the establishment of a consistent and equitable process of review for loan proposals. The information provided will assist in determining the organizations background, their ability to repay and the benefit to the ratepayers of Vaughan. Organizations should address their written submissions to the City Treasurer.

Elements of the Request:

The request should be clearly formulated so that both the borrower and the City are clear on the need and mutual expectations. The borrower should prepare a proposal which includes the following information:

- \* details of the amount of requested funds and the use the funds are to be put to;
- \* history of the organization together with recent financial statements;
- \* a current budget and if the request is for capital funding, details of the organization’s intended capital expenditures;
- \* terms of the loan that the organization is requesting (this would normally include):
  - repayment terms,
  - interest rate,
  - schedule detailing when the funds are required;
- \* details of any other funding that the organization is pursuing and status of that funding;
- \* documentation from at least two financial institutions where loan requests have been denied;
- \* names and brief biography of the directors and officers; and,
- \* security that the organization may be willing to offer with respect to the loan.

Elements of Evaluation Process:

The following is not designed to be an exhaustive list of considerations but rather a check list which may be expanded upon by those reviewing the proposals.

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How will the loan benefit the ratepayers of the City of Vaughan?

- \* Provide details of services or benefits which will accrue to the residents and ratepayers of Vaughan as a direct result of the loan.
- \* How will giving a loan to this organization impact the City’s relations with other similar organizations which may or may not be receiving grants or other forms of support?
- \* What alternative sources of funding has the organization pursued, and why are these sources not available or sufficient?
- \* Is the service being provided by the organization generally the responsibility of lower tier municipal government or are other levels of government generally responsible for supporting such services, and if so, how will the support by the City of Vaughan impact future funding relationships with this and other similar organizations?

Are the terms of the proposed loan fair and reasonable to both the borrower and the lender?

- \* Will the amount of the proposed loan be sufficient and not in excess of the requirements of the organization to meet its objective?
- \* What assumptions has the organization made in its proposal to repay the loan. Are these assumptions reasonable?
- \* If interest is not be charged at the City’s current borrowing rate, consider the reasons why and what benefits will accrue to the ratepayers of the City of Vaughan in exchange for forgoing what would otherwise be investment income on these funds. Will the terms of the loan encourage the organization to operate efficiently and to maximize the benefits to be received by the residents and ratepayers of the City of Vaughan?
- \* Will the security being offered by the lender:
  - offer the City some protection that the organization does not otherwise encumber assets which the City has funded and not dispose of such assets without consultation with the City;
  - ensure that the City is not tied to the continued operation of facilities without opportunity for the City to explore alternatives;

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- be adequate and if not, is other security available; and,
  - formalize the understanding that the loan is an indebtedness to be repaid on a timely basis.
- \* During the period the loan is outstanding, will the City be provided with annual financial statements which have been reviewed or audited by a public accountant?

Elements of the Agreement

A loan agreement shall be prepared containing the terms agreed upon such as:

- dates funds are to be advanced;
- terms of repayment;
- interest rate;
- security;
- other features of the loan.

In addition, the agreement should contain the following provisions to assist the City in monitoring that the loan is in good standing:

- A requirement that the City be notified if any security that the City is holding is impaired (impairment may mean matters such as: denial of funding on certain grants which the City may be holding as security, matters affecting real property such as damage due to fire or theft).
- The requirement that annual financial statements be reviewed or audited by a public accountant, and be provided within 120 days following the organization’s fiscal year end.
- Right of access to the records of the organization by the City or its auditors.
- The loan agreement should define the requirements to maintain the loan in good standing and in the event of default, the remedies to be enforced. These criteria will vary with the nature of the organization and the purpose of the loan.

An annual review should be conducted by the City Treasurer to ensure that all terms of the loan agreement are in good standing and the security in proper order. All security on real property should be registered by the City as a lien on that property so that the City is notified in the event that the organization intends to dispose of the property.

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