

TABLED DOCUMENT NO. 46 - 89 (1) TABLED ON FEB 28 1989

ANNUAL REPORT

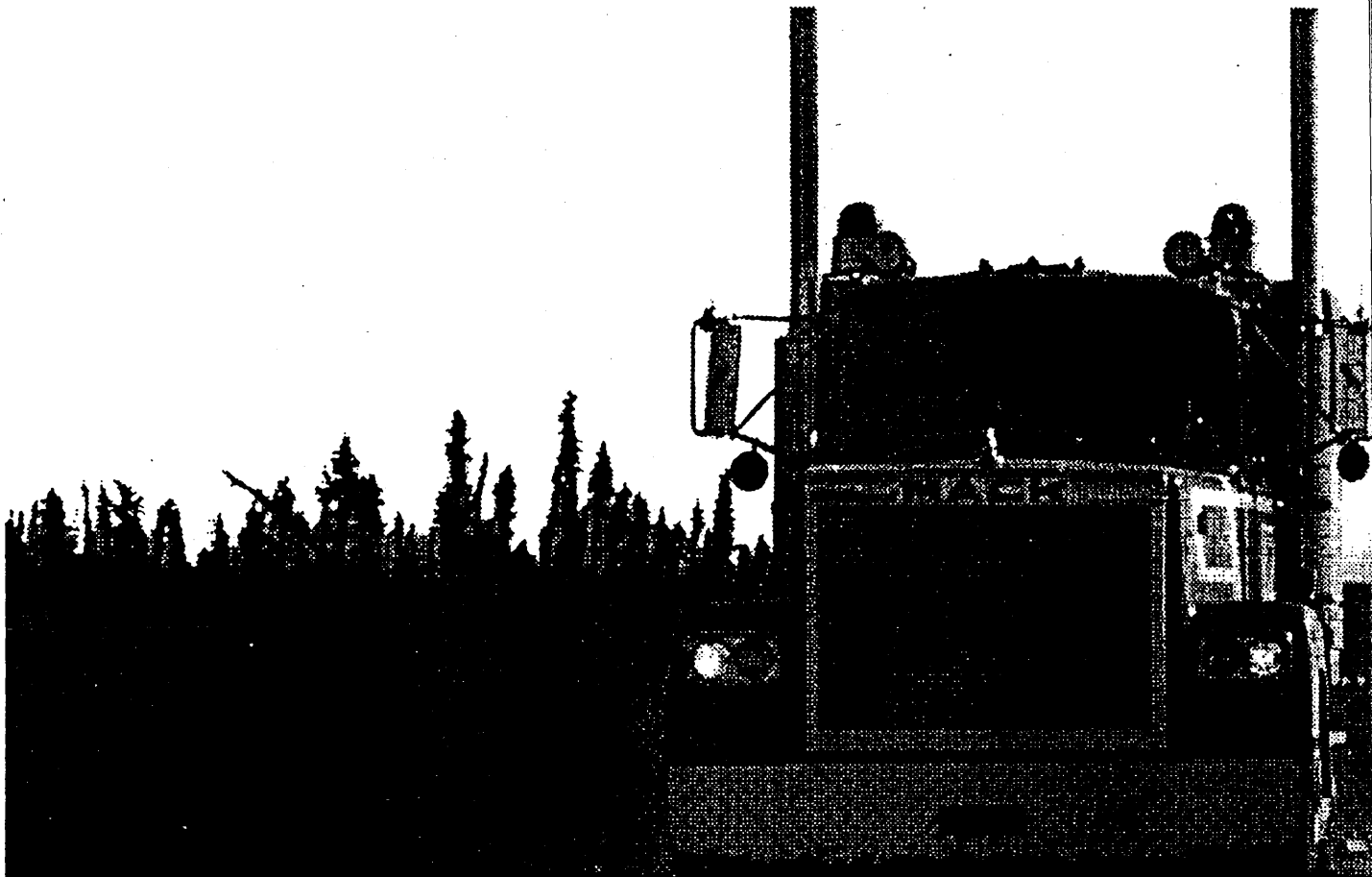
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BUSINESS LOANS AND GUARANTEES FUND

1987 - 1988



Northwest Territories Economic Development and Tourism

INTRODUCTION

The Business Loans and Guarantees Fund was created in 1970 by Indian and Northern Affairs, Canada, to provide business financing to those unable to obtain commercial debt financing from conventional lenders at reasonable terms and conditions.

Since its transfer to the Government of the Northwest Territories in 1977, the Fund has undergone several changes in scope and funding levels. In terms of scope, the provision for loan guarantees was added in 1977. The loan and guarantee limits have increased from an aggregate \$50,000. to \$500,000. In a 1982 amendment to the Business Loans and Guarantees Act, the word "small" was deleted, thereby opening the fund to all eligible business enterprises in the N.W.T. Previously, businesses whose gross revenues exceeded \$1 million in the fiscal period in which they applied were ineligible. As well, in 1985, monies were committed from the Fund to provide contract security to businesses unable to obtain the necessary bonding requirements to bid on Northwest Territories Housing Corporation construction projects. No change in legislation was required.

Loans and guarantees may be made to finance the purchase, installation, renovation, improvement or expansion of equipment, inventory or premises used or to be used in the course of carrying on a business enterprise. In addition, loans and guarantees may be made to provide working capital for the acquisition of current assets and as security in lieu of bonding for specified construction projects.

In terms of funding, a 1986 amendment to the Act authorized increasing the Fund capitalization to \$16 million in 1987 and subsequent years. The maximum funds which may be outstanding for 1987-88 fiscal year are \$16 million.

Interest rates for the Business Loan Fund are set quarterly. The rate is determined by utilizing the chartered bank's prime rate plus 2% at the beginning of the quarterly period. Loan terms are available for a maximum of five years. Maximum amortization of a loan is twenty five years.

FISCAL YEAR 1987/88

There are seven Regional Business Loan Boards as well as the Territorial Business Loan Board. Members of the Territorial Loan Board, all of whom are business community leaders, represent the geographic and cultural diversity of the Northwest Territories. The Boards send their recommendations to the Executive Member by way of the minutes. A list of the Boards and their respective members is attached as Appendix A to this report.

The Business Loan Boards considered 101 applications totalling \$7.2 million. Of these, 66 loans were approved with an aggregate value of \$4.4 million. As a percentage of loan applications, 65% of applications were approved in 1987-88 compared to 63% in 1986-87. The number of applications received in 1987-88 showed a decrease of 16% over 1986-87. The most notable regions showing a decline in applications were Inuvik, South Slave, and Keewatin. The average value of applications in 1987-88 decreased by 17% to \$49,000. from \$59,000. in 1986-87. The dollar value of issued loans remained relatively static showing a small growth of 4%. Comparative details are set out in Table 3 of Appendix B.

To assist the reader, a reconciliation of approved loans and distributed funds for fiscal 1987-88 is included as table 4 in Appendix B.

ANNUAL REPORT
of the
BUSINESS LOANS AND GUARANTEES FUND
for the
FISCAL YEAR 1987/88

PRESENTED
to the
LEGISLATIVE ASSEMBLY OF THE NORTHWEST TERRITORIES

by
HONOURABLE GORDON WRAY
Minister
Economic Development and Tourism

FINANCIAL STATEMENTS

A statement of operations for the 1987-88 fiscal year are attached in Appendix C.

OUTLOOK FOR 1988-89

Security Workshops have been planned for this year. All the regional staff and loan board members will have received training in security documentation by the end of fiscal year, 1988-89. Improved knowledge in this very important area will enable the loan board members and the regional staff to more effectively deal with a client's requirements.

New collection procedures are to be in place by June 30, 1988. Previous guidelines have been streamlined to make collection efforts more effective to implement at all levels.

New administrative procedures are being developed and incorporated into the Loans Operation Manual. A number of changes to the Business Loans and Guarantees Act have been identified and revisions are being developed.

The Territorial Loan Board continues to schedule meetings to be held in the regions. The members find it to be beneficial to see first hand the businesses that have received financing through the Business Loan Fund and to gain an insight into the needs of the business communities.

The conventional Commercial Institutes are still reluctant to finance the higher risk applicants. There is still a strong requirement for a lender of last resort which is the primary purpose of the Business Loan Fund. The trend of the department has been to give out fewer contributions and encourage more repayable loans.

The mandate of the Department of Economic Development and Tourism is to promote, develop and establish a healthy, expanding and diversified economy in the Northwest Territories. A primary objective of the department is to cultivate an economy compatible with northern lifestyles and aspirations while maximizing the use of the human, natural and cultural resources.

We are committed to serving:

"The Business Community of the Northwest Territories".

**Appendix A
Schedule 1**

TERRITORIAL LOAN BOARD MEMBERS 1987-1988

Members:

**A. Chang
G. Hinchey
J. Villeneuve
D. Webb
R. Hardy
R. Leonard
A. Tautu
R. Newmark
J. Lyberth
T. Webster
F. Ipakohak
B. Peterson**

**Yellowknife
Yellowknife
Fort Simpson
Fort Smith
Fort Norman
Eskimo Point
Chesterfield Inlet
Tuktoyaktuk
Iqaluit
Iqaluit
Coppermine
Cambridge Bay**

Chairman:

G. Braden

**Deputy Minister,
Department of Economic
Development and Tourism**

REGIONAL LOAN BOARD MEMBERS 1987-88

North Slave

Members: A. Chang
G. Hinchey
J.B. Zoe

Yellowknife
Yellowknife
Rae-Edzo

Chairman: P. Lee

Regional Superintendent,
Department of Economic
Development and Tourism

South Slave

Members: C.B. Davidge
D. Webb
J. Villeneuve

Hay River
Fort Smith
Fort Smith

Chairman: R. Snyder

Regional Superintendent,
Department of Economic
Development and Tourism

Deh Cho

Members: A. McKee
E. Menicoche
P. Scott

Fort Simpson
Fort Simpson
Fort Simpson

Chairman: J. Sheehan

Regional Superintendent,
Department of Economic
Development and Tourism

Inuvik

Members: R. Pasiclel
R. Newmark
A.R. Hardy

Inuvik
Tuktoyaktuk
Fort Norman

Chairman: J. Colford

Regional Superintendent,
Department of Economic
Development and Tourism

Baffin

Members: M. Kilabuk
T. Webster
J. Lyberth

Chairman: K. Trumper

**Pangnirtung
Iqaluit
Iqaluit**

**Regional Superintendent,
Department of Economic
Development and Tourism**

Keewatin

Members: L. Bruce
R. Leonard
A. Tautu

Chairman: W. Graham

**Coral Harbour
Eskimo Point
Chesterfield Inlet**

**Regional Superintendent,
Department of Economic
Development and Tourism**

Kitikmeot

Members: J. Maksagak
B. Peterson
F. Ipakohak

Chairman: C. Evalik

**Cambridge Bay
Cambridge Bay
Coppermine**

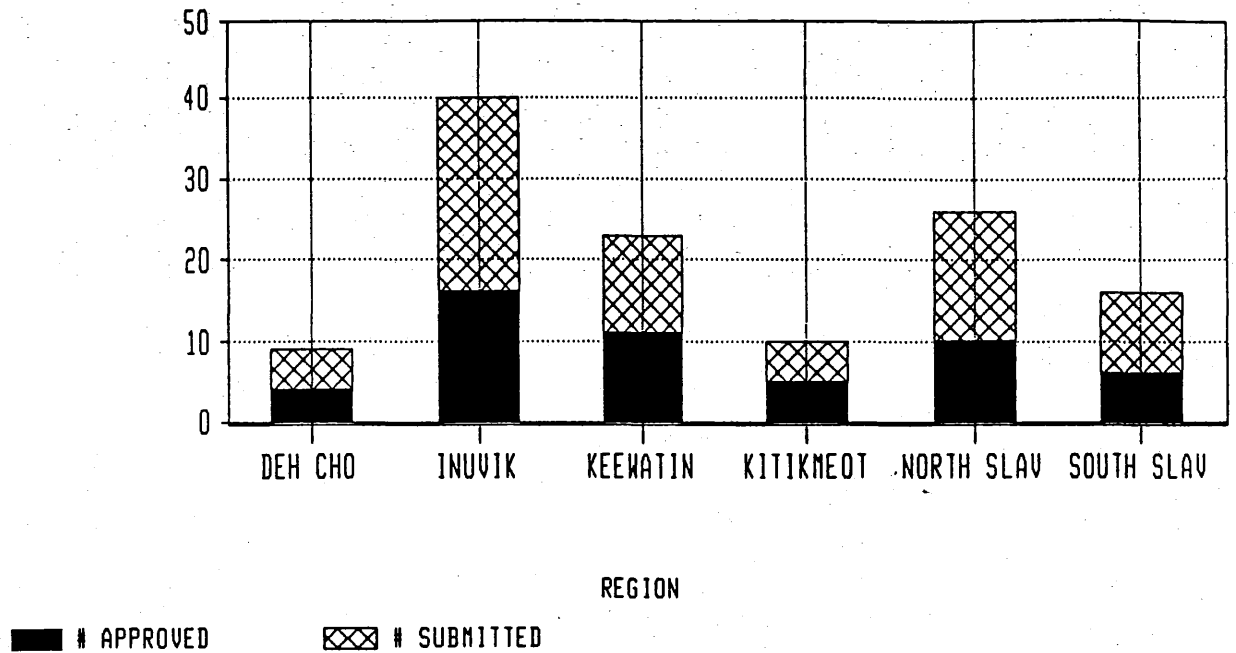
**Regional Superintendent,
Department of Economic
Development and Tourism**

TABLE 1

LOANS SUBMITTED AND APPROVED BY REGION

	SUBMITTED				APPROVED			
	1987-88		1986-87		1987-88		1986-87	
	<u>No. of Loans</u>	<u>\$000's</u>	<u>No. of Loans</u>	<u>\$000's</u>	<u>No. of Loans</u>	<u>\$000</u>	<u>No. of Loans</u>	<u>\$000's's</u>
North Slave	16	2,271	10	872	10	1,169	5	403
Baffin	29	1,673	5	825	14	1,068	4	391
South Slave	10	781	23	2,239	6	377	18	827
Inuvik	24	1,641	43	4,534	16	1,018	26	1,826
Keewatin	12	516	33	1,333	11	503	18	685
Kitikmeot	5	190	6	262	5	190	4	291
Deh Cho	<u>5</u>	<u>154</u>	<u>0</u>	<u>0</u>	<u>4</u>	<u>108</u>	<u>0</u>	<u>0</u>
	101	7,226	120	10,065	66	4,433	75	4,423

NUMBER OF LOANS SUBMITTED/APPROVED (87/88)



AMOUNT OF LOANS SUBMITTED/APPROVED (87/88)

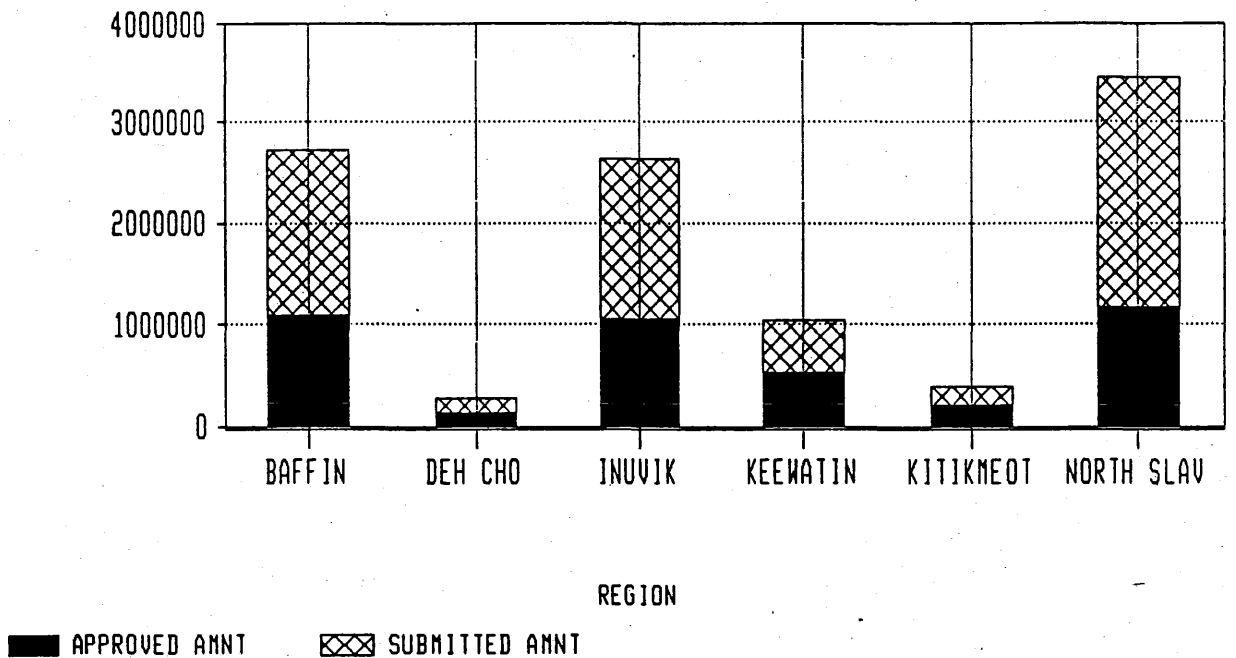


TABLE 2

LOAN FUNDS DISTRIBUTED BY REGION

	1987-88		1986-87	
	<u>No. of Issues</u>	<u>\$000's</u>	<u>No. of Issues</u>	<u>\$000's</u>
North Slave	4	360	4	242
Baffin	17	1,357	2	300
South Slave	5	211	14	815
Inuvik	25	1,012	23	1,314
Keewatin	18	571	13	419
Kitikmeot	6	175	4	516
Deh Cho	<u>1</u>	<u>46</u>	<u>0</u>	<u>0</u>
	76	3,732	60	3,606

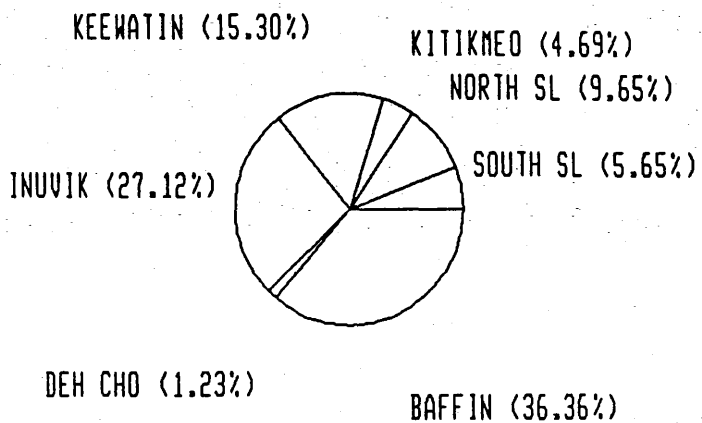
TABLE 3

RANGE OF FUNDS DISTRIBUTED

Range <u>\$000's</u>	1987-88		1986-87	
	<u>No. of Issues</u>	<u>\$000's</u>	<u>No. of Issues</u>	<u>\$000's</u>
0 - 10	20	106	16	102
11 - 25	19	307	12	240
26 - 50	21	862	14	567
51 - 100.	8	652	5	372
101 - 250	6	1,135	10	1,484
250+	<u>2</u>	<u>670</u>	<u>3</u>	<u>841</u>
	76	3,732	60	3,606

DISTRIBUTION OF FUNDS BY REGION (87/88)

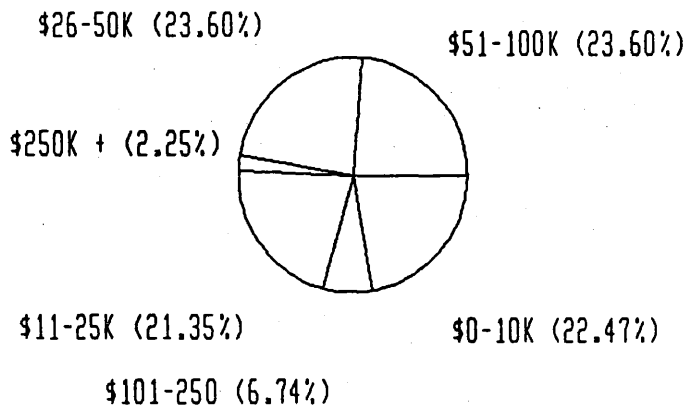
ISSUES



REGION

NUMBER OF LOANS BY RANGE

ISSUES



RANGE

TABLE 4

RECONCILIATION OF APPROVALS AND DISTRIBUTION OF FUNDS

	1987-88		1986-87	
	<u>No. of Issues</u>	<u>\$000's</u>	<u>No. of Issues</u>	<u>\$000's</u>
Loans approved during year	66	4,433	75	4,423
Loans approved, not fully issued	(20)	(1,621)	(22)	(1,096)
Net loans approved and fully distributed in period	46	2,812	53	3,327
Loans approved in prior period, distributed in subsequent period	24	896	2	50
Third party payments	<u>6</u>	<u>24</u>	<u>3</u>	<u>8</u>
	<u>76</u>	<u>3,732</u>	<u>60</u>	<u>3,606</u>

**GOVERNMENT OF THE NORTHWEST TERRITORIES
BUSINESS LOANS AND GUARANTEES FUND**

**Statement of Assets
March 31, 1988**

	<u>1988</u>	<u>1987</u>
	\$000's	\$000's
Free Balance	5,727	3,701
Loans Receivable	9,790	9,222
Loans Guaranteed	398	217
Loans Security	<u>85</u>	<u>360</u>
	<u>16,000</u>	<u>13,500</u>

1. Guarantees made to financial institutions become payable if the borrower defaults. However, they are not liabilities in the true sense. Such guarantees when paid out are converted to loans receivable and the client becomes indebted to the fund. The amount stated is the current amount guaranteed.
2. On April 1, 1985, a Contract Security Pilot Project was introduced. The program provides contract security to contractors bidding on Northwest Territories building contracts who are unable to obtain construction contracts because they cannot meet bonding or security requirements. Contract Securities become payable to the Owner if there is a breach of contract by the Contractor. Such contract securities, if paid, are subject to recovery from the Contractor by the initiation of legal action based on securities held for the contract. The amount stated as loans security is the current amount of contract securities.
3. The Business Loans and Guarantees Act establishes the maximum of principal amounts outstanding in respect of loans, guarantees and contract securities per fiscal year.

1985-86	10,000,000.
1986-87	13,500,000.
1987-88	16,000,000.

**GOVERNMENT OF THE NORTHWEST TERRITORIES
Business Loans and Guarantees Fund
for the year ended March 31, 1988**

STATEMENT OF OPERATIONS

	<u>1988</u>	<u>1987</u>
	(thousands of dollars)	
Loans receivable, beginning of year	\$9,222	\$7,843
Add: Loans and Disbursements during the year	<u>3,732</u>	<u>3,631</u>
	12,954	11,474
Less: Principal amount of loans repaid	2,732	1,808
Loans written off	<u>432</u>	<u>444</u>
Loans receivable, before Allowance	<u>9,790</u>	<u>9,222</u>
Less: Allowance for Doubtful Accounts	<u>1,770</u>	<u>1,907</u>
 Loans receivable, end of year	 <u>\$8,020</u>	 <u>\$7,315</u>

**Effect of Business Loans and Guarantees
Fund on Government Operations**

Interest earned and credited to general revenue	\$1,043	\$1,165
Less: Provision for doubtful accounts expensed during the year		
- Principal portion	294	419
- Interest portion	<u>(106)</u>	<u>68</u>
 Contribution for the year	 <u>\$ 855</u>	 <u>\$ 678</u>

- (1) Loans receivable are net of an allowance for doubtful accounts of \$1,770,000 (1987 - \$1,907,000)
- (2) During the year the allowance for doubtful accounts was increased \$294,000 for the principal portion and decreased \$106,000 for the interest portion (increased in 1987 \$419,000 and \$68,000 respectively). The allowance is an estimated accrued expense charged against the Consolidated Revenue Fund during the year in which accounts are identified as being doubtful.
- (3) Loans amounting to \$432,000 (1987 - \$444,000) were written off during the year.
- (4) The Fund has guaranteed an additional \$483,000 (1987 - \$556,000) to financial institutions.
- (5) No costs for administration of the Business Loans and Guarantees Fund are included.

Approved:

**Dwight Noseworthy
Deputy Minister of Economic Development and Tourism**

**Jim Kennedy
Director, Finance and Administration**