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FLEXIBLE LOAN PROGRAM GUIDELINES AND PROCEDURES

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FLEXIBLE LOAN PROGRAM GUIDELINES AND PROCEDURES

Overall Intent

The Flexible Loan Program (FLP) is a Saskatchewan Arts Board (Arts Board) and Ministry of Tourism, Parks, Culture and Sport (TPCS) initiative to provide new financial support to increase the entrepreneurial capacity and economic well-being of artists, businesses and non-profit organizations within the sectors of craft, music and sound recording, publishing and visual arts.

Low-interest, short-term, repayable loans are awarded on the basis of a business plan/proposal, which demonstrates the revenue that will result from activities undertaken with the loan that will allow for repayment of the loan.

Broad Goals

- There is balance between the need to operate the FLP in a sustainable manner as a revolving loan fund with the entrepreneurial developmental needs of the eligible sectors.
- The FLP is a new financial resource and does not merely duplicate or replace existing financial resources and grants.
- The FLP is relevant to and accessible by all the eligible sectors and to a broad range of participants within the sectors.
- The FLP is flexible and responsive to the changing needs of the eligible sectors.
- The program has a confidential, fair and transparent review and assessment process.

The Arts Board Act

The Flexible Loan Program is governed by *The Arts Board Act, 1997* being Chapter A-28.001 of the *Statutes of Saskatchewan, 1997* (effective April 1, 1998) as amended by the *Statutes of Saskatchewan, 1998* and, as such, this legislation takes precedence over these Guidelines. Section 25 of *The Arts Board Act, 1997*, provides for the disbursement of funds for loans to further the Arts Board mandate and to fulfill its purposes.

Governance Policy

The Flexible Loan Program is managed and its guidelines administered in accordance with its Governance Policy.

The Arts Board Act, 1997 and Governance Policy are available as downloads on the Arts Board website: www.artsboard.sk.ca.

Saskatchewan Benefit

In keeping with its overall intent, the Arts Board encourages the employment of Saskatchewan people and the use of Saskatchewan products and services when possible.

Distribution Of Funds

The availability of funds for loan purposes is determined by the Arts Board on a quarterly basis and distributed into five envelopes. There is a separate envelope for the benefit of each of the eligible sectors. A fifth envelope is for the consideration of applications that merit support from one of the other envelopes but were not supportable due to insufficient funds. Complete applications are accepted on a first-come, first-served basis, while funds remain within applicable envelopes.

Interest earned on loans is used in the following order of priority:

- 1) fund management expenses, such as those related to the review process and risk management, and
- 2) loan recirculation.

General Borrower Eligibility

Eligible applicants are Saskatchewan residents carrying out their work or business in Saskatchewan in one of the eligible sectors: as a sole proprietor; in partnership with another eligible Saskatchewan resident; or through a corporation or non-profit organization legally registered in Saskatchewan and controlled by Saskatchewan residents. Applicants, or related parties to applicants, who are not in good standing with the Arts Board are not eligible.

For the purposes of the Flexible Loan Program, related parties shall be defined as per Chapter 3840 of the *Canadian Institute of Chartered Accountants Handbook*.

Please refer to specific descriptions of loan types for any additional details regarding borrower eligibility. The Arts Board reserves the right to apply its final judgment in regard to the determination of borrower eligibility.

General Eligible and Ineligible Activities

Funds are not intended to be for:

- applicants who have access to traditional forms of financing and credit,
- activities supportable or already supported through existing grant programs,
- general support or ongoing operations, or
- repayment or refinancing of debt.

General ineligible activities include artist fees related to the creation of a unique creative work, professional development, ongoing wages and rent, loan guarantees, speculative real estate or other investments, or activities that risk the integrity of the Arts Board.

Please refer to specific descriptions of loan types for any additional details regarding eligible and ineligible activities. The Arts Board reserves the right to apply its final judgment in regard to the determination of eligible activities.

Compliance with these guidelines is a prerequisite to eligibility for funding from the Flexible Loan Program.

Loan Amount and Purpose

Loans are provided on a demand basis. The amount of the loan is determined by the type, nature and purpose of the loan, but is typically not to exceed \$25,000. The loan amount granted is the minimum amount necessary to assure the success of the undertaking and shall not exceed the allowable limits during the life of the undertaking. In general, a borrower may only carry one loan at a time.

In general terms, loans of \$5,000 or less are directed towards eligible entrepreneurial artists and new businesses for the purpose of new and emerging commercial activities to generate revenue. Loans of more than \$5,000 are directed towards eligible, established businesses for the purpose of sustainable organizational growth and to take advantage of emerging commercial activities. Please refer to the specific descriptions of loan types for any additional details regarding loan amounts.

Interest Rates and Terms

The loan term varies according to loan type, nature and purpose, but is generally not to exceed three (3) years. For example, loans for equipment purchase shall not exceed the established useful life of the equipment.

The interest rate may vary as a function of the size, nature and purpose of the loan but is generally not to exceed 1% above the Prime Rate, fixed at the time of loan offer, with a floor rate of 4%.

Terms of repayment are detailed within the loan offer. The Arts Board retains the right to adjust individual loan terms and interest rates in order to manage risk and facilitate a successful undertaking.

Equity Requirements

The borrower is required to provide cash equity in the activities to be undertaken by the loan. The amount of equity required of the borrower is generally to be 10%. Evidence of the equity, to the satisfaction of the Arts Board, is an application requirement.

Security

Although, by virtue of the developmental nature of the loan program, there is anticipated to be some default and non-recovery, the Arts Board exercises due diligence in the management of the funds. The Arts Board, at its discretion, may take any steps it considers appropriate to determine the credit worthiness of an applicant or to secure a loan.

Generally, as security for the loan, the applicant is required to provide the Arts Board with a demand promissory note and a general security agreement. If the applicant is a for-profit corporation, the applicant is required to provide the Arts Board with personal guarantees of shareholders. In the case of not-for-profit corporations, other forms of security may be considered by the Arts Board. In the case that the borrower is an Arts Board client through another program, the loan is offset by any current and future grants of the borrower, or related parties to the borrower.

Enforcement of Security

At its discretion, the Arts Board may take any reasonable and legal steps that it considers appropriate to collect a loan or enforce security.

Delinquent Loans

Delinquent loans are loan accounts that have not had any payment activity during a 30-day period, or loans that are 30 days in arrears. To avoid delinquency, it is the responsibility of the borrower to seek, prior to default, written approval of the Arts Board of a plan to become current. Nothing obligates the Arts Board to grant any accommodations or extensions to the borrower. The Arts Board is entitled to set off any amounts due from it to the borrower and the borrower will not be entitled to any benefits or entitlements from the Arts Board while any loan hereunder is in default.

General Collection Procedures

The Arts Board monitors monthly repayment activities of all outstanding loan accounts and is proactive in the default stage. Upon default in payment or any other obligation by the borrower, the Arts Board, may, proceed with all necessary and reasonable collection efforts to enforce payments as the Arts Board may consider advisable. This may include, without limitation, enforcement of the security interest by seizure of assets. This may also include legal action against the borrower and any guarantors.

Application Deadline and Process

Completed applications are accepted on a first-come, first-served basis, while there are funds available within the applicable envelopes. Applicants should first contact the Arts Board prior to submission to ensure their eligibility and the availability of funds, and to be forwarded the application form and other loan agreements.

The Creative Industries Consultant is available to assist with clarification of the application requirements and process, including the required business plan/proposal.

Submission Requirements

The submission requirements are specific to the type of the loan request. Please contact the Creative Industries Consultant directly for further details regarding submission requirements and refer to the applicable application checklist available on the Arts Board website at www.artsboard.sk.ca under “Creative Industries.”

Confidentiality

The Arts Board retains the right to request additional information, to review the application for credit worthiness, and to discuss the application with all parties associated with the undertaking, prior to rendering a decision. Any confidentiality and privacy requirements and procedures specific to the loan program are subject to the requirements of any law, judicial decree or disclosure requirements of a government authority.

Review Process and Approval

Only complete applications from eligible borrowers for eligible activities are considered. The scope of the review procedure, including internal and external evaluation and assessment, is determined by the loan type and other risk assessment considerations.

The business plan/proposal is scrutinized and the amount of any loan provided, within allowable amounts and available funds, is determined by the viability of the business opportunity and the risk assessment, including the demonstrated management capabilities and sector expertise of the applicant.

The Arts Board reserves the right to deny loans for projects or undertakings it determines to be too great a risk or for any reason at its sole discretion.

Advancement of Funds

The length of time between the rendering of a decision and the release of funds depends on the security requirements of the loan type and any additional information and clarification that may be required. The Arts Board is under no legal obligation to advance any funds until all security agreements and conditions of the loan offer have been met to its satisfaction. Funds will not be advanced if the borrower, or related parties to the borrower, are not in good standing with the Arts Board. The Arts Board shall not be obligated to advance the loan in the event of a material adverse change in the risk or failure by the borrower to comply with the conditions of the loan.

Please refer to specific descriptions of loan types for any additional assessment criteria, reporting or advancement of funds requirements.

Borrowing Requirements and Reporting

Reporting requirements are determined by the loan type and are detailed in the loan offer. Loans are only to be used for the described purpose, and the borrower must seek written approval from the Arts Board prior to any material changes from the described purpose. However, it is the responsibility of the borrower to report to the Arts Board on a regular basis regarding the status of the undertaking, and to alert the Arts Board to any material problems regarding the undertaking.

Borrowers are required to: complete a statistical information sheet so information can be collected and reported for measurement purposes; maintain eligibility status for the term of the loan; and agree to acknowledge the support of the Arts Board and the Ministry of Tourism, Parks, Culture and Sport.

Disclaimer

The Flexible Loan Program guidelines are for informational purposes only and do not limit in any way the rights and remedies that the Arts Board has in its loan offer and security agreement or otherwise. The Arts Board retains the right to modify its guidelines at any time, without notice.

LOAN TYPES

Micro-loans

(\$5,000 or less)

Objective	Micro-loans are generally one-year loans in amounts not to exceed \$5,000, and are intended to assist eligible entrepreneurial artists and starter businesses to undertake eligible commercial activities to earn income or generate revenue.
Eligibility of Activities	<p>In addition to the general ineligible activities, micro-loans are not intended for operational expansion.</p> <p>The following are general <u>examples of fundable activities</u>; these examples are not comprehensive, and applying for a loan for one of the examples on the list does not guarantee that an applicant will be awarded a loan:</p> <ul style="list-style-type: none">• creation of an e-commerce website or fees to participate in an online marketplace, if product or service demand is established• creation of marketing materials to generate a revenue stream• travel and related fees to attend a market event that will result in earned income for the applicant• purchase of materials or supplies that will create a revenue stream.
Eligibility of Applicant	<p>In addition to compliance with the general borrower eligibility requirements, applicants must demonstrate, to the satisfaction of the Arts Board, the management experience and sector expertise necessary to undertake the proposed activities. The borrower must also provide, at the time of application, confirmation of a cash equity contribution to a minimum of 10% of the project budget.</p> <p>Applications for collaborative business proposals from one or more eligible applicants are considered on a case-by-case basis.</p>
Application Deadline	Applications may be submitted at any time, while funds remain in the applicable envelope. Applicants are encouraged to read the loan guidelines and application checklist available on the Arts Board website at www.artsboard.sk.ca and to contact the Arts Board to discuss their business idea and availability of funds prior to submission of materials. The Creative Industries Consultant will assist in understanding the eligibility and application requirements and forward the applicant the required application form and loan agreements, as required.
Submission Requirements	Submission requirements, including the required <u>business proposal</u> , are indicated on the application checklist available on the Arts Board website. Only complete applications, including written confirmation of a cash equity contribution to a minimum of 10% of the project budget, are reviewed. To ensure accuracy and completeness of information for review purposes, whenever possible, a meeting is set between the applicant and the Creative Industries Consultant to finalize the submission requirements and to complete the necessary application form and loan agreements.
Review Process	Micro-loans are reviewed through an internal process to determine viability of the business proposal and assessment of risk in a responsive and cost-effective manner. Every effort is made to render a written decision within 15 business days of receipt of a complete application.

Assessment Criteria

An assessment of eligibility of the applicant and activities is undertaken by the Arts Board. If an application is determined to be eligible, it is reviewed to ensure it includes the necessary information for assessment purposes. The applicant's credit information is checked and a risk assessment determined. Additional documentation and clarification may be required.

The amount of any loan provided, within allowable amounts and available funds, is determined by the viability of the business proposal, as well as the management capabilities and sector expertise of the applicant. Additional requirements may be added as a condition of the loan.

Loan Conditions and Repayment

The terms and conditions of the loan are detailed in the loan offer. Micro-loans are demand loans offered at an interest rate of Prime, as calculated and fixed at the time of the loan offer, with a floor rate of 4%. Monthly payments shall be paid by postdated cheque as of the last day of each month for the duration of the loan. Interest shall be paid after and before maturity and both before and after default.

Borrowers must agree to the terms and conditions of the loan offer by signing the required promissory note and security agreements. A loan offer is valid for 60 days from the date of approval. Unless the credit is drawn upon within that time, or an extension of the lapsing date has been agreed to in writing, the offer will lapse and the funds will be re-allocated.

Borrowers must also agree to report the necessary statistical information and to acknowledge the financial assistance of the Saskatchewan Arts Board and the Ministry of Tourism, Parks, Culture and Sport on all related publicity.

Advancement of Funds and Reporting

The length of time between the rendering of a decision and the release of funds depends on any additional information and clarification that may be required. Generally, funds are released within ten (10) business days of receipt of the statistical information sheet, signed promissory note, any required security agreement(s), and, if applicable, proof (copies of invoices, credit card statements and/or cancelled cheques related to these purchases, including serial numbers of purchased items) demonstrating that the loan is being used for its intended purchases.

Contact Information

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LOAN TYPES

Small Business Loans

(over \$5,000)

Objective

Small Business Loans are generally three-year loans in amounts between \$5,000 and \$15,000, and are intended to assist eligible established for-profit and not-for-profit businesses to take advantage of emerging commercial opportunities and for sustainable operational growth to generate revenue and economic benefit.

Loan requests for more than \$15,000, but generally not to exceed \$25,000, may be considered for undertakings that demonstrate significant sector impact.

Eligibility of Activities

Small Business Loans are for either eligible project purposes or operational expansion activities.

The following are general examples of fundable activities; these examples are not comprehensive, and applying for a loan for one of the examples on the list does not guarantee that an applicant will be awarded a loan:

- purchase of equipment that will create a revenue stream
- undertaking new marketing and distribution activities that will create a revenue stream
- sustainable, operational expansion to enhance or create a revenue stream.

Eligibility of Applicant

In addition to compliance with the general borrower eligibility requirements, applicants for Small Business Loans must demonstrate, to the satisfaction of the Arts Board, the management experience and sector expertise necessary to undertake the proposed activities, and that their primary business for the two (2) fiscal years prior to application was in the sector relevant to the undertaking of the loan. The borrower must also provide, at the time of application, confirmation of a cash equity contribution to a minimum of 10% of the budget for the project or undertaking.

Applications for collaborative business plans from one or more eligible applicants are considered on a case-by-case basis.

Application Deadline

Applications may be submitted at any time, while funds remain in the applicable envelope. Applicants are encouraged to read the loan guidelines and application checklist available on the Arts Board website at www.artsboard.sk.ca under "Creative Industries" and to contact the Arts Board to discuss their business idea and availability of funds prior to submission of materials. The Creative Industries Consultant will assist in understanding the eligibility and application requirements and forward the applicant the required application form and loan agreements, as required.

Submission Requirements

Submission requirements, including the required business plan, are indicated on the application checklist available on the Arts Board website. Only complete applications, including written confirmation of a cash equity contribution to a minimum of 10% of the project budget, are reviewed. To ensure accuracy and completeness of information for review purposes, whenever possible, a meeting is set between the applicant and the Creative Industries Consultant to finalize the submission requirements and to complete the necessary application form and loan agreements.

Review Process

Given the possible size of the loan and the risk related to the undertaking, small business loans are reviewed through a combined internal and external process, including a review panel. Every effort is made to convene a review panel every second month and to render a written decision within ten (10) business days after the review panel sits.

Assessment Criteria

An assessment of eligibility of the applicant and activities is undertaken by the Arts Board. If an application is determined to be eligible, it is reviewed to ensure it includes the necessary information for assessment purposes. The applicant's credit information is checked and a risk assessment determined. Additional documentation and clarification may be required.

Once an application is determined eligible, creditworthy and ready for assessment purposes, it is reviewed by an external panel of, generally, three individuals with the combined experience and expertise necessary to assess the viability of the business plan and management and sector capabilities of the applicant. Panel members cannot have a direct connection to, conflict of interest, or business affiliation with the applicants.

The review panel makes a recommendation to Arts Board management. The amount of any loan provided, within allowable amounts and available funds, is determined by the viability of the business proposal, the management capabilities, and the track record and sector experience of the applicant. The review panel may request additional information or clarification prior to rendering a decision and may recommend additional requirements as a condition of the loan.

Loan Conditions and Repayment

The terms and conditions of the loan are detailed in the loan offer. Small Business Loans are demand loans offered at an interest rate of Prime plus one 1%, as calculated and fixed at the time of the loan offer, with a floor rate of 4%. Monthly payments shall be paid as of the last day of each month for the duration of the loan. Interest shall be paid after and before maturity and both before and after default.

Borrowers must agree to the terms and conditions of the loan offer by signing the required promissory note and security agreements. A loan offer is valid for 60 days from the date of approval. Unless the credit is drawn upon within that time, or an extension of the lapsing date has been agreed to in writing, the offer will lapse and the funds will be re-allocated.

Borrowers must agree to complete the necessary statistical information and to acknowledge the financial assistance of the Saskatchewan Arts Board and the Ministry of Tourism, Parks, Culture and Sport on all related publicity.

Advancement of Funds and Reporting

The length of time between the rendering of a decision and the release of funds depends on any additional information and clarification that may be required. Generally, funds are released within ten (10) business days of receipt of the statistical information sheet, signed promissory note, any required security agreement(s), and, if applicable, proof (copies of invoices, credit card statements and/or cancelled cheques related to these purchases, including serial numbers of purchased items) demonstrating that the loan is being used for its intended purchases.

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