FALKLAND ISLANDS
DEVELOPMENT CORPORATION

Loans Policy

Version	Date	Author
1.1 Public	01/07/2015	Financial Controller

FIDC Loan Policy

1 Introduction

1.1 FIDC has clearly set out in its Mission and Objectives that a key purpose of the Corporation is to take what further steps are required to ensure the successful development of businesses and a positive business environment in the Falkland Islands. The provision of access to finance forms an important element of that purpose.

2 Background

2.1 The Corporation is empowered to give financial assistance to individuals, commercial enterprises or other organisations that, in line with its objectives, will contribute either directly or indirectly to the economic development of the Falkland Islands.

2.2 In its business plan FIDC has identified the objective "To provide business support and mentoring across traditional, emerging and new industries of the economy by providing assistance and incentives, such as grants, loans, business advice and projects."

2.3 A fundamental principle is that FIDC is committed to responsible lending and will only lend amounts which will not burden borrowers with an unacceptable level of debt or repayments.

2.4 FIDC also needs to ensure that the risk to which its funds are exposed is minimised and that it does not financially support any ventures when it is not appropriate to do so. All business cases in respect of applications for loans need to demonstrate commercial viability into the medium-term, whilst contributing to the objectives of FIDC on a sustained basis.

2.5 As part of the process consideration will be given to the extent to which any proposal will have an adverse effect on an existing enterprise.

2.6 Wherever possible FIDC will seek to work with Standard Chartered Bank and FIG to ensure the best use is made of public funds.

2.7 FIDC reserves the right to review all interest rates, threshold limits and charges in response to global economic factors.

3 General Conditions of Loans

3.1 The Corporation may provide loans for the following business purposes:

3.1.1 Purchase of:

i. Land and Buildings

ii. Plant and Equipment
iii. Fixtures and Fittings
iv. Vehicles

3.1.2 Financing of Working Capital requirements.

3.2 The Corporation may charge interest on loans at commercial rates or concessionary rates. The individual rate to be charged will be clearly communicated to the borrower on the Loan Facility Letter. Rates may be:

3.2.1 Fixed for the life of the loan. Given the state of the global economy, and the static nature of interest rates worldwide, there is unlikely to be enthusiasm for fixed rate borrowing. However the ability to award fixed rate loans does exist should the circumstances be appropriate and the implications be approved by the approving body. The current rate for fixed rate loans will be 7% (based on the current SCB fixed rate). The prevailing FIDC rate will be reviewed by the Corporation on an ongoing basis to ensure it remains appropriate.

3.2.2 Variable in relation to the movement of bank base rates, the percentage point difference between the loan rate and the base rate to be agreed at time of approval of loan and will apply for the life of the loan. These loans are likely to be the most common and normally attract interest of 2.5% above the Bank of England base rate for secured loans and 3.5% above base for unsecured loans. The Board does however have the flexibility to approve at rates higher or lower than these normal rates where they consider the balance of risk and reward to justify an alternative rate.

3.2.3 Conditional over time against business performance factors and targets to be agreed at the time of approval of the loan. Due to the complexity of monitoring this type of loan these will be considered only under certain circumstances.

3.2.4 FIG has indicated its willingness to make additional funds available to fund larger scale investment in the Islands either in the form of loans, private equity or a combination of both. These larger loans will be managed by FIDC, with input from the FIG Treasury and Policy Units where appropriate. This lending is considered to be an investment for FIG and as such the interest rates set will be no less than the prevailing rate at SCB in the Falklands. The Board reserves the right to set whatever interest rate it feels is an acceptable return for the risk involved, but in all cases it will be seen as commercial rather than subsidised lending. The granting of a moratorium for this type of loan will only be considered in exceptional circumstances.

3.3 Interest on loans should be charged on a simple 30/360 basis. Interest on loans is applied on a compound basis, with the interest amount being compounded on a monthly basis.

3.4 Deferment periods and moratoriums

3.4.1 The Corporation may allow an initial interest-free period of up to one year. Deferment of principal repayments may be approved for up to one year. Interest only payments are the preferred option as they discipline the borrower into a repayment habit and help reduce the accumulation of debt. Borrowers will be made aware that while the granting of a moratorium will benefit short term cash flows it increase the overall cost of borrowing.

3.4.2 Recommendations for interest free and principal deferment periods must be justified to the approving authority. The implications must also be clearly explained to the borrowers.

3.4.3 Where two or more applications for the same loan period are approved (e.g. land/ building, plant/ equipment and working capital) they shall normally be treated as one loan.

3.4.4 Where the performance of a business receiving a loan does not match projections, and it is likely that the business would benefit by reviewing the term of the loan, the Corporation may grant a moratorium on principal and interest for up to one year on any occasion.

3.5 Withdrawal of loans

3.5.1 If an approved loan or any part of it is not required by the applicant it shall be withdrawn by the Corporation at the earliest opportunity.

3.5.2 The timeframes for agreeing acceptance of loan terms and conditions and for drawing down funds will be stated in individual loan facility letters, however will normally be 30 days for acceptance and six months for the draw-down of funds.

4 Loans

4.1 Borrowing criteria

4.1.1 FIDC will lend to assist with the economic development of the Falkland Islands. Where funds are sought to purchase land or buildings then the applicant must demonstrate the ability to own land, either through right of status or licence granted by Executive Council. Working capital loans or loans to purchase plant and equipment will be assessed on the ability of the borrower to repay the loan, which will factor in an assessment of risk.

4.2 Approved cost and amount of loan

4.2.1 Proposals and costs shall be approved by the Corporation. In the case of buildings the approved cost may include the cost of preparation of plans and any agreed lease premium but not, in the case of premises to be acquired on lease, the annual rent or other outgoings. The amount of loan shall not exceed 90% of the cost unless there are valid reasons which satisfy the approving authority.

4.3 Legal documents

4.3.1 The necessary legal documents shall be prepared by the Corporation in consultation with its legal adviser, the cost of which will be borne by the applicant.

4.4 Plans

4.4.1 For loans linked to the acquisition of land and/or buildings, full planning permission and any other relevant approval must be obtained by the applicant from the relevant bodies prior to a loan being released.

4.5 Insurance

4.5.1 All buildings in respect of which a loan is made shall be insured for not less than their replacement cost including fees against loss or damage by fire, storm, impact and explosion and consequential loss. All plant and equipment purchased will similarly be required to have adequate accidental damage, theft or similar insurances in place to cover its value. This shall be affected at the expense of the applicant and with a company approved by the Corporation. The policy and premium receipts shall be produced for the Corporation’s inspection whenever required and the policy shall be endorsed to cover the Corporation’s interest.

4.5.2 The Corporation may also require loan applicants to take adequate life insurance out for the duration of any loan. This precaution is to protect the applicant as much as the Corporation, and is linked to the underlying priority of responsible lending.

5 Working Capital Loans

5.1 The Corporation may, at its discretion, provide working capital to assist start-up, development, expansion or re-organisation.

5.2 Such loans shall, at the discretion of the Corporation, be repayable over a period of up to 5 years under one of the following terms:

i. Secured loan;
ii. Unsecured loan;
iii. Conditional loan, secured or unsecured, whose interest rate and repayment terms are linked to performance of the project financed such as profit thresholds or target outputs, such conditions to be specified at the time of signing the agreement.
iv. In all cases the appropriate interest type and rate to be charged will be determined by the Corporation in consultation with the borrower, and will be subject to ratification by the approving authority.

6 Security

6.1 The Corporation shall obtain the best security for any loan. However, the Corporation may, at its discretion, give a loan without security provided it is satisfied that the loan will be repaid. Unsecured loans will normally attract a higher rate of interest to reflect the additional risk involved.

6.2 Where an applicant in receipt of a secured loan applies for a further loan it shall be normal to extend the existing security to cover the subsequent loan, providing the security is sufficient to cover the additional level of debt created.

6.3 With regard to security:

6.3.1 All loans in excess of £5k are required to be secured unless specifically authorised by the approving authority.

6.3.2 For a business proposal, a minimum 10% of the finance should be invested by the proposed borrower.

6.3.3 All mortgages and charges should be submitted to the registrar within 5 working days of the loan being made.

6.4 With regard to acceptable security:

6.4.1 Mortgage charge subject to evaluation of proposals and property.

6.4.2 Personal guarantees should not be accepted (On the basis that they should not require an FIDC loan if they are able to back up the guarantee).

6.4.3 Charge over assets.

6.4.4 Debentures

6.5 In the event that it is not possible to obtain a first charge, it will be necessary to include a detailed assessment of the borrower's other liabilities when considering their ability to meet payments.

7 Loan Term

7.1 With regard to term:

7.1.1 Loans granted to purchase Plant and Machinery should be for a maximum of 3-5 years depending on the type of asset unless accompanied by detailed cashflow analysis to support a longer lifespan of the asset;

7.1.2 Business loans should be accompanied by a detailed business plan and cash flow forecast. For loans of 5 years or under the cash flows and forecasts should be consistent with the term of the loan. For loans over a longer period, detailed financials will be required for the early years of the loan, with key business assumptions and changes detailed for the remaining period;

7.1.3 Loans given to purchase property should be for a maximum of 25 years;

8 Payments and Defaults

8.1 With regard to payments:

8.1.1 All payments must be made by standing order (every effort should be made to convert all existing loans to standing orders and this should be insisted on in the case of a default)

8.1.2 Payments must be set up in the name of the legal borrower and remain so. In the event of someone else taking on responsibility for the payments it should be made clear in writing to the original borrower that they are still liable for any shortfall. Without any legal transfer (agreed by the Corporation), all correspondence including loan statements and debt chasing should be addressed to the legal borrower.

8.2 With regard to defaults:

8.2.1 Redacted

9 Authorisation

9.1 With regard to authorisation, the thresholds will normally be:

	Unsecured	Secured
Managing Director delegated powers	<£5,000	<£5,000
Credit Committee	<£20,000	<£50,000
FIDB	<£50,000	<£100,000
Executive Council	>£50,000	>£100,000

9.2 FIDC reserves the right to seek approval from the body they see fit if they have good cause.

9.3 Loan applications will only be referred to the Board when FIDC officers are in agreement that the loan is robust and in line with the objectives of the organisation. Loan applications will not be referred to the Credit Committee or Board where they do not have the full support of the FIDC Management Team. Where the Corporation does not feel able to progress an application to the Board the applicant will be advised on what options are available to them if they are unhappy with the decision.

10 Loans to Staff

10.1 Redacted